



Policy Performance and Governance Capacities in the OECD and EU

Sustainable Governance
Indicators 2018

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Contents

6	Foreword
8	Key Findings
12	Empirical Findings SGI 2018
14	Quality of democracy
26	Governance
40	Policy performance
52	Conclusions
58	Measuring Sustainable Governance
62	Three analytical pillars
72	Methodology
74	Survey structure
76	The SGI website
78	Results and data at a glance
82	Countries and indicators – a sample
86	Country profiles SGI 2018
224	Country experts
226	Regional coordinators and advisory board
228	About the authors
230	Legal notice

Foreword

Declining quality of democracy and governance

As the challenges associated with globalization, aging societies, digitization and climate change grow in number and complexity, OECD and EU countries should demonstrate greater resolve in the proactive implementation of reforms. However, findings for the recent edition of the Sustainable Governance Indicators (SGI) point to rather dispiriting developments instead. Indeed, the SGI 2018 show that the framework conditions for long-term governance in many OECD and EU countries have, in recent years, deteriorated. As the bar for democratic standards continues to be lowered and political polarization grows, it is becoming increasingly difficult to carry out sustainable reforms.

Whereas the model of a pluralistic liberal democracy remained in the eyes of many observers throughout the start of this century destined for triumph, it has instead come under mounting pressure. As the 2018 edition of our Bertelsmann Transformation Index (BTI) shows, this is true for many developing and transformation countries. But it is also true for highly developed industrial states, where we see distressing trends in the erosion of democratic and constitutional standards, particularly in terms of press freedoms. Of the 41 OECD and EU countries surveyed by the SGI, no less than 26 states feature a deterioration in the quality of their democracy compared with the SGI of four years ago. For 19 of these states, including Hungary, Poland, Turkey, Mexico and the United States, the downward trend is relatively sharp.

The normative principle of a pluralistic liberal democracy underpins the work of the Bertelsmann Stiftung. In recent years, SGI findings

have repeatedly underscored the fact that countries featuring a high quality of democracy and high standards of good governance are best-positioned to formulate and implement sustainable policy solutions to the urgent challenges we face as a society. The developments identified in the current SGI edition are thus even more alarming: In addition to deteriorating democratic standards, we see leadership in several countries neglecting important aspects of good governance. As a result, the capacity to solve problems in many OECD and EU countries has, on average, diminished in recent years.

Growing partisan polarization and the rise of populist forces across the globe are the main drivers of these developments. Difficulties in reaching a broad social consensus on policy solutions are exacerbated by this polarization in party politics. Populist parties in particular often exploit emotions in their campaigns designed to sabotage efforts to formulate and implement relevant policy solutions. As a result, parties find themselves in a “permanent campaign” mode that makes fact-driven compromise across party lines more difficult. Accordingly, the increasing polarization in many countries has led to a deterioration in several governments’ ability to communicate their policies and the efficiency with which planned political projects are implemented. In addition, many governments involve fewer societal actors in the planning phase of reforms. Some governments – for example in Hungary, Poland or Turkey – deliberately bypass legally determined consultation procedures or exclude government-critical actors from these processes. In the near future, we can expect that the ob-

served trends will have a negative impact on the economic, social and ecological sustainability of many OECD and EU countries. Indeed, Turkey's current economic and currency crisis can be attributed to the country's eroding quality of democracy and poor governance under President Erdogan. Furthermore, the clear setbacks observed in the United States in all three SGI pillars – policy performance, quality of democracy and governance – show that no sustainable policy solutions can be expected under the erratic presidency of Donald Trump.

In terms of achieving sustainable policy results, the Nordic countries as well as Switzerland and Germany continue to excel. And while these countries continue to feature the highest quality of democracy among the countries surveyed, they are also subject to the pressures of growing political polarization. These developments will surely render governance more difficult in the future. Nonetheless, there are some positive developments identified by the SGI that can serve to inspire other countries. France, for example, has taken an extremely positive turn in terms of governance quality under its new president, Emmanuel Macron. Macron's refreshing political style shows that improved government efficiency, clear and consistent communication and the early involvement and consultation of societal groups can go hand-in-hand, even in a strongly polarized political system. Canada also receives high marks for the similar policy approach taken under Justin Trudeau's leadership.

Given the context of growing populist forces, governments must be more resolute in mitigating the lines of conflict in society and reduc-

ing the gap between the governed and those in power. Pursuing the simplistic solutions offered by populist parties and eschewing principles of good governance will undermine any success in this regard. Good practices for effective governance include the clear communication of credible goals that are accompanied by an implementation strategy that involves the broad-based consultation of societal actors.

In addition to the elements of good governance highlighted here, the new edition of the Sustainable Governance Indicators offers a tremendous volume of data to be leveraged by professionals in politics, academics and the media.

SGI Sustainable
Governance
Indicators

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Sustainable Governance Indicators 2018 – Key Findings in Brief

Declining quality of democracy, increasing polarization and deficits in governance capacities – a heavy mortgage for many OECD and EU countries

The current issue of the Sustainable Governance Indicators shows some very worrying trends within OECD and EU countries which, given the major policy challenges ahead, may seriously burden them in the future.

Concept of liberal democracy increasingly under pressure in Western industrialized nations as well

The highly developed industrial nations of the OECD and the EU are not immune to an erosion of democratic quality. On the contrary: The quality of democracy in many Western industrial nations around the globe is also on the decline. Of the 41 OECD and EU countries, no fewer than 26 countries show a trend of deterioration compared with the SGI edition of four years ago, and this trend is relatively clear for 19 of these countries. On the other hand, only 14 countries are improving their democratic and constitutional standards, and only nine of these have improved significantly on comparison. Particularly negative developments are evident in countries such as Hungary, Poland, Mexico and Turkey. And even a country like the United States, despite the fact that democracy and freedom have traditionally underpinned its conception of itself as a nation, has recently suffered a significant loss in the quality of democracy. A president who denounces the media as an “enemy of the American people” and neither recognizes nor values the media as a watchdog signals an egregious attempt to undermine freedom of expression and constitutes a threat to democracy.

These findings show that even within the OECD and the EU, the model of liberal democracy is subject to growing pressure – in some countries this means that even central democratic and constitutional standards such as media freedoms are already severely damaged or undermined. Countries such as Hungary or Turkey can no longer be considered consolidated democracies – a particularly harrowing fact, given that OECD and EU membership actually presupposes an intact respect for democracy and commitment to protecting fundamental rights. Poland, too, which for a long time served as a model of democracy development among the Central and Eastern European countries, has dramatically deteriorated under the right-wing conservative PiS government. The country has fallen 29 places.

While the countries at the lower end of the ranking (Poland, Romania, Mexico, Hungary, Turkey) continued to lose considerable ground, scores for the countries leading in the SGI’s Democracy Index (Sweden, Finland, Norway, Denmark, Germany, Switzerland) remain relatively stable. It would therefore be wrong to make a negative sweeping judgment of all countries in the OECD and the EU. However, the discouraging trends in a considerable number of countries cannot be denied.

Increased political polarization makes governance more difficult

The worrying developments of declining democratic quality must also be assessed in the context of the increasing party-political polarization underway in OECD and EU countries. In most of the countries surveyed, including Germany, ideological polarization has clearly increased over the last three elections. The ideological gap between “left” and “right” has grown. The growing presence of populist parties in a political landscape has generally reinforced the impact of polarization.

Increased polarization is problematic in that it can make the process of governance more difficult which, in turn, limits the capacity for reform. Polarized systems, for example, face greater difficulty in building a broad social consensus on political solutions. Populist parties in particular often aim to systematically sabotage the struggle for suitable political solutions by exploiting emotions with their campaigns. As a result, parties find themselves in a kind of “permanent campaign” mode that makes fact-driven compromise across party lines more difficult. The significant deterioration seen in some key indicators of the SGI Governance Index over the last decade is associated with growing polarization.

Less societal consultation, more confusing policy communication and increasingly weak media coverage

One such problem is the fact that many governments today rely less than before on the consultation of societal actors during the planning phase of political projects. Societal consultation is, however, an important tool in broadening the knowledge base needed for policy formulation and generating the broadest possible social consensus for political projects. In some cases – such as in Hungary, Poland or Turkey – governments even purposefully helped harden the lines of social conflict by engaging in limited and one-sided societal consultation. This clearly makes it difficult to achieve sustainable and balanced policy goals for the long term.

We also observe a clear deterioration in the ability of OECD and EU governments to communicate their policies. Many governments are obviously less successful than before in pursuing a coherent communication strategy that is aligned with broader government agendas. Some 16 countries show clear deteriorations and only nine countries show improvements. Here, too, the negative effects of greater political polarization are often evident. In the current SGI survey, the deterioration of the United States under the Trump administration is particularly drastic. But governments in countries like Germany also demonstrate a weakened capacity to pursue a coherent strategy in communicating their goals and achievements.

Another problematic finding is that in many countries the implementation of planned political projects is increasingly less efficient. Here, too, party and social polarization are at the root of these implementation difficulties. In total, 18 countries have deteriorated with regard to implementation efficiency since the 2014 SGI edition and only nine have improved.

Given that many governments are today less likely to involve social actors in the policy planning process and increasingly fail to communicate their agendas to the public in a context of “permanent campaign” mode, party polarization is unlikely to decline significantly in the foreseeable future.

Another problem in this overall context is that a negative trend is also evident in the area of participation and control competencies (executive accountability), the second component of the SGI Governance Index. In addition to a decreasing number of quality media in the print sector, which can be observed in all countries, deteriorations in the quality of media reporting are also affecting participatory and monitoring mechanisms. Unsurprisingly, there is a direct link in some countries between executive accountability and certain negative trends in the quality of democracy: where governments interfere with the freedom of the press, the quality of reporting is also negatively affected and the media’s capacity to monitor government activity is undermined.

In some countries, confidence in government is growing – despite lowered democratic standards

Also worth noting is the fact that in countries featuring a declining quality of democracy and government, citizens' confidence in the government does not automatically decline. On the contrary: in countries such as Poland, Hungary or Turkey, public confidence in government has even increased in recent years. There is, however, a significant share of the population in each country that stands in opposition to the erosion of democracy. This points to a considerable social-ideological division within each of these countries and draws attention to the fact that fundamental democratic values are not sufficiently anchored in the political consciousness of a considerable part of society.

Poor conditions for solving long-term political problems

Overall, increasing political polarization, declining quality of democracy and negative developments in the criteria for good governance mean that OECD and EU states will have greater difficulty facing numerous complex challenges. In many countries, implementing long-term policy solutions has become even more difficult. The policy results of the SGI 2018 (Policy Performance Index) show that urgent challenges have not yet been adequately addressed by many governments. The following points are particularly striking:

- Although the economic recovery of recent years has helped to stabilize or slightly improve overall policy performance, the upswing has not led to an improvement in social sustainability. Moreover, while until the SGI 2016 edition the states surveyed were more successful in ensuring social participation than in ensuring economic performance, the picture has reversed since then.
- Another major problem area is the generally weak investment in future viability. The area of research and development in many OECD and EU countries in particular still needs to

be greatly improved. Increased investment in this area is particularly important if a country is to participate in global competition and to keep up with rapid technological change.

- The majority of the countries examined are affected by an aging population. Although these problems have been known for years, thoroughly researched and politicians are well aware of them, long-term sustainable solutions, especially in the field of pension policy, are often lacking.
- Even the debt crisis in Europe's southern crisis states is still far from over, given the extremely high levels of public debt in the respective countries.
- Moreover, the global growth risks are considerable in view of the escalating trade conflict with the United States.
- Finally, with regard to the implementation of the global development goals (SDGs) many OECD and EU countries have a great deal of catching up to do: in terms of ecological sustainability in particular, hardly any significant progress can be observed. Countries such as the United States have even set themselves on a complete opposite course, sending a disastrous signal to all other countries.

Quality of democracy and good governance are by no means "only" an end in themselves

A high quality of democracy and a functioning rule of law are in themselves desirable normative objectives that do not require any instrumental justification. Democracy and human rights are core components of the fundamental canon of values that define the EU and the OECD. Demonstrating a clear commitment to these values is a basic requirement for membership in these organizations.

Moreover, looking at the countries' quality of democracy and governance performance on the one hand and the countries' policy results on the other, we see a clear positive functional link

between the two dimensions. Countries with a higher quality of governance and democracy tend to achieve more sustainable policy outcomes. The Nordic countries are at the top in both areas.

We can thus expect that the observed phenomena of reduced democratic quality and dwindling governance capacity will lead to a deterioration rather than an improvement in average policy results in OECD and EU countries in the future – at least in those countries where such trends are strongest. This applies in particular to the United States, Poland and Turkey, which are among the major losers in both dimensions. The fact that the world's largest economy, the

United States, has already fallen by nine places in the SGI rankings for democracy, governance and policy performance since 2014, does not bode well for the future.

However, there are also some positive developments that can be seen as inspiration for other countries. France, for example, has taken an extremely positive direction in terms of governance quality under new President Emmanuel Macron. Macron's new political style shows that improved government efficiency, clear and consistent political communication and the early involvement and consultation of societal groups can go hand in hand, even in a strongly polarized political system.

Quality of democracy SGI 2018

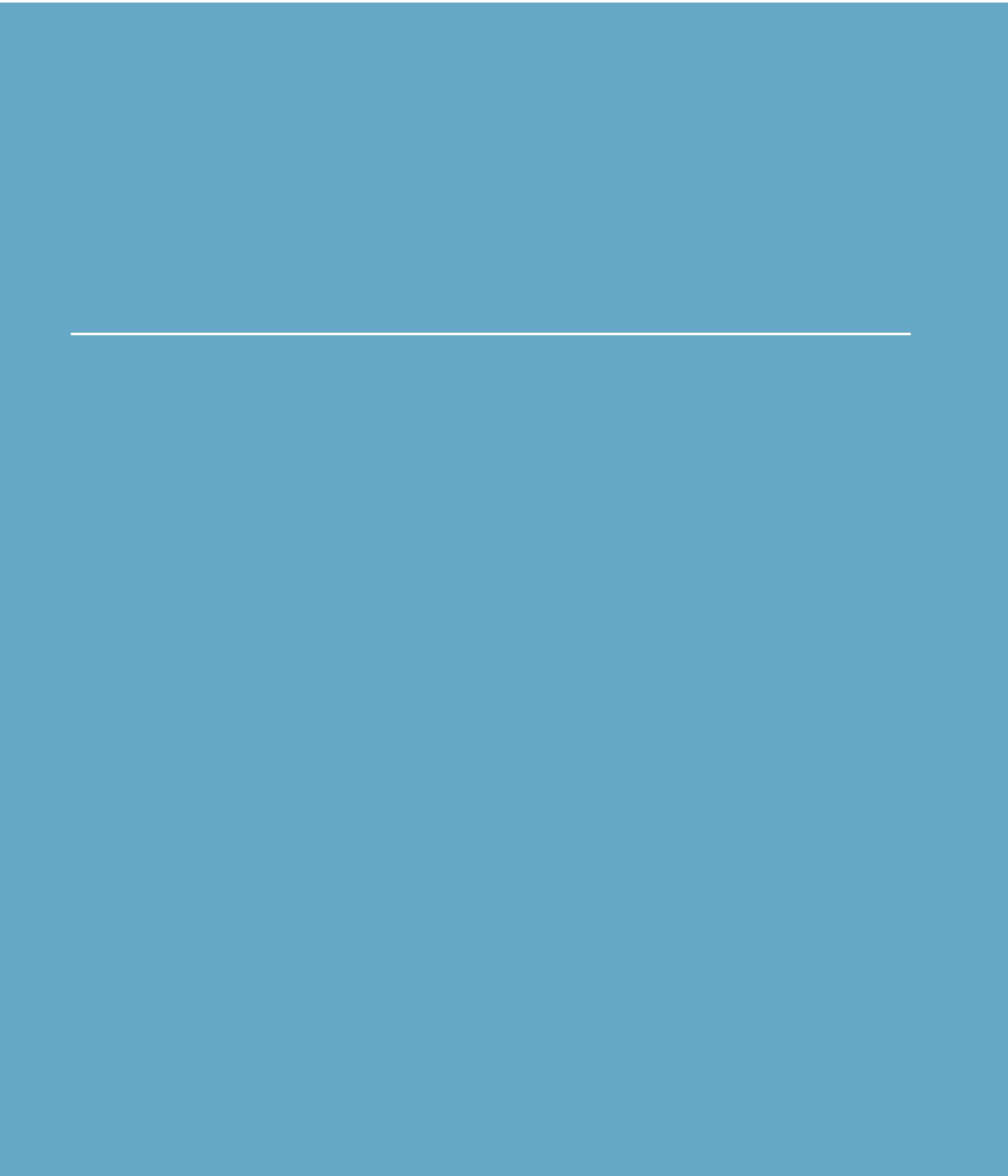
1	Sweden	9.19
2	Finland	9.15
3	Norway	8.93
4	Denmark	8.85
5	Germany	8.70
6	Switzerland	8.68
7	New Zealand	8.43
7	Estonia	8.43
9	Ireland	8.27
10	Lithuania	8.12

Governance SGI 2018

1	Sweden	8.39
2	Denmark	8.36
3	Norway	8.28
4	Finland	8.25
5	New Zealand	7.51
6	Luxembourg	7.42
7	Canada	7.30
8	Germany	7.11
9	United Kingdom	7.10
10	Australia	7.05

Policy performance SGI 2018

1	Sweden	8.13
2	Norway	7.76
3	Denmark	7.70
4	Switzerland	7.68
5	Finland	7.55
6	Germany	7.46
7	Luxembourg	7.28
8	Estonia	7.05
9	United Kingdom	6.95
10	Lithuania	6.76
10	Netherlands	6.76



Empirical Findings SGI 2018

Quality of democracy
Governance
Policy performance

SGI 2018 findings: Quality of democracy

Downward trend in democratic standards and the rule of law

The highly developed industrial nations of the OECD and the EU are not immune to an erosion of democratic quality.

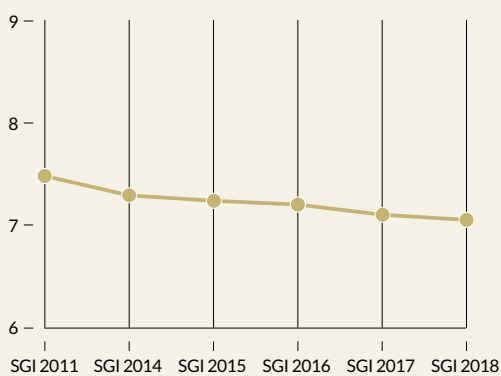
Overall, the aggregated results of the SGI 2018 show a significant decline in the quality of democracy in OECD and EU countries. Of the 41 countries included in the sample, 14 have improved compared to the SGI results for 2014, nine of them relatively significantly. In contrast, however, 26 countries are experiencing a deterioration in the quality of democracy, which is relatively pronounced in 19 countries. The results over time even show a decline since 2011 (from +7.48 to +7.05 for a sample of 31 countries for 2011). Compared to the SGI 2014 results, these developments are particularly worrying in countries such as Poland (−3.08), Turkey (−1.78), Hungary (−1.53), Mexico (−1.24) and the United States (−0.95). It should be noted that the general trend in a number of

indicators is driven by these countries. However, there are also countries that have seen significant improvements in the quality of democracy. Among those countries, South Korea (+0.59) shows a particularly positive development.

Against the background of the fundamental importance of democratic standards and the rule of law for the long-term stability of a political system, the decline in the quality of democracy is particularly serious. Democratic opportunities for participation and control, procedures based on the rule of law and respect for civil rights are indispensable prerequisites for the legitimacy of a political system. A pluralistic formation of will and opinion that leads to equal consideration of the interests of all social groups in the decision-making process may no longer (sufficiently) be guaranteed in the event of an excessive decline in the quality of democracy. Bearing in mind that the countries included in the SGI sample are highly developed industrialized nations and long-established democracies, the negative development in terms of democratic quality is even more alarming, especially in view of the fact that all members of the OECD and the EU commit themselves to ensuring a democratic and constitutional order upon accession.

Although the negative trend in the quality of democracy is strongly driven by certain countries, there is also an overall deterioration with regard to many indicators. In these cases, more countries show negative than positive

FIGURE 1: Quality of Democracy (SGI average) 2011–2018



Source: SGI.

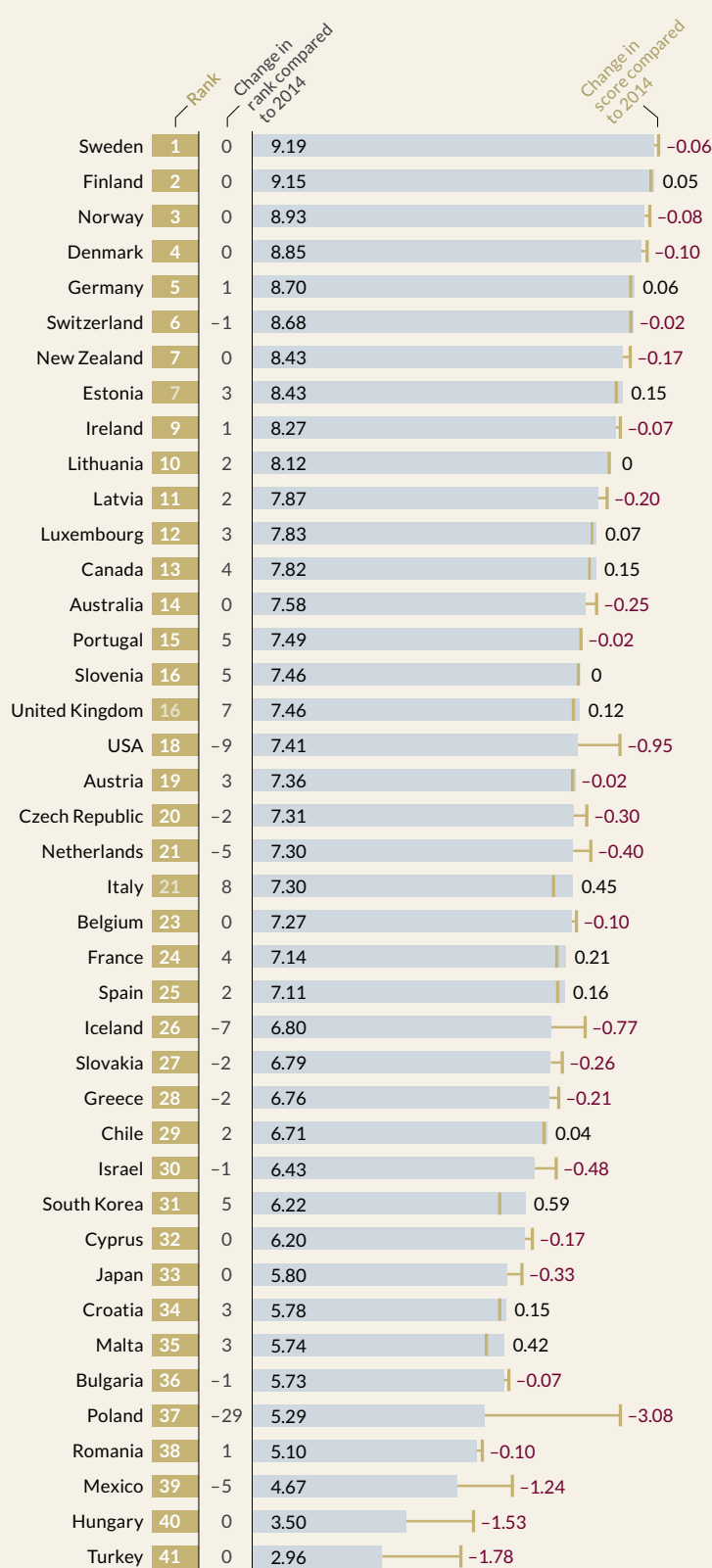
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developments, while the rest of the countries remain at their previous levels. The following indicators can be highlighted in particular: media access for candidates and parties in the electoral process, party financing, media freedom, media pluralism, citizens' access to information, civil rights, political liberties, non-discrimination and the appointment of justices. At the same time, the results show that the declining quality of democracy extends across all four democracy criteria (electoral processes, access to information, civil rights and political liberties, rule of law). As a result, the entire spectrum of democratic standards and the rule of law is affected by this negative development, which makes sustainable governance considerably difficult.

Despite serious changes in some countries, it should be noted that in many countries, the quality of democracy has remained constant over the years and is not subject to major fluctuations. This is due to the fact that processes concerning democratic standards and the rule of law are based on a constitutional framework that is usually not easy to change. By contrast, developments in individual policy areas are much more volatile, as the results for the dimension of policy performance show (see p. 40). On the other hand, if there is a drastic deterioration in the quality of democracy, it is often the result of serious internal political changes, as can be seen most clearly in the example of Poland. The country experts for Poland explain that the "quality of democracy has greatly suffered from the changes initiated by the PiS government."¹ The SGI 2018 results for individual indicators clearly reflect this assessment. The PiS party took over government at the end of 2015. Since 2016 scores in the areas of access to information, media freedom and pluralism, as well as the rule of law have sharply decreased (Figure 3).

It is also particularly worrying that, despite the blatant violations of democratic standards and the rule of law by the new Polish government, citizens' confidence in their government has not declined. According to the UN World Happiness Report 2018, exactly 50 % of the respondents stated in the 2017 survey that they trust

FIGURE 2: Ranking – Quality of Democracy SGI 2018



Source: SGI.

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1 Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

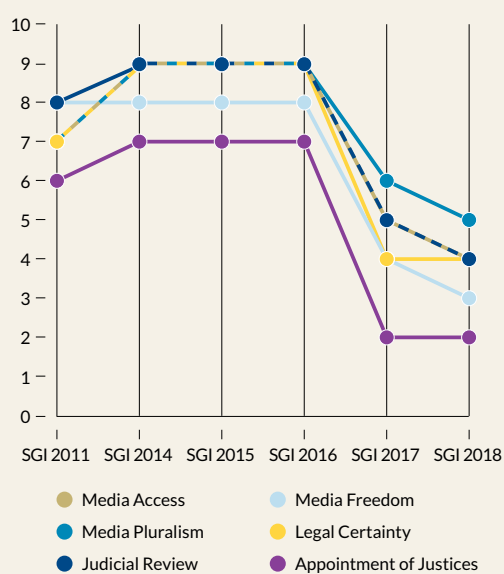
their national government. The development over time shows that the proportion of these same people has even risen from 19 % to 50 % since 2007 and has thus more than doubled.²

The situation is similar in Turkey, although the level of democracy and the rule of law is again considerably lower than in Poland. Here, too, the democratic and constitutional order has deteriorated drastically over the past few years as a result of massive government intervention under President Erdogan. However, 59 % of those surveyed said they trusted their government in 2017. The proportion of the population expressing confidence in the national government has remained relatively stable, fluctuating between 53 % and 59 % in recent years. The negative trend in terms of democratic quality is therefore not accompanied by a decreasing confidence in the government. Accordingly, the lines of conflict between those who trust their government (and who may even approve of the problematic democratic developments), and those who are in strong opposition to those developments, appear to have intensified. The situation is similar in Hungary. Here, too, the rule of law has massively eroded under Or-

bán's government. Hungary is now in second to last place in terms of democratic quality – only Turkey is doing even worse. But here too, people's confidence in their government has tended to rise – albeit at a lower level (from 25 % in 2007 to 38 % in 2017). This is a worrying finding, since fundamental democratic values are apparently not sufficiently anchored in the political consciousness of a considerable share of society. These countries (especially Hungary and Turkey) have in common that democratic opportunities for participation and control, procedures based on the rule of law and respect for civil rights – all central basic prerequisites for sustainable governance – are no longer sufficiently guaranteed.

However, strong domestic political change can also contribute to improving the quality of democracy, as the example of South Korea shows. The country report highlights the change in government in May 2017 as the main reason for this positive development. The new government under Moon Jae-in, which emerged from the Democratic opposition party, “has begun a new project to restore democracy and revitalize the transformation to a mature democracy [...]”³

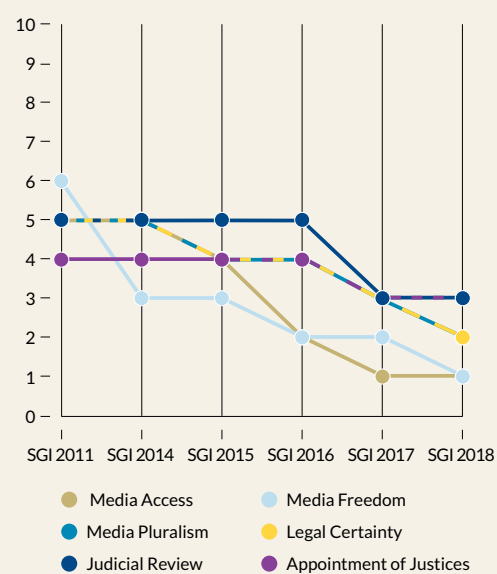
FIGURE 3: Quality of Democracy 2011–2018 – Poland



Source: SGI.

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FIGURE 4: Quality of Democracy 2011–2018 – Turkey



Source: SGI.

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2 World Happiness Report 2018, Chapter 2: Online Data, <http://worldhappiness.report/ed/2018/>.

3 Kalinowski, Rhyu and Croissant (2018), available under www.sgi-network.org.

In the following, the trends and developments concerning the quality of democracy in different areas of the SGI Democracy Index will be described in more detail. As Figure 5 shows, there has been a decline in the quality of democracy for all four criteria: “electoral process,” “access to information, media pluralism and media freedom,” “civil rights and political liberties” and “rule of law.” However, there are strong differences between the individual criteria and their respective indicators.

Electoral processes – accessing media in many OECD and EU countries proving difficult

Within the criterion “electoral processes,” the indicator “media access” stands out. It measures the extent to which candidates and parties have fair access to the media and other means of communication. Compared to the results of the SGI 2011 and 2014, 14 of the 41 OECD and EU countries surveyed show a deterioration in media access. By contrast, nine countries have improved and 18 countries have maintained their levels. In the overall average of all countries, media access has declined slightly over time – from 7.65 to a score of 7.27. Taking a closer look at the results, the countries under examination show clear differences. While some countries, for example Luxem-

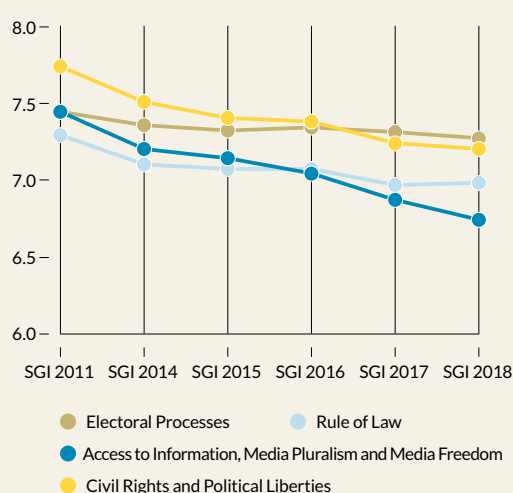
bourg, have shown improvements over the years, other countries such as Turkey have seen the scope of media access decline steadily. Germany is one of the countries rated with the highest score over the entire period of investigation (cf. Figure 6). The country experts explain the positive development in Luxembourg as follows:

“[...] Newspapers have adopted a more balanced line over recent years, reducing their political bias, to the benefit of smaller parties and organizations. [...] Reports and comments in print media have become less partisan and the media distances itself more from party influences than in prior years.”⁴

Poland (–5), Hungary (–4) and Turkey (–4) each recorded particularly negative developments. With values between 1 (Turkey) and 4 (Poland), these countries are far below the overall average of the SGI country sample. In the Czech Republic, Iceland and Mexico, media access has also deteriorated significantly, by two points each. The country experts for Poland see a close connection between the government takeover of the PiS party and the deterioration in media access:

“Legally, parties and candidates have equal access to public and private media. [...] The PiS

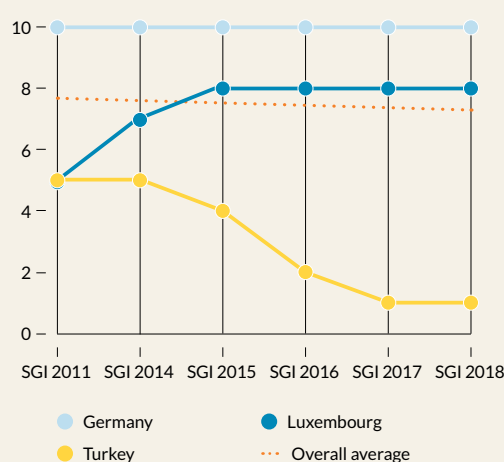
FIGURE 5: Quality of Democracy 2011–2018 – Criteria



Source: SGI.

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FIGURE 6: Media Access 2011–2018



Source: SGI.

| BertelsmannStiftung

4 Schneider, Lorig and Bandelow (2018), available under www.sgi-network.org.

government's attempts to control the public and private media have increased the partisan bias in media reporting and have made media access for different parties uneven.”⁵

It is particularly noteworthy that on many indicators, Poland is registering poor performance in the SGI 2018 results. In terms of the quality of democracy, the country as a whole is experiencing the biggest slump. Compared to the SGI 2014 results, Poland has dropped drastically by 29 places and, with a score of 5.29, is now one of the rear runners in the OECD and EU-wide ranking.

According to the country report, the already limited access to the media in Turkey has further deteriorated after the coup attempt in 2016:

“After the 15 July coup attempt, government control over “mainstream” media and media critical of the government further increased. Large-scale lawsuits were systematically used against media outlets critical of the government. The visibility of opposition members in the news media gradually deteriorated. This was felt most dramatically by HDP parliamentarians who faced allegations of supporting terrorism and whose immunity was suspended in the months following 15 July.”⁶

Turkey is clearly the worst performer of all OECD and EU countries with regard to quality of democracy and ranks last with a score of +2.96 in the ranking. Since the SGI 2011/2014 results, the quality of Turkey's basic democratic and constitutional order has continued to decline. Especially concerning freedom of information and the rule of law, the results show serious deteriorations.

Access to information, media pluralism and media freedom – Is freedom of information at risk?

Strong changes can be observed in all three indicators assessing access to information, media pluralism and media freedom. However, with regard to the overall average, the slump in the media freedom indicator, designed to assess the extent to which the media are inde-

pendent from the government and other actors is particularly notable. While media freedom in OECD and EU countries has deteriorated on average by one point from 7.68 to 6.68, there are individual countries where the level remains very good (see Figure 7). According to the country experts for Finland, for example, the country maintains high standards in terms of media freedom:

“Media consumption rates are fairly high in Finland. The rate of media consumption guarantees a strong market and healthy competition, promoting high-quality journalism. In addition, the Council for Mass Media in Finland has successfully managed a system of self-regulation among media outlets. Furthermore, as Finland is one of the least corrupt societies in the world, the government has in general not sought to interfere with press freedom.”⁷

Based on the SGI country sample, 23 countries have deteriorated compared to the results of the survey rounds of 2011 and 2014, nine countries have improved and 10 countries have stagnated in their development. The Czech Republic, Hungary, Japan, Mexico, Poland, Slovakia, Turkey and the United States have deteriorated significantly – each by at least three points. Freedom of the media in Turkey has even declined by five points and is now only at one point in the SGI 2018 – a very worrying development. Here, too, the country report highlights the government's reaction to the coup attempt as the main reason for the rapid decline in media freedom:

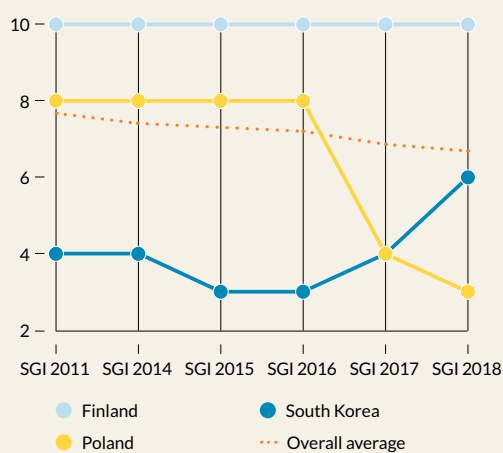
“Although Turkey has a somewhat diversified media structure, the government places direct and indirect pressure on media owners in order to obtain coverage favorable to the government party. [...] Most concerning for many observers have been the unprecedented expansion in the range of reasons given for journalists' arrests, the massive phone-tapping campaign and the contempt shown for source confidentiality. [...] Particularly, the aftermath of the 15 July coup attempt saw high numbers of arrests, hearings, detentions, prosecutions, censorship cases and layoffs. A number of physical attacks on media outlets and journalists took place. The closure of media outlets, the appointment of trustees

5 Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

6 Genckaya, Togan, Schulz and Karadag (2018), available under www.sgi-network.org.

7 Anckar, Kuitto, Oberst and Jahn (2018), available under www.sgi-network.org.

FIGURE 7: Media Freedom 2011–2018



Source: SGI.

| BertelsmannStiftung

to control media groups, and the active use of the tax authority, the financial crimes unit and courts against critical media intensified. Intimidating statements by politicians and lawsuits launched against journalists critical of the government, combined with the media sector's ownership structure, have led to widespread self-censorship by media owners and journalists.”⁸

Poland has also deteriorated by five points and, with a score of 3 in the most recent survey round, ranks third-to-last place overall. This is a disastrous development in view of the fact that Poland has for years been a model of democracy among the Central and Eastern European states. The country report for Poland shows that the PiS government has a strong influence on the public media:

“The Polish government no longer respects the independence of the media. The Council of National Media was established in June 2016 and appoints the management boards of public TV and radio, and the Polish Press Agency (PAP). The council is dominated by the PiS and takes instructions directly from Jarosław Kaczyński. The National Broadcasting Board (KRRiT), a constitutional body overseeing electronic media, has been staffed exclusively with PiS personnel. Cases of politically motivated appointments and dismissals at TVP, Poland's

public TV broadcaster and the public Polskie Radio are numerous. According to estimates, at least 225 journalists either lost their jobs or stepped down from their positions for political reasons in 2016.”⁹

In contrast, South Korea improved significantly by three points. The country experts explain this positive development as follows:

“In the Reporters Without Borders' 2017 Press Freedom Index, South Korea was ranked 63rd, climbing seven places from 2016. In August 2017, KBS and MBC union members initiated a simultaneous strike, demanding the resignation of leaders appointed under the old government. The protest escalated after it was found that the media companies had created black-lists of journalists based on the contents of their news reporting and had subjected those on the list to disadvantages. However, the coverage of the impeachment scandal and the public protests demonstrated that the media is able to freely report if public support and interest in an issue is overwhelming. Some media companies such as JTBC even played a crucial role in investigating the corruption scandals related to the Park administration. The freedom of the press is expected to improve further under the Moon government.”¹⁰

Furthermore, the indicator “media pluralism” is intended to measure the extent to which the media in a country are characterized by an ownership structure that ensures a pluralism of opinions. Out of the 41 OECD and EU countries surveyed, 20 countries show deteriorations since the SGI 2011 and 2014, with four countries – Hungary, New Zealand, Poland and Turkey – having dropped by at least three points each. Another four countries showed a significant improvement and 17 countries maintained their levels. The deterioration of three points in the case of New Zealand compared to the SGI 2011 results is particularly counter-intuitive: The country report lists the following reasons:

“New Zealand's media market has been affected by major changes in the last few years. Private media companies are increasingly subject to influence by their well-funded owners.

⁸ Genckaya, Togan, Schulz and Karadag (2018), available under www.sgi-network.org.

⁹ Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

¹⁰ Kalinowski, Rhyu and Croissant (2018), available under www.sgi-network.org.

Private and public companies are replacing public-interest content with programs seeking high audience ratings. [...] Despite this development, continued constraints on media funding help prevent a strong investigative reporting culture from developing. [...] New Zealand's media market is dominated by foreign companies (mainly from Australia) [...]."¹¹

In terms of media pluralism, Germany ranks second behind Finland with a score of 9 points. Compared with the results of the SGI 2014, the overall quality of democracy in Germany remains at an above-average level (8.70) and ranks fifth in the OECD and EU-wide ranking. Overall, the quality of democracy in Germany is relatively stable. Only four indicators show improvements or deteriorations of maximum one point each.

Finally, the indicator "access to government information" measures the extent to which citizens can obtain official information. The results of the SGI country sample show that it is particularly difficult for citizens in Cyprus (3 points), Malta, Hungary and Turkey (each 4 points) to obtain government information. Compared to the 2014 edition, 13 countries have deteriorated, seven have improved slightly and 21 countries show no change. According to the country experts, the sharp deterioration in Hungary (by 4 points compared to the SGI 2011) can be attributed to the following reasons:

"While existing law provides for far-reaching access to government information, the government has made it difficult for the public and the media to obtain information, especially on issues relating to public procurement by referring to business secrets. Under the third Orbán government there has been a constant fight between the government and the democratic opposition over access to government data and documents, often fought at the courts."¹²

It is worth mentioning that the quality of democracy in Hungary has been falling continuously since the 2011/2014 SGI results, reaching a new low of 3.50 points in this survey round. Strong restrictions can be observed in particular with regard to the freedom of information and the rule of law.

In the case of Turkey, the country report refers again to the government's reaction to the coup attempt and the resulting imposition of a state of emergency as a decisive reason for a clear restriction of access to government information. Germany, on the other hand, has improved by one point since the SGI 2016 to a score of 8 points in terms of access to government information:

"In an overall assessment in 2017, Andrea Voßhoff [Federal Commissioner for Data Protection and Freedom of Information] concluded that citizens are increasingly making use of their rights and that federal authorities no longer regard the information right of citizens as a nuisance but as a significant element of a civil society."¹³

Results show protection of civil rights and political liberties on the decline

The "civil rights and political liberties" criterion examines the extent to which the state respects and protects civil rights and how effectively citizens are protected by courts against infringement of their rights. Of the countries included in the SGI sample, 14 have deteriorated significantly, six of them by at least two points. While 24 countries remain at their level, only three countries show signs of improvement. On average, the OECD and EU countries deteriorated by 0.62 points to 6.90 points. Civil rights are particularly well-protected in Norway; the country is awarded 10 points over all survey periods. The country experts give the following reasons:

"State institutions respect and protect civil rights. Personal liberties are well-protected against abuse by state and non-state actors. [...] Access to the courts is free and easy, and the judiciary system is viewed as fair and efficient. [...] Respect for civil rights extends to the rights of asylum-seekers."¹⁴

Although there has been a slight improvement since the SGI 2017 edition, the scores for South Korea are still below average when it comes to the protection of civil rights: "Serious issues

¹¹ Kaiser, Miller and Croissant (2018), available under www.sgi-network.org.

¹² Ágh, Dieringer and Bönker (2018), available under www.sgi-network.org.

¹³ Rüb, Heinemann and Zohlhöfer (2018), available under www.sgi-network.org.

¹⁴ Sverdrup, Ringen and Jahn (2018), available under www.sgi-network.org.

include limits on the freedom of association; limits on free speech related particularly to the National Security Law; inadequate rights accorded to migrant workers; insufficient protection accorded to refugees; inadequate protection for LGBT rights, particularly within the military; and the imprisonment of conscientious objectors. South Korea also maintains the death penalty, though there has been a moratorium on executions since 1997. The threat from North Korea has been used in the past to suppress civil and political rights.”¹⁵

However, the country experts point out that the new government under President Moon is taking a new approach to the civil rights situation:

“Under the Lee Myung-bak and Park Geun-hye administrations (2008 – 2016), South Korea experienced many symptoms of a reversal of democracy, across a wide range of areas. The country is now in the process of restoring that democracy. Civil-rights conditions are expected to improve under President Moon, a former human-rights lawyer.”¹⁶

The situation is particularly serious in Mexico and Turkey, where the ratings for both countries have fallen to two points, which is correlated to an inadequate protection of civil rights. The country experts for Turkey draw particular attention to the government’s drastic reactions to the coup attempt:

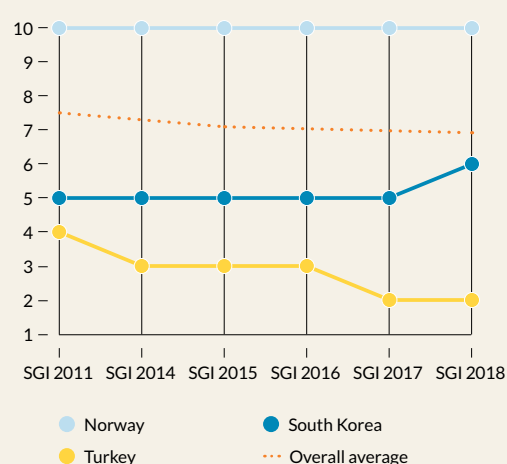
“In the aftermath of the 15 July coup attempt, even more serious violations of civil rights have occurred. Although the government claims it conducts the rules of emergency government with utmost care, these practices are based on executive decrees having the force of law and are not subject to judicial review. Some decrees affected policy areas outside the scope of the state of emergency. The institutionalized neglect of civil rights in Turkey is reflected in mass arrests of alleged coup plotters and sympathizers, confiscation of their properties, sentences against journalists and opposition politicians, renewed violence in the southeast, widespread restrictions on freedom of expression, association and assembly, a deteriorating judicial

system, violence against women and impaired relations with key international actors.”¹⁷

Furthermore, the aim of the indicator “non-discrimination” is to determine how effectively the state protects its citizens against different forms of discrimination (for example on the basis of gender, age, ethnic origin or sexual orientation). Of the 41 OECD and EU countries surveyed, 12 have deteriorated significantly compared to the SGI 2011/2014, four of them by at least two points. Five countries have improved and 20 countries have maintained their levels. Ireland remains at a consistently high level (9 points) throughout the investigation period. The country experts emphasize in particular the specific and effective institutional arrangements that the country has established to protect against discrimination:

“The Equality Authority is an independent body set up under the Employment Equality Act, 1998 to monitor discrimination. An independent equality tribunal was established under the same act to offer an accessible and impartial forum to remedy unlawful discrimination. These agencies have been active in recent years and successful in prosecuting cases on behalf of parties who felt they had been discriminated against.”¹⁸

FIGURE 8: Civil Rights 2011–2018



Source: SGI.

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¹⁵ Kalinowski, Rhyu and Croissant (2018), available under www.sgi-network.org.

¹⁶ Kalinowski, Rhyu and Croissant (2018), available under www.sgi-network.org.

¹⁷ Genckaya, Togan, Schulz and Karadag (2018), available under www.sgi-network.org.

¹⁸ Murphy, Mitchell and Bandelow (2018), available under www.sgi-network.org.

Rule of law particularly at risk in Hungary, Poland and Turkey

There have also been some changes when it comes to the criterion “rule of law,” particularly with regard to the indicators “legal certainty,” “judicial review” and “appointment of justices.” On average, the level of the rule of law has declined in the 41 OECD and EU countries. However, this negative development can be attributed in particular to the deterioration of individual countries – above all Hungary, Poland and Turkey.

The indicator “legal certainty” is intended to examine the extent to which government and administration act on the basis of and in accordance with legal provisions to provide legal certainty. Based on the SGI country sample, 10 countries show a significant deterioration compared to the SGI results for 2011 and 2014, five countries have visibly improved and 26 countries remain at their levels. On average, the OECD and EU countries worsened by 0.63 points to a score of 6.98 points. Some countries, such as Sweden, have a particularly high level of legal certainty (see Figure 9). The country experts highlight the following reasons for the consistently high rating (10 points) since the SGI 2011:

“The Swedish legal framework is deeply engrained and the rule of law is an overarching norm in Sweden. [...] values of legal security, due process, transparency and impartiality remain key norms. The only disturbing observation in this context is the growing emphasis on efficiency in public administration that has arisen in the context of a recent public management reform. This focus on efficiency potentially jeopardizes the integrity of legal certainty and security, in particular with respect to migration processes. [...] The legal system is characterized by a high degree of transparency. The ombudsmen institution (a Swedish invention) remains an important channel for administrative complaints. The Ombudsman of Justice keeps a close watch on the application of the rule of law in Sweden.”¹⁹

Hungary and Poland (both –5), Turkey and the United States (both –3) have seen a par-

ticularly sharp deterioration in legal certainty. Turkey scores particularly poorly in the overall comparison of OECD and EU countries with a score of two points and ranks last. The country report states the following reasons for this negative result:

“The 15 July failed coup attempt caused a major uncertainty in legal and practical terms. The governmental decrees issued during the state of emergency are not subject to judicial review. Moreover, at least 110,000 public servants mainly from the military, judiciary, health sector and universities were dismissed. [...] Besides, more importantly, the government regulated some public matters by the state of emergency decree instead of a law as required by the constitution. During the review period, detention and release of numerous journalists and pro-Kurdish politicians on uncertain grounds became a regularity.”²⁰

With regard to “legal certainty,” Hungary scores as poorly as Turkey and shares the second to last place in the ranking with Mexico. The country experts for Hungary give the following reasons for this development:

“As the Orbán government has taken a voluntaristic approach toward lawmaking, legal certainty has strongly suffered from chaotic, rapidly changing legislation. The hasty legislative process has regularly violated the Act on Legislation, which calls for a process of social consultation if the government presents a draft law.”²¹

The development in the United States is interesting as well: Legal certainty was still at a very high level (9 points) in the SGI 2011, but fell to six points in the latest survey round; the United States is now only in the lower third of the 41 OECD and EU countries. The country experts blame in particular the comprehensive use of executive orders for this development:

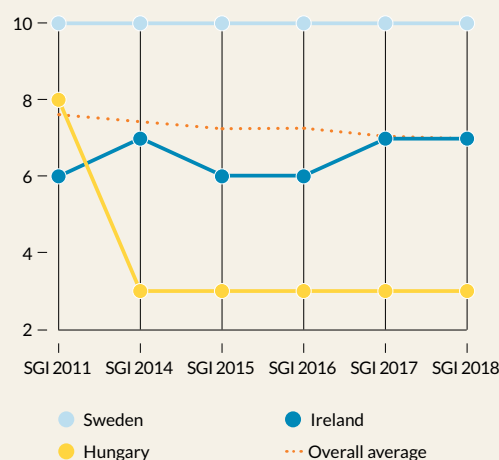
“In 2015 and 2016, federal courts nullified Obama’s expansive executive actions on undocumented immigrants and coal-fired power plants, indicating that unilateral presidential action can result in legal uncertainty. In 2017, President Trump adopted an even more

¹⁹ Pierre, Jochem and Jahn (2018), available under www.sgi-network.org.

²⁰ Genckaya, Togan, Schulz and Karadag (2018), available under www.sgi-network.org.

²¹ Ágh, Dieringer and Bönker (2018), available under www.sgi-network.org.

FIGURE 9: Legal Certainty 2011–2018



Source: SGI.

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aggressive approach to unilateral action, canceling many Obama-era regulations, especially on the environment.”²²

Interestingly, since the SGI 2017, the United Kingdom has also deteriorated from a very high level (9 points) to a score of 7. The reasons for this lie in the still unforeseeable legal consequences of Brexit. The unclear situation regarding the conditions of the United Kingdom’s withdrawal from the EU leads to a high level of legal uncertainty, not least in the economy.

Finally, the question of the extent to which independent courts control whether government and administration act in conformity with the law is covered by the indicator “judicial review.” The results show a deterioration for eight countries compared to the SGI 2011/2014 results, with Hungary (–3) and Poland (–5) also being the most striking negative examples. According to country experts, the decline in judicial review in Poland is connected to the takeover by the PiS-government:

“In 2017, the takeover of the Constitutional Tribunal in the PiS government’s first year in office was followed by a series of reforms that aimed at limiting the independence of the courts. These reforms sparked massive inter-

national protests and were only slightly watered down after President Duda vetoed two out of four laws. [...] These legal changes, some of which are clearly unconstitutional, were accompanied by the dismissal of dozens of justices and a media campaign against the judiciary financed by public companies.”²³

Particularly interesting is the improvement of the United States by one point (to 9 points) compared to the SGI 2017, which may not seem intuitive at first glance. The country report highlights the courts’ reaction to the increasing use of executive orders:

“Judicial review remains vigorous. In 2015 and 2016, the federal courts struck down several expansive uses of executive power by the Obama administration as well as potentially discriminatory voter registration requirements in a number of states. During 2017, federal courts have blocked the Trump administration’s constitutionally dubious travel ban affecting visitors from certain Muslim countries as well as Trump’s executive decision to end the DACA program.”²⁴

The extent to which the process of appointing judges of the Supreme Court or the Constitutional Court guarantees the independence of the judiciary is measured by the indicator “appointment of justices.” In an overall comparison of the OECD and EU countries, eleven countries have deteriorated significantly, eight countries have improved and 21 countries have maintained their levels compared to the SGI 2011/2014. Poland and Hungary each recorded a decline of five points to a score of 2, a development which is once again particularly worrying. Results over time are also interesting for Japan, which is also rated with only two points in this respect. The country experts justify the poor score with the lack of transparency in the appointment of justices:

“According to the constitution, Supreme Court justices are appointed by the cabinet, or in the case of the chief justice, named by the cabinet and appointed by the emperor. However, the actual process lacks transparency. Supreme Court justices are subject to a public vote in the Lower House elections following their ap-

²² Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

²³ Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

²⁴ Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

pointment, and to a second review after 10 years if they have not retired in the meantime. These votes are of questionable value, as voters have little information enabling them to decide whether or not to approve a given justice's performance. In all of postwar history, no justice has ever been removed through public vote. In response to the call for more transparency, the Supreme Court has put more information on justices and their track record of decisions on its website."²⁵

It is also worthwhile to take a look at the indicator "corruption prevention." Although the overall average score increased slightly (from 6.48 in the SGI 2011 to 6.51 in the SGI 2018), Turkey (–3) in particular shows a significant deterioration. The country experts cite the increasingly authoritarian tendencies in the administration, the weakening of parliamentary supervision and a reduced functioning of the administrative and financial control institutions as reasons. The United States also deteriorated by two points to a score of 7. It is particularly interesting here that the country was consistently rated with nine points until the SGI 2017 and therefore had very good mechanisms for preventing corruption until the change of government. The country experts explain the abrupt downward trend as follows:

"The first year of the Trump presidency has brought a brazen and unprecedented disregard of established practices to prevent conflict of interest. [...] Most obvious, he has refused to sell off his extensive domestic and international business interests (especially hotels, casinos, and resorts) and to put the proceeds in a blind trust to avoid the potential of his financial interests influencing presidential decisions. [...] The administration has been heedless of conflict-of-interest in appointments to regulatory and other positions. The administration simply refused to provide information to the Office of Government Ethics concerning potential conflicts among appointees, prompting the respected nonpartisan director of the office to resign in protest. Several Trump officials have been embroiled in scandals involving abuse of public resources (such as using military aircraft for vacation travel)."²⁶

Germany, on the other hand, has improved by one point to eight since the SGI in 2011 and 2014 in the area of "corruption prevention." Nevertheless, the country experts continue to see certain weaknesses, especially with regard to the declaration of supplementary income of members of parliament:

"Despite several corruption scandals over the past decade, Germany performs better than most of its peers. [...] Until very recently, provisions concerning required income declarations by members of parliament have been comparatively loose. [...] However, beginning with the current parliamentary term, members of the German parliament have to provide additional details about their ancillary income in a ten-step income list. [...] It appears likely that, in order to avoid public attention, members of parliament may resort to partitioning their auxiliary income. Thus, the current system remains an insufficient transparency regime unable to eradicate corruption or conflict of interests."²⁷

²⁵ Pascha, Köllner and Croissant (2018), available under www.sgi-network.org.

²⁶ Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

²⁷ Rüb, Heinemann and Zohlhöfer (2017), available under www.sgi-network.org.

SGI 2018 findings: Governance

Major differences in the strategic governance and problem-solving capacities of OECD and EU countries

Increasing political polarization makes sustainable governance difficult in many OECD and EU countries.

In the area of governance, the aggregated results of the SGI 2018 show a mixed picture. After the peak of the economic and financial crisis, the ability of OECD and EU countries to effectively initiate and implement reforms has declined slightly overall. The aggregate of our Governance Index shows a slight downward trend between 2014 and 2018. Eighteen of the 41 countries surveyed improved compared to the SGI 2014 results (nine of them relatively markedly), while deteriorations are apparent in 21 countries (14 relatively markedly). Overall, the aggregate overall trend in the area of gov-

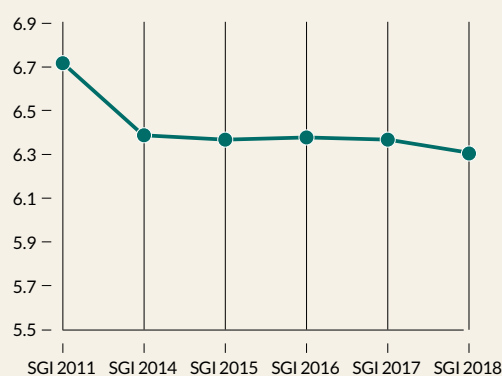
ernance is thus slightly negative if one looks at the last five years under review. In comparison to the SGI 2011 edition, an even stronger negative trend becomes visible. However, when interpreting the averages, it should be noted that only 31 countries were considered in the 2011 edition – in contrast to the current country sample of 41 countries, which has remained constant since the 2014 edition.

Behind this general slight downward trend in aggregated scores, however, there are very different, large-scale developments in the individual industrialized countries themselves. The results also differ considerably within the individual dimensions of reform capability and the chronological sequence of the respective developments.

According to our experts' assessments of the OECD and EU governments' executive capacities ("executive capacity" dimension of the SGI Governance Index), there is only a slight downward trend in the overall average of all 41 OECD countries. In fact, hardly any significant changes can be observed for the period between the SGI 2014 and the 2017 edition on an aggregate level. However, there are some important individual indicators that show a clear negative trend (see below).

The slight downward trend is mainly driven by the ongoing long-term decline observed in

FIGURE 10: Governance (SGI average) 2011–2018



Source: SGI.

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Turkey, Romania, Poland and Mexico – as well as the current negative developments in the United States. On the other hand, positive developments with regard to executive capacity (at a relatively high level) compared with the period before the economic and financial crisis are particularly evident in France and Ireland.

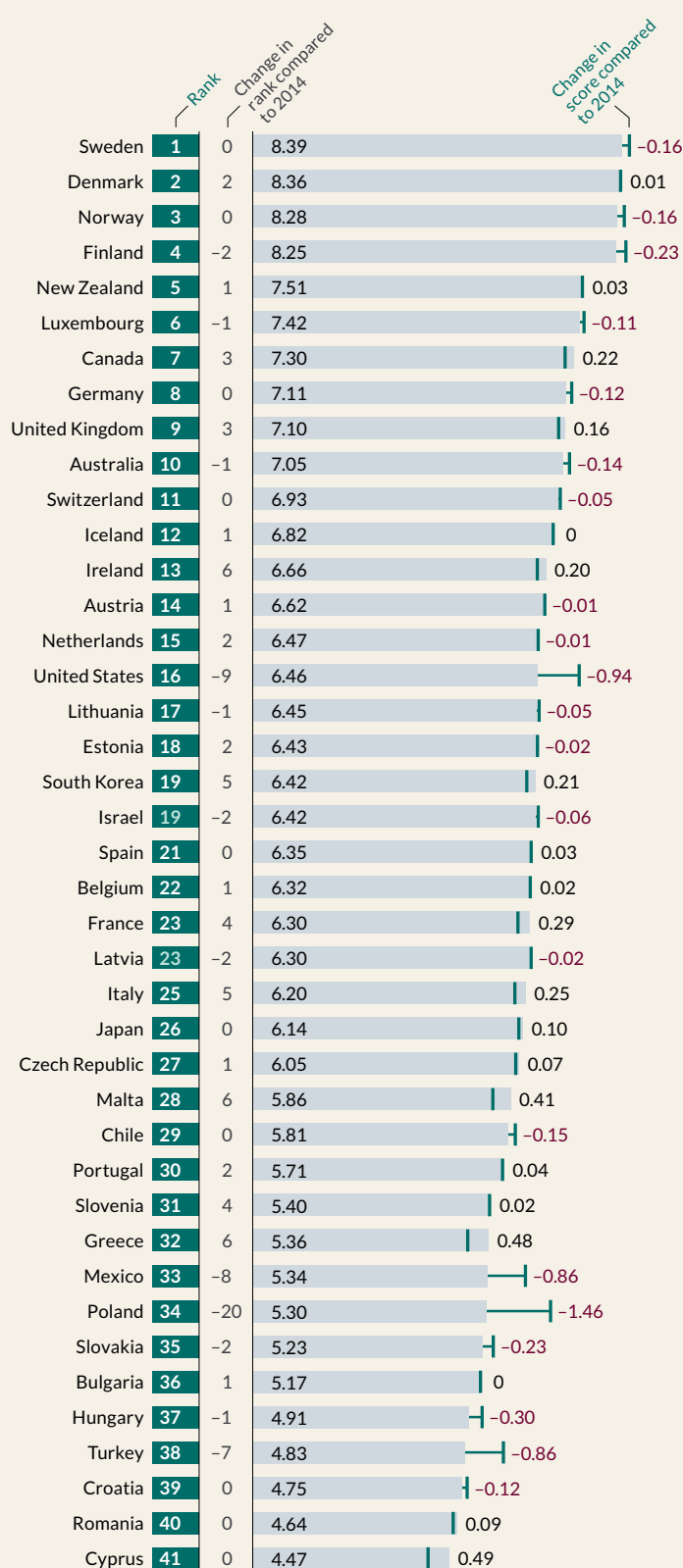
In comparison to the government's political steering capacity, however, expert assessments of the opportunities for participation and control of various social actors vis-à-vis the government ("executive accountability" dimension) show a longer-term negative trend in the overall average from 2014 onwards. A majority of 24 countries are experiencing deteriorations in the assessment of the country experts. According to our experts, only one country can achieve substantial improvements in this area: Greece.

Overall, the negative developments in the area of governance are not quite as pronounced across the board as they are in the area of quality of democracy. Particularly interesting are the cases in which both the quality of the constitutional-democratic conditions and the quality of governance have deteriorated (considerably). These include countries such as Hungary, Poland, Turkey and Mexico, but also the United States. It can be assumed that both areas are closely linked. This assumption is confirmed when one considers in particular developments concerning individual key indicators.

Among the criteria and indicators showing a rather strong negative trend, policy communication, societal consultation and government efficiency stand out within the executive capacity dimension. Within the dimension of executive accountability, a particularly negative trend is noticeable when it comes to the media criterion. These general trends are very worrying – especially in combination with the declining quality of democracy observed in many countries. It is therefore worth taking a closer look at these items.

The deteriorations outlined below in the areas of executive capacity and executive accountability should be assessed in the context of other

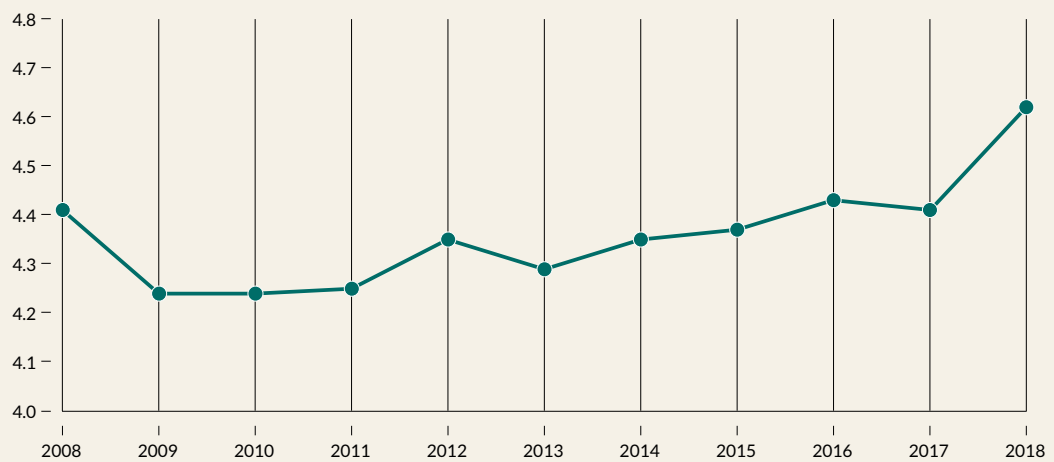
FIGURE 11: Ranking – Governance SGI 2018



Source: SGI.

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FIGURE 12: Party Polarization (average) 2008–2018



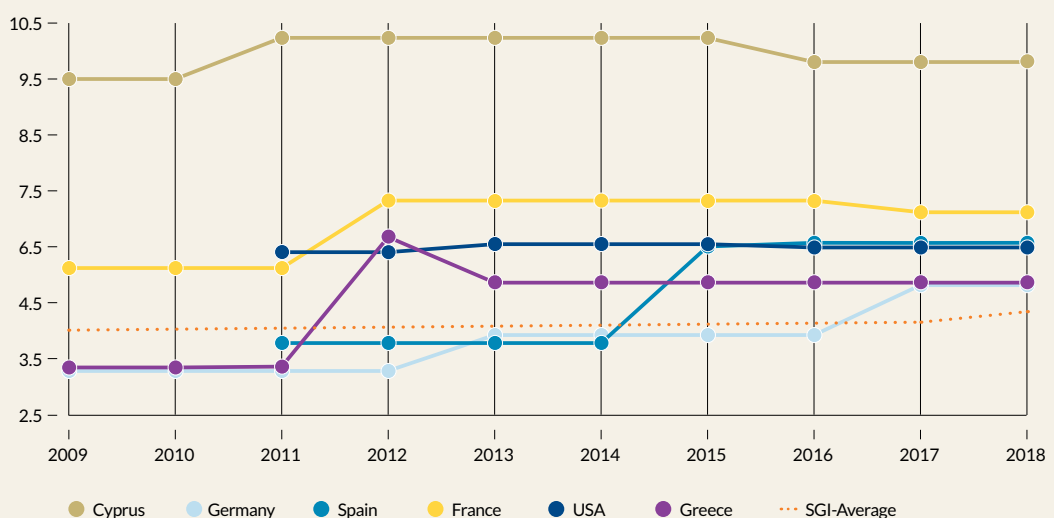
Source: Calculations by Prof. Dr. Uwe Wagschal, University of Freiburg.

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variables as well, such as the degree of party polarization. Party polarization refers to the ideological distance depicted in the party system on a right-left scale. It is an important finding that the polarization of the party system has increased in most of the states considered, in some cases significantly over the last three elections. As a rule, strongly polarized party systems are characterized by the presence of populist parties. Populist parties thus reinforce the effect of polarization.

Cyprus features the highest degree of overall polarization. There are two parties of relatively equal strength; one is extremely left-wing and the other strongly conservative. France, Greece and Spain have also recently recorded an increase in the polarization of their respective party systems, so that the programmatic distance between the parties is now above average in international comparison. While for a long time Germany had a comparatively low polarized party system, this has changed signifi-

FIGURE 13: Party Polarization for selected countries 2009–2018



Source: Calculations by Prof. Dr. Uwe Wagschal, University of Freiburg.

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cantly with the entry of the right-wing populist party “Alternative für Deutschland” (AfD) into the German parliament.

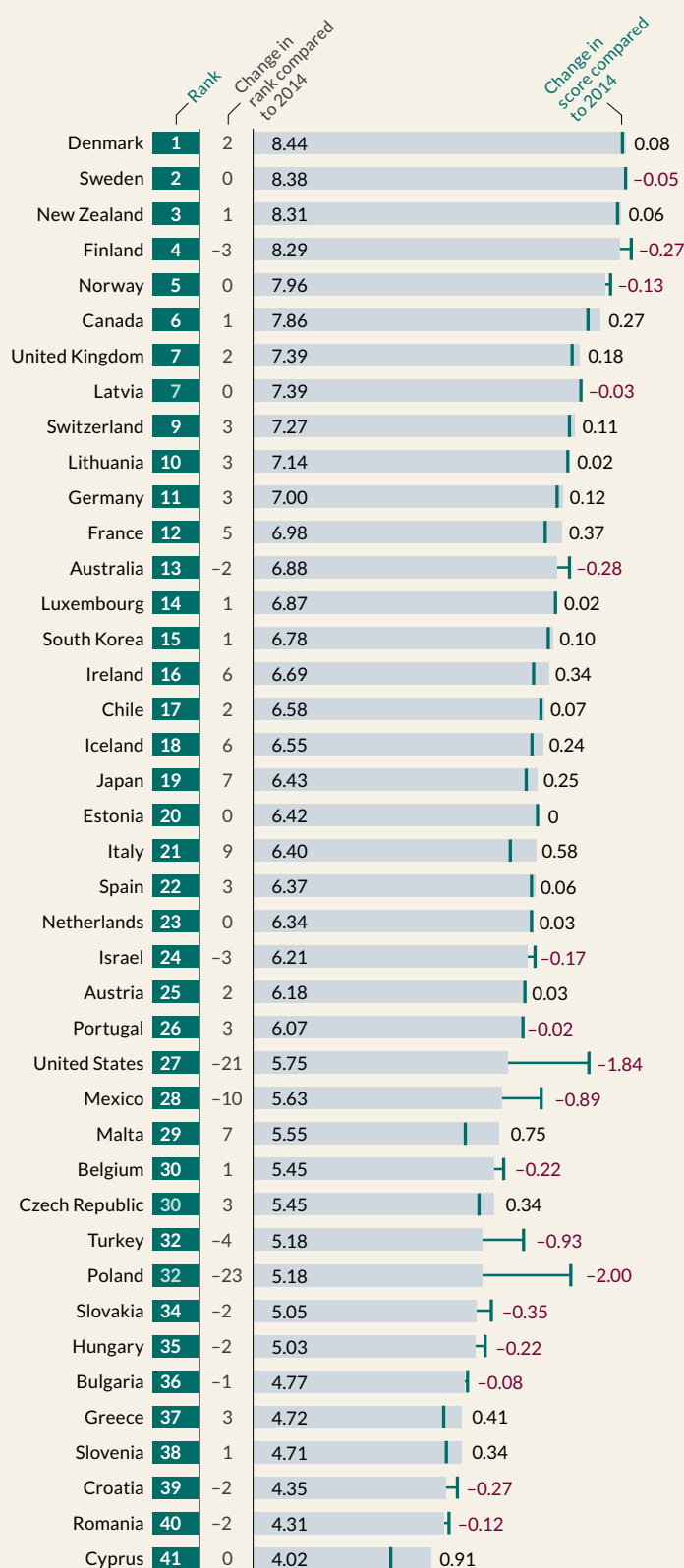
Increased polarization is problematic in that it can make the process of governance more difficult, which in turn reduces the capacity for reform. In polarized systems, for example, it is becoming harder to build a broad social consensus on political solutions. Populist parties in particular often aim to systematically sabotage the struggle for suitable political solutions by exploiting emotions with their campaigns. As a result, parties find themselves in a kind of “permanent campaign” mode that makes fact-driven compromise across party lines more difficult. A closer look at the individual parts of the SGI Governance Index also reveals these effects.

Executive capacity – results show a slight downward trend

Let us first take a closer look at developments in the area of executive capacity. Results show the most dramatic losses in the United States and Poland. Both countries have fallen by more than 20 places in the ranking compared to the survey four years ago. Denmark, Sweden, New Zealand, Finland, Norway and Canada are at the top. While Canada has shown an upward trend, Finland has deteriorated to the same extent. However, all six countries in the top group are still characterized by an above-average level of executive capacity. In these countries, effective institutional mechanisms and structures are in place for long-term oriented political steering and implementation. Overall, Germany has improved slightly over the last four years and now ranks 11th, similar to France, which has improved considerably under the new President Macron.

Comparing the development of political steering capacity over a longer period of time, Figure 15 shows not only the slight overall negative trend, but above all the drastic losses in the United States. This can be clearly explained by Donald Trump’s entrance into government, but even under the Obama administration there was already a slight deterioration recorded between

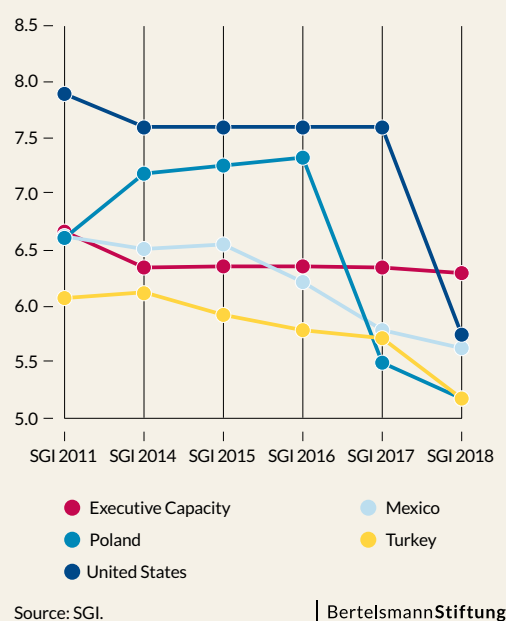
FIGURE 14: Ranking – Executive Capacity SGI 2018



Source: SGI.

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FIGURE 15: Executive Capacity 2011–2018



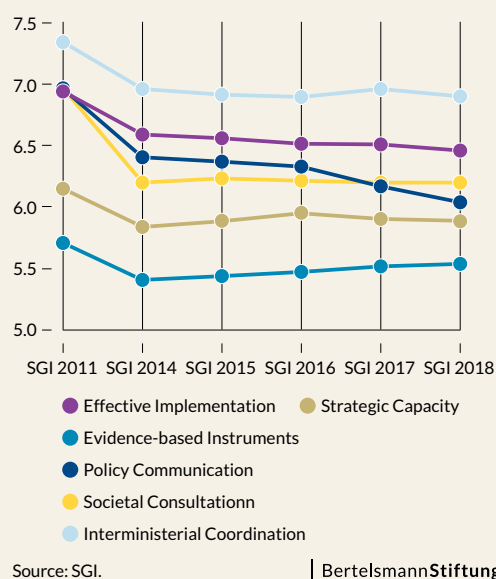
the SGI 2011 and 2014. Unlike Mexico and Turkey, which have recorded a continuous negative trend since the SGI 2011, Poland has only slipped sharply since the right-wing conservative PiS government took office, after the governments of Donald Tusk and Ewa Kopacz had previously improved the executive power. Until the PiS government took office, Poland was a role model among the Visegrad states in terms of quality of governance. Unfortunately, this has changed fundamentally. Poland now ranks poorly, similarly to Hungary and Slovakia.

The previous analysis of executive capacity focused on the respective aggregated average value per country. However, a look at the individual index categories and selected individual indicators is far more revealing than highly aggregated index values. The following line graph already shows that different trends are evident in the criteria comprising executive capacity. Particularly clear negative developments over time can be observed in the criteria of policy communication, societal consultation and policy implementation, while a slight improvement can be observed only with the criterion of evidence-based instruments, and that at a low overall level. What role do these trends play in

detail, particularly against the background of the negative developments observed in terms of the quality of democracy and increased party polarization in the OECD and EU countries?

The criterion “societal consultation” measures the extent to which governments proactively and comprehensively involve societal actors (e.g. interest groups, civil society groups) in the policy-planning process in order to broaden the knowledge base for policy formulation and at the same time generate the greatest possible societal support for political projects. Of the 41 OECD and EU countries in the SGI sample, 18 countries in the SGI 2018 results were in part significantly worse than in 2011 and 2014, while only 10 countries improved during this period. The other 13 countries have maintained their levels. The corresponding trends are particularly negative in Hungary, Mexico, Poland, Turkey and the United States. These countries have deteriorated by at least three points and, with values between two (Hungary) and five points (USA), they are also significantly worse than the average of all countries for this important indicator (6.2). Spain, Greece and Turkey also show a clear deterioration of two points in the long-term trend and rank in the lower third of the country sample. In their current country

FIGURE 16: Executive Capacity 2011–2018 – Dimensions



28 Genckaya, Togan, Schulz and Karadag 2018, available under www.sgi-network.org.

29 Matthes, Markowski and Bönker 2018, available under www.sgi-network.org.

report, the country experts for Turkey highlight the following reason for the corresponding negative trend in their country:

“Political polarization during the review period increased the government’s restrictions and biases on public access to policymaking processes and strengthened its preference to consult only with pro-government actors. In general, governmental authorities consider this requirement to have a “slowing” effect on policymaking [...]. Although it is required by the legal framework, societal consultation has largely been neglected or rendered ineffective.”²⁸

In the case of Poland and Hungary, the country experts also criticize a very one-sided consultation of societal actors by the respective governments or even a deliberate circumvention of the usual procedures:

“Generally speaking, the government’s clear majority in parliament has reduced the need for winning over social actors, and the government perceives many of them as enemies. Public consultation has been bypassed by introducing legislative initiatives through parliamentarians, since such initiatives do not require the regular consultation mechanisms, and therefore exclude experts and public. Moreover, the quick passage of major laws has reduced the time available for meaningful consultation.”²⁹

Such trends are very problematic because they point to deep social cleavages that are not addressed by the respective governments with inclusion in mind, but are instrumentalized for polarizing effects. In the worst-case scenario, this leads to the implementation of unbalanced and ultimately unsustainable policy goals.

A clearly negative trend is evident with regard to the question of policy communication. On average, the ability of governments to communicate in a coherent way has declined over the last few years. Comparing the values of the SGI 2014 edition with the corresponding values of the SGI 2018 edition, one can see deteriorations in 16 countries, while only nine countries were able to improve. Here, too, there is often a connection with an increase in political polarization.

The deterioration is particularly drastic in the case of the United States. Under the Trump administration, the government’s ability to communicate coherently and consistently has declined from nine to four points – the strongest downward trend of all countries examined. But even in the United Kingdom, whose governments usually had a clear and coherent communication strategy in the past, a clear deterioration in government communication has manifested itself in the course of politically heated discussions on Brexit:

“Government communication around the divisive issue of UK membership of the European Union has been far from clear and this lack of coherence is still apparent as the government struggles to explain its stance to the public. So far, Theresa May has been unable to develop a clear message for her government. The division that marked the Brexit campaign has seamlessly continued in cabinet friction and intra-Conservative parliamentary quarrels.”³⁰

While the examples of the United States and the United Kingdom show that incoherent external communication can also have a negative impact on the government’s internal capacity to act, France is a positive example. Compared to Francois Hollande’s term of office, the government’s communication under President Macron has improved significantly – from three points (in 2015) to nine points. Given the fact that there is also a high degree of party and societal polarization in France, it is all the more remarkable that this was possible:

“[...] Macron has defined a new strategy: precise indications about his program during the presidential campaign, a commitment to fully and speedily implement these policy measures, and strict control over the communication policy under the tight supervision of the Élysée staff. This has conferred a significantly higher degree of coherence on governmental communication.”³¹

However, France remains an exception. In fact, negative developments in the area of government communication have predominated over the past few years. Countries such as Mexico,

³⁰ Busch, Begg and Bandelow 2018, available under www.sgi-network.org.

³¹ Mény, Uterwedde and Zohlnhöfer 2018, available under www.sgi-network.org.

Poland, Turkey, Slovakia, Croatia and Romania are also included in the list of negative examples. However, countries such as Austria or Germany have also traditionally performed poorly on the issue of government communication in recent years. The party-political divergences between individual ministries and/or the center of government were often too strong. In the case of Germany, the country experts also point to increased party polarization as an obstacle to more coherent communication:

“Given that the traditional political parties are confronted with the success of a new right-wing populist party, the Alternative für Deutschland (AfD), conflicts between the governing parties have increased and have become a burden for strategic and coherent governmental policy communication.”³²

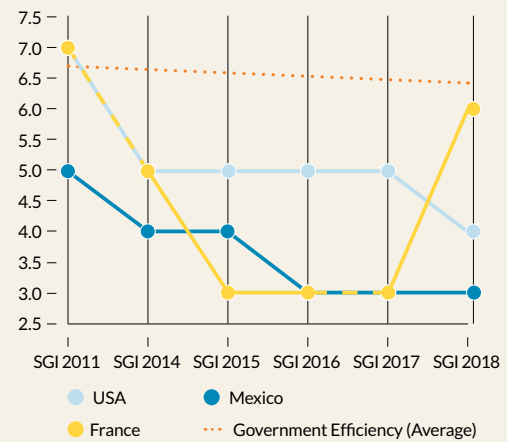
The fact that many governments are showing declining values in both indicators of societal consultation and policy communication can point to a growing gap between those who govern and those who are governed. At the very least, governments that neither ensure the broad involvement of societal groups in the policy-planning process nor a coherent communication, risk averting parts of the electorate or exacerbating social lines of conflict.

The criterion of policy implementation also shows a slightly negative overall trend. The indicator “government efficiency” in particular is decisive for this development. Since the SGI 2014, it appears to have become harder for governments in 18 countries to implement their respective government programs, while only nine countries have improved in this respect.

In many cases, difficulties regarding implementation capability can be attributed once again to the high degree of polarization within society and the party system. This has become very clear in the United States during the last years of the Obama administration:

“In comparison to parliamentary systems that have an expectation of nearly automatic legislative approval of government bills, policy implementation in the U.S. separation-of-pow-

FIGURE 17: Government Efficiency 2011–2018



Source: SGI.

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ers system is presumed to depend on coalition building, negotiation and relatively broad consensus. In the current, highly polarized state of the major political parties, the ability to act depends heavily on whether partisan control of the presidency and Congress is unified (with the same party controlling the presidency, House, and Senate) or divided.

From 2011 to 2016, with a Democratic president, Republicans controlling one or both houses of Congress and an aggressive far-right (“Tea Party”) Republican faction that was often able to block action, the U.S. government had profound difficulty in accomplishing any policy goals. The two Congresses of this period were the least productive (i.e., enacting the fewest laws) of any Congress in the modern era (since the 1920s pre-depression era).³³

What is interesting, however, is that even under the institutional framework of a majority of Republicans in Congress, the new Trump administration has not been successful in achieving political goals through legislation:

“Until the enactment of this tax cut in December 2017, Trump’s first year was shaping up to be the first time in modern history when a new president had failed to secure even a single piece of legislation. Trump’s objectives on immigration were pursued by administrative

32 Rüb, Heinemann and Zohlnhöfer 2018, available under www.sgi-network.org.

33 Quirk, Lammert and Thunert 2018, available under www.sgi-network.org.

means, without legislation. Trump was successful in sharply increasing deportations of undocumented immigrants, primarily from Mexico. Due to judicial interventions, he was not successful in implementing a ban on entry by Muslims or people from select Muslim countries. Regulatory agencies withdrew large numbers of Obama-era regulations, but whether these decisions will hold up against judicial appeal remains uncertain. At the end of the first year, very few of Trump's policies had been adopted in a manner that promises to be enduring."³⁴

Accordingly, the United States has deteriorated the most in recent years with regard to the question of the government's implementation capacity when compared to all other OECD countries – from seven to four points. In this respect, the world's largest economy is a particularly negative example of the loss of executive capacity through extreme societal polarization and a current government that does nothing to overcome social divisions.

In the current SGI edition, France is once again a positive example of the opposite. With the new President Macron, the government's implementation capacity has considerably improved – from three points under the Presidency of Francois Hollande to six points. The SGI country report explains this improvement as follows:

"The main improvement has been the capacity of the Macron government to combine its policy commitments with intense stakeholder concertation before finalizing legislative proposals. Until now, this method of policymaking has been quite successful. Though it is still rather early to evaluate the effectiveness of this strategy, and its likely success in the medium- to long-term."³⁵

At this point it becomes clear that improved implementation capacity, clear and consistent political communication as well as the early involvement and consultation of societal groups go hand-in-hand. Although it may be too early to assess the long-term success of Macron's strategy, the initial results are quite promising. This is interesting and could also prove an advisable approach for other governments, since

France is also characterized by a fairly high degree of social polarization. Overall, Canada performs best on all three criteria considered here – societal consultation, policy communication and effective implementation. Indeed, Canada slightly improved under the new government of Justin Trudeau.

Among the various SGI indicators for executive capacity, there are only a few criteria that have developed positively since 2014. These exceptions include that addressing evidence-based instruments. This criterion analyses the extent to which governments are in a position to systematically assess the potential impacts of existing and prepared legal acts – also with a view to the sustainability of certain political actions. The slightly positive development is based mainly on the fact that traditional latecomer countries in this area such as Bulgaria, Cyprus, Italy, Portugal and Spain have recently been able to make up some ground.

Compared to the other aspects of executive capacity, evidence-based instruments is still classified as the item with the greatest potential for improvement. It is also worrying that, despite the general slight upward trend, two once pioneering countries have in some cases experienced considerable deterioration in this regard.

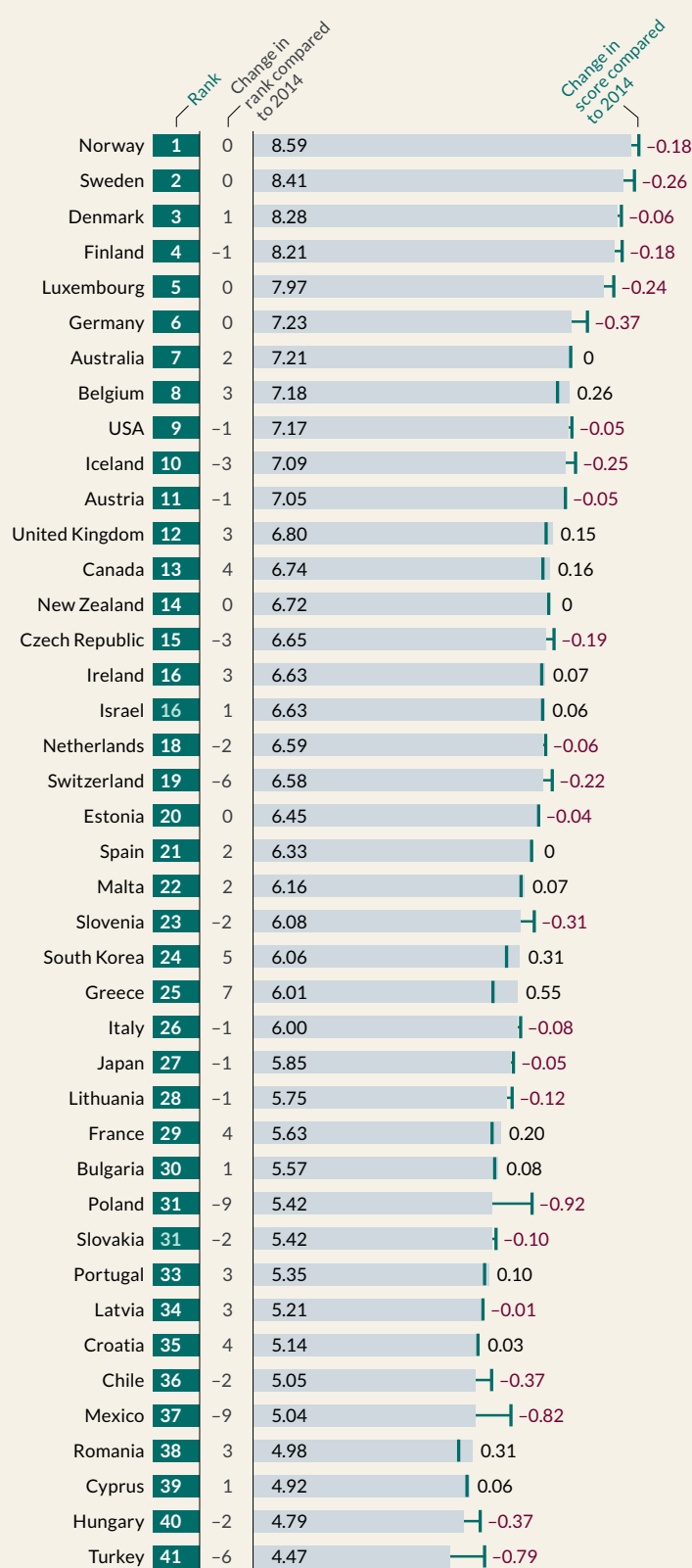
The United States traditionally belonged to the top group (third place in 2017) in terms of its capacity and willingness to use evidence-based instruments. Since the last survey, however, the United States has deteriorated so dramatically in terms of the scope of impact assessment (–5 points), the quality of impact assessment (–2 points) or the systematic review of the sustainability of policy measures (–2 points) that it has now fallen to 19th place. The SGI country report explains these substantial deteriorations as follows:

"[...] the Trump administration largely abandoned impact analysis and other professional expertise. Agencies have been under a strong presidential mandate to reduce regulations and reverse decisions taken during the Obama administration. Since the first several months of the Trump presidency, this effort has been

³⁴ Quirk, Lammert and Thunert 2018, available under www.sgi-network.org.

³⁵ Mény, Uterwedde and Zohnhöfer 2018, available under www.sgi-network.org.

FIGURE 18: Executive Accountability SGI 2018



Source: SGI.

| BertelsmannStiftung

aggressively carried out on the basis of minimal analysis. The president also issued an order saying that for every new regulation that an agency adopts, it is required to cancel two existing regulations – a mechanical solution that does not permit analytic influence.”³⁶

In Poland, which ranked 7th in the SGI 2016, the dramatic decline in the importance of evidence-based policy strategies under the PiS-government is continuing (currently rank 39). Similar to the United States, the formal institutions and rules of impact assessment remain largely intact. In practice, however, these are increasingly being undermined:

“From 2001 to 2015, Poland established a relatively comprehensive system of regulatory impact assessment (RIA). The PiS government has left this system largely unchanged in formal terms but has not taken RIA seriously. It has bypassed RIA by strongly relying on ‘fast-track’ legislation or on legislative initiatives by members of parliament, and the quality of RIA has been low.”³⁷

Executive accountability – a longer-term negative trend in OECD and EU countries

The negative trends described above in terms of quality of democracy and the deterioration of key indicators in the area of executive capacity are in themselves already a problematic finding. However, this finding corresponds with the fact that a longer-term negative development can also be discerned in the area of executive accountability, the second dimension of the Governance Index. In the overall ranking of executive accountability by citizens, parliaments, parties, media and intermediary organizations, the Nordic states are in the lead – followed by Luxembourg and Germany. But even for these countries, which are still very well placed, a negative trend can be observed for the last four years.

However, the level of executive accountability of actors outside the government in the leading countries is still high. Unfortunately, the situation is quite different in the case of Poland,

³⁶ Quirk, Lammert and Thunert 2018, available under www.sgi-network.org.

³⁷ Matthes, Markowski and Bönker 2018, available under www.sgi-network.org.

Mexico, Hungary and Turkey. Turkey and Hungary are at the bottom of the league and have experienced a massive deterioration in executive accountability over the last few years. Although Poland is currently still significantly better than these two countries, a negative trend is also evident. This trend has intensified, particularly since the PiS-government took office. This is a very problematic finding, which points to the increasing interference of the governments of these countries with democratic accountability and control mechanisms. In contrast, Greece and South Korea have recently developed again more positively. However, these two countries are an exception to the mostly negative overall trend.

What accounts for the negative development observed at the aggregated level? A look at the individual items comprising the dimension of executive accountability is revealing. The decline in executive accountability is largely driven by the media's waning ability to provide high-quality and comprehensive reporting on government action. Only in one country do we observe a slight improvement (South Korea), while all other countries showed stagnating or declining values for the media reporting criterion. The case of South Korea illustrates how important the media's control function can be. Despite continuing considerable deficits in the quality of the Korean media system, the SGI country experts underscore the media's role in exposing the corruption scandal associated with former President Park:

"Nevertheless, the media played an important role in uncovering and reporting on the recent political scandals involving Choi Soon-sil and President Park Geun-hye. Several new-media organizations, including JTBC and the Chosun Broadcasting Company, investigated the case and helped uncover the evidence of corruption. The public movement that led to Park's impeachment could not have been achieved without media reporting on the government's abuses of power."³⁸

By contrast, the setbacks in the quality of media coverage are particularly striking in those countries in which governments specifically inter-

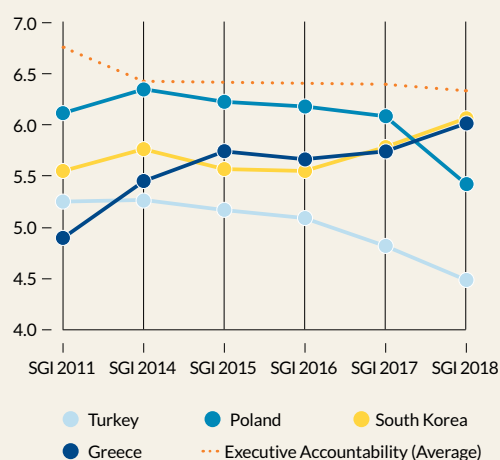
vene in freedom of the press. This applies in particular to Hungary and Turkey, which are the two countries ranking last with three points each. The country report on Hungary states:

"The Hungarian media landscape has undergone two different processes in the last years: depolitization and scandalization. Depolitization is the result of a new type of self-censorship, caused by the attacks of the government and their representatives on the press and civil society organizations. Scandalization is the result of polarization. The sharp polarization of political life in Hungary has facilitated a replacement of in-depth analysis by a preoccupation with scandals, whether real or alleged. There is relatively little in-depth analysis of government decisions and the performance of the government in the government-controlled public media, or in those private outlets close to Fidesz."³⁹

In the case of Turkey, the country experts arrive at a very similar conclusion:

"Despite the pluralistic media scene in Turkey, the Turkish media (TV channels, newspapers, etc.) seems increasingly split between proponents and opponents of the AKP government. Media freedoms deteriorated significantly after the failed coup attempt of 15 July 2016. Numerous journalists were imprisoned without in-

FIGURE 19: Executive Accountability 2011–2018



Source: SGI.

| BertelsmannStiftung

³⁸ Kalinowski, Rhyu and Croissant 2018, available under www.sgi-network.org.

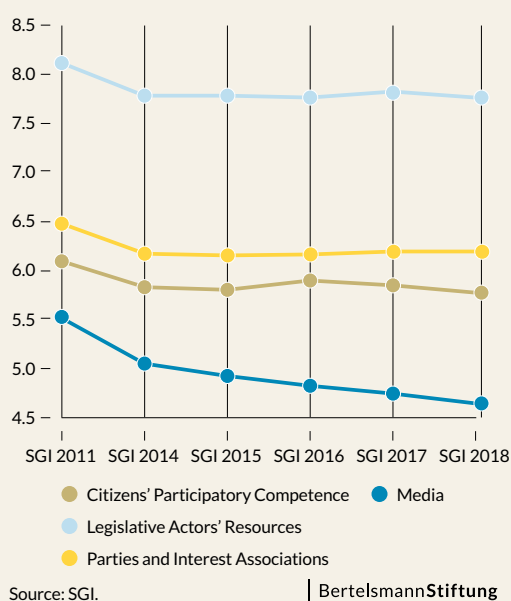
³⁹ Ágh, Dieringer and Bönker 2018, available under www.sgi-network.org.

dictment, which had an intimidating effect on other journalists. In consequence, it is difficult for citizens to find objective or substantive in-depth information on government policies and government decision-making. A media-ownership structure based on industrial conglomerates (the so-called Mediterranean or polarized pluralist media model), the government's clear-cut differentiation between pro- and anti-government media, and the increasingly polarized public discourse make it difficult for journalists to provide substantial information to the public. News coverage and debates are mainly one-sided in the pro-government media, while self-censorship is common in the mainstream, neutral media. This is true even of the main news agencies, such as Anadolu, ANKA, Doğan and Cihan. Superficial reporting, self-censorship and dismissal of critical journalists from their job are widespread within the major media outlets. Media ownership, and direct and indirect government intervention in private-media outlets and journalism obscure the objective analyses of government policies. Thus, few newspapers, radio or TV stations offer in-depth analysis of government policies or their effects concerning human rights, the Kurdish issues, economic conditions and so on."⁴⁰

To a certain extent, the worrying trends of government influence on the media system also apply to Poland, where – especially in the public media sector – a worrying trend of declining quality in media reporting has also emerged over the past few years. Overall, however, the situation is not yet as dramatic as it is in Turkey or Hungary:

“Government decisions are widely covered by the country’s main TV and radio stations. Due to the media law, the public TVP is often dubbed TV-PiS. Jacek Kurski, party ideologist, was appointed as TV director and hired several party loyal journalists as anchors for the news shows and other relevant positions. In the private media, despite a tendency toward infotainment, the quality of reporting, especially of the two major TV companies, POLSAT and TVN, has increased. Rzeczpospolita, the second-largest daily paper in Poland, has benefited from a change in ownership and editorial staff, and has become less politically partisan. Still, there are few print outlets and TV and radio stations that resist political pressure, and the media is divided into pro or contra government. Public trust in the objectivity of the media was always been quite low, but now it is at a very low position. The main TV news show Wiadomości in TVP has lost 17% of its viewers.”⁴¹

FIGURE 20: Executive Accountability
2011–2018 – Dimensions



The decline in the number of available quality newspapers is also having a particularly strong impact in almost all countries surveyed. The underlying reason is undoubtedly the process of increased digitization in the media sector. There is currently no sign that the declining circulation and number of quality newspapers will be fully compensated by new online offerings. Findings for the media reporting indicator described above, which also takes into account the quality of online offerings, confirm this assumption.

In addition to the diminishing ability of the media to provide high-quality and comprehensive reporting on government action, there is also a sharp decline in the opportunities for participation and control of societal actors, particularly in Poland, Mexico and Turkey.

40 Genckaya, Togan, Schulz and Karadag 2018, available under www.sgi-network.org.

41 Matthes, Markowski and Bönker 2018, available under www.sgi-network.org.

In Poland, these negative developments also become apparent with regard to the question of the extent to which the parliament effectively succeeds in controlling the government, for example, with regard to adequate personnel and structural resources of the parliament, the possibility for parliamentarians to request documents and information from the government or to listen to experts. The country report on Poland states:

“The members of the Sejm, the Polish parliament, have permanent support staff and can draw on the Sejm’s library and the expertise of the Sejm’s Bureau of Research (BAS). [...] However, the quality of expertise provided by the BAS has declined since the parliamentary elections in 2015. Moreover, the PiS majority has made the monitoring of the government difficult by not publicizing its plans for new legislation, by circumventing the normal procedures by letting individual members of parliament submit draft laws and by passing legislation very quickly. [...] On paper, parliamentary committees have full access to government documents. Members of parliament may demand information from government officials, either in written or verbal form, at the sitting of the Sejm plenary or at a committee meeting. Since the parliamentary elections in 2015, however, it has become more difficult for opposition members of the Sejm to obtain government documents and to receive them in good time. [...] Parliamentary committees have the right to invite experts to give statements on hearings on particular issues or to take part in normal committee proceedings. However, if bills are introduced by individual members of parliament (as has often been the case under the PiS government), the summoning of experts must be supported by a majority of members of parliament. The PiS majority in the Sejm has used this procedural rule to limit the invitation of experts close to the parliamentary opposition. Given the maneuvering of the PiS in the Sejm, some experts have refrained from participating in what they consider political manipulation.”⁴²

In Turkey as well, the control function of parties, interest groups and the parliament is very severely restricted, in addition to the lack of the media control function. With regard to the pos-

sibilities for parliamentary committees to summon and question ministers, the country report on Turkey states, for example:

“During the review period, the effects of the state of emergency, corruption scandals, resignation of metropolitan mayors, economic instability and regional affairs (e.g., Turkey’s involvement in the war in Syria, the massive movement of refugees from neighboring countries into Turkey, and Kurdish developments in and outside of Turkey) are highly visible. None of the government’s senior executives took responsibility for or allowed an independent parliamentary investigation into these issues. Instead, the government demonstrated a lack of accountability vis-à-vis parliament.”⁴³

In Mexico, besides deficiencies in the media’s capacity to exercise its monitoring function, deteriorations are primarily apparent for the indicators of “policy knowledge” and “intra-party democracy.” The country report on Mexico provides the following information regarding policy knowledge:

“Most citizens are not aware of important decisions made by the government. For example, only one-third of Mexicans were aware that the federal government decided to cut spending in 2017. To a great extent, this is explained by a lack of interest in politics. According to the most recent data of the National Survey on Political Culture (ENCUP 2012), 65 % of Mexicans have little to no interest in politics and 77 % think of government as an instrument of manipulation that benefits only politicians and wealthy people.”⁴⁴

Although executive capacity has declined dramatically in the United States during the last survey period, executive accountability currently remains strong in contrast to countries such as Mexico, Turkey or Poland. Even during Donald Trump’s presidency, this positive finding has hardly changed, at least so far. The United States remains in the top group (rank 5) when it comes to the structural control and supervisory competences of legislative actors. The available resources of Congress remain unique in international comparison. However, the country ex-

42 Matthes, Markowski and Bönker 2018, available under www.sgi-network.org.

43 Genckaya, Togan, Schulz and Karadag 2018, available under www.sgi-network.org.

44 Harbers, Razu, Faust and Thunert 2018, available under www.sgi-network.org.

perts also point to some recent problematic developments in this regard:

“Importantly, Congress has cut staff personnel significantly in recent years. This reflects an increasing reliance on ideologically oriented think tanks for policy advice and centralization of control in the party leadership. The role of individual members and committees in policymaking has been diminished. Nevertheless, Congress’s staff levels remain unmatched in the world.”⁴⁵

The effective control of government action by independent courts has recently even increased in the United States:

“Judicial review remains vigorous. In 2015 and 2016, the federal courts struck down several expansive uses of executive power by the Obama administration as well as potentially discriminatory voter registration requirements in a number of states. During 2017, federal courts have blocked the Trump administration’s constitutionally dubious travel ban affecting visitors from certain Muslim countries as well as Trump’s executive decision to end the DACA program.”⁴⁶

45 Quirk, Lammert and Thunert 2018, available under www.sgi-network.org.

46 Quirk, Lammert and Thunert 2018, available under www.sgi-network.org.

SGI 2018 findings: Policy performance

Considerable need for reform remains

Despite their economic recovery, the OECD and EU countries have made only marginal progress in terms of social or environmental sustainability.

How successful are individual countries in achieving sustainable policy results? The Policy Performance Index, which measures the performance of the 41 states surveyed in terms of economic, social and environmental policy outcomes as core aspects of sustainability, provides answers to this question. The Policy Performance Index thus reflects each country's current need for reform in key policy areas.

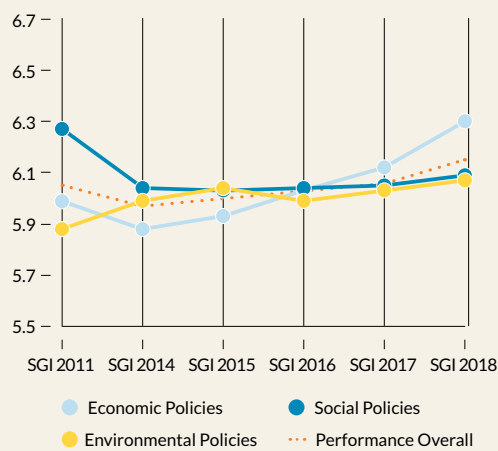
Overall, across all countries and dimensions, the downward trend that continued until 2014 as a result of the global financial and economic crisis has been stopped and a slight upward trend – albeit on a low level – can be observed. The slight improvement of the aggregated policy performance scores can be attributed in particular to the economic recovery of recent

years and less to progress in social or environmental sustainability. With regard to the individual dimensions, there are clear differences in development, especially with regard to economic policies and social policies.

In general, the challenges for the 41 OECD and EU countries have not decreased but increased in recent years. Many of the highly developed industrial nations are lagging far behind in the implementation of the sustainable development goals (SDGs). Only a few of the countries considered here have so far served as global role models in matters of sustainable policy.⁴⁷ The core challenges faced by all states include climate change, demographic changes in the form of an aging society and migration processes, digitization with its not yet fully assessable consequences for work and social security systems, and – at the global level – the threat posed by increasing protectionism to free trade globally. What about the political performance of the countries under consideration in the individual SGI policy areas in view of the above?

While until the SGI 2016, states were more successful in terms of social policy outcomes than in ensuring economic performance, the picture has since reversed. This can be attributed in part to the fact that social policy performance has declined significantly more than has economic policy performance in the course of the economic and financial crisis. Secondly, economic policy performance improved quite significantly from 5.88 to 6.30 points in the course of the global economic recovery between 2014 and 2018, while social policy performance rose only slightly from 6.04 to 6.09 over the same

FIGURE 21: Policy Performance 2011–2018⁴⁸



Source: SGI.

| BertelsmannStiftung

⁴⁷ Cf. Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2018): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).

period. It can therefore be said that the economic upturn of recent years has not resulted in a commensurate improvement of the social situation in the respective countries.

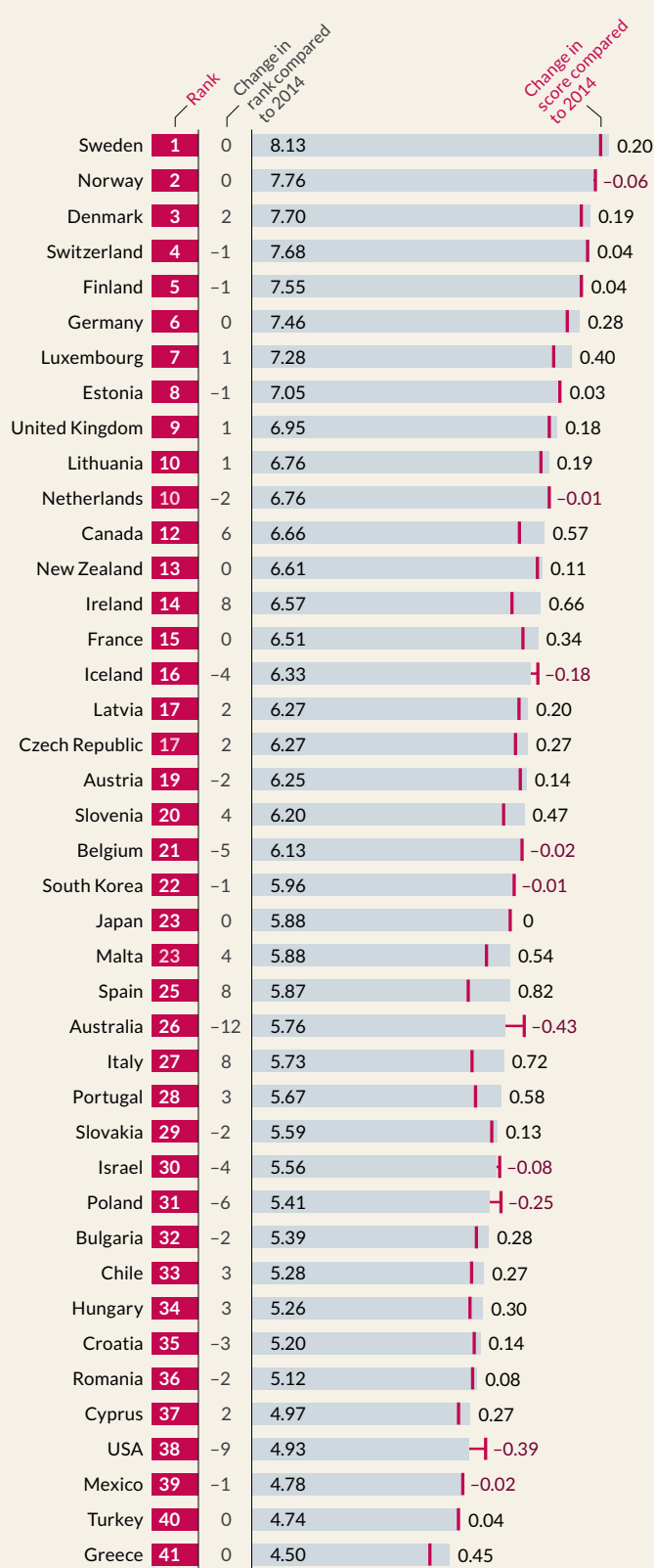
Little progress has been made in terms of environmental sustainability since the 2011 SGI edition. The corresponding point value has increased from 5.88 in 2011 to 6.07 in 2018. This shows that the EU and OECD countries still have a lot to do in terms of environmental policy. This is also the conclusion of the latest report on the Sustainable Development Goals (SDGs) by the Bertelsmann Stiftung and the Sustainable Development Solutions Network (SDSN). With regard to climate policy, the report states that:

“with the exception of India, NDCs (Nationally Determined Contribution) and current climate policies pursued by G20 countries are insufficient and, in some cases, critically insufficient to achieve the ‘well below 2°C’ objective of the Paris Climate Agreement. Some countries have set insufficient targets, which they can reach without implementing new policies. Others have implemented policies that will not even allow insufficient targets to be met.”⁴⁹

However, the developments described above do not apply equally to all countries. A total of 30 countries have improved their overall policy performance score since 2014. In addition to Ireland (+0.66) and Canada (+0.57), the biggest increases were recorded in the crisis-ridden countries of southern Europe, albeit from a (very) low level: Spain (+0.82), Italy (+0.72), Portugal (+0.58) and Malta (+0.54). Despite this success, the need for reform in these southern European countries remains high, with all four countries still in the lower half of the performance ranking. The situation in Greece is particularly dramatic. Although the country has also significantly increased its score since 2014 (+0.45), Greece continues to rank last in the country comparison (see Figure 22).

While Canada’s positive development is mainly due to an increase in environmental sustainability policy (+1.40), the improvement in overall policy performance in the other five countries mentioned above is based on significant pro-

FIGURE 22: Ranking – Policy Performance SGI 2018



Source: SGI.

| BertelsmannStiftung

⁴⁸ When interpreting the scores, it should be noted that, since the SGI 2014, the country sample includes 41 countries, compared with 31 in the SGI 2011 edition.

⁴⁹ Cf. Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2018).

gress in economic policy performance. There has also been a marked improvement in the social dimension in the southern European countries, although, in line with the trend described above, this is considerably lower than that observed in economic policy performance.

In 10 countries, the policy performance score has fallen since the SGI 2014, although the decline is minimal in seven of these countries. In Australia (−0.43), the United States (−0.39) and Poland (−0.25), on the other hand, there was a noticeable deterioration, which led to a decrease of a few places in the overall performance ranking. It is striking that Australia recorded losses in all three dimensions (economic, social and environmental policies), while the decline in the United States and Poland is solely due to a deterioration in social and environmental indicators.

Sweden shows the best overall policy performance. Despite a slight deterioration in terms of social policy, the country is the undisputed leader in the performance ranking with 8.13 points. In addition to Sweden, the other Nordic countries Norway (rank 2), Denmark (rank 3) and Finland (rank 5) as well as Switzerland (rank 4) and Germany (rank 6) belong to the top group. As expected, the greatest need for reform continues to exist in the countries of southeastern Europe, Mexico, Turkey and Greece, which brings up the rear.

New to the group of countries in greatest need of reform is the United States, which has fallen by nine places to 38th place since the SGI edition 2014 due to a significant deterioration in terms of social policies and environmental policies. Compared to the SGI 2017, the sharpest decline can be observed in terms of environmental policies targeting sustainability (−1.27). As a result, the United States is the only country in the SGI sample where the overall performance has fallen significantly in the past year (−0.59).

“From a sustainable-governance perspective, the United States must deal with numerous challenges. Among them a dangerously excessive long-term budget deficit, increased economic inequality, the loss of well-paying middle-class and working-class jobs, and cost

problems and provider shortages in some health care insurance markets. Racial tensions have increased and there has been an explosion of drug addiction (i.e., the opioid crisis). The Trump administration lacks motivation and thereby effective policies to reduce greenhouse gas emissions. Beyond its borders, the United States faces several major foreign-policy challenges centering on North Korea’s nuclear weapons program, the Syrian war and Russian expansionism. The Trump administration and Republican-led Congress have few plans, if any, that credibly address these challenges.”⁵⁰

Economic policies – upswing with risks

With regard to the category assessing economic sustainability, it is striking that all six criteria comprising this item have shown a continuous and more or less significant improvement since the 2014 edition of the SGI (cf. Figure 23). Following the economic slump in the wake of the financial and economic crisis, global economic growth has picked up notably since 2014 and currently stands at around 4% (OECD: 2.5%). The increase in growth is mainly attributable to monetary and fiscal policy stimuli, with around three-quarters of OECD countries currently pursuing an expansive fiscal policy course. Growth is also driven by an upturn in investment and world trade, with both effects weaker than in previous expansion phases. In many countries, the strong growth is fortunately accompanied by a strong revival of the labor markets. It can be assumed that the OECD average unemployment rate is likely to fall to its lowest level since 1980.⁵¹

However, the positive development of labor market indicators conceals the fact that the labor market situation remains very heterogeneous. While countries such as the Czech Republic, Iceland and Japan have an unemployment rate of under 3%, unemployment remains very high in the crisis-ridden countries of southern Europe. The situation in Greece is still dramatic. Although the unemployment rate was reduced from 28% in July 2013 to 21% in July 2017, it is still almost three times higher than that observed in 2008 (7.9%).

⁵⁰ Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

⁵¹ OECD (2018), OECD Economic Outlook, Volume 2018/1, OECD Publishing, Paris. https://doi.org/10.1787/eco_outlook-v2018-1-en.

“As the economy has stagnated, and domestic and foreign investors are still reluctant to invest given Greece’s unpredictable institutional environment, whatever progress has been achieved in tackling unemployment is due to the following reasons: lower wages, a rise in flexible forms of employment, growth in the tourism sector where jobs are available during an almost six-month-long summer season, and an increase in emigration (of both skilled workers and migrants). [...] About 75% of unemployed people have been out of work for more than one year. This [is a] phenomenon which has detrimental effects for economic growth. [...] Young people have been hit particularly hard by the economic crisis. Yet there has been some progress, as unemployment among 15 to 24 year olds (excluding students and soldiers) fell from 59% in July 2013 to 43% in July 2017. Of course, this is still one of the highest youth unemployment rates among OECD countries.

The primary reason why the labor situation has failed to improve much is the government’s reluctance to implement measures which would facilitate job creation in the

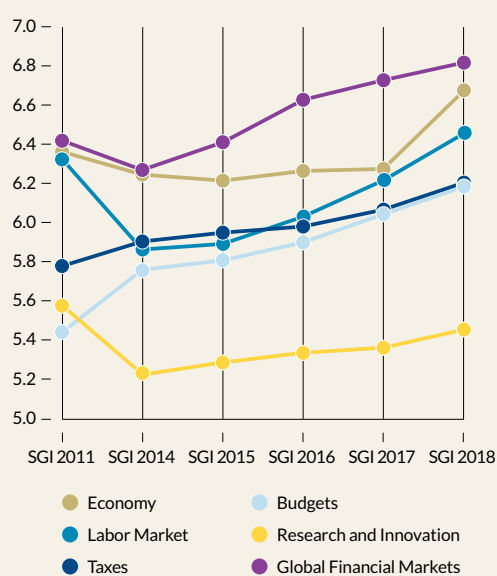
private sector. The government continues to give contradictory messages to investors. Throughout 2017, Prime Minister Tsipras and his finance ministers traveled abroad, including to the United States, in order to attract foreign investors, while other government ministers and the governing party Syriza still resist large-scale, industrial or other private investments, which could create job opportunities.”⁵³

The positive development of the global economy should not conceal the fact that it is subject to considerable downside risks. Increasing trade protectionism has already undermined investors’ confidence. Further escalation would have a negative impact on investment activity, the labor market situation and living standards. Moreover, geopolitical uncertainties have contributed to a significant increase in oil prices. If lasting, this increase would lead to increased inflationary pressures and a slowdown in real wage growth.⁵⁴

Furthermore, there is still the risk of rising interest rates, which could cause serious financial problems, particularly for highly indebted countries. This applies in particular to the southern European countries Greece, Italy and Portugal, which not only feature high national debt levels (Greece: 182%, Italy: 131%, Portugal: 125%), but also have to spend a large part of their economic output (around 3.6%) on interest payments. The situation in Japan is particularly critical. The debt ratio of 236% of GDP is by far the highest among the countries under consideration. Although the rise in net borrowing in Japan has been reduced significantly in recent years – currently at 3.74% of GDP – it remains the highest in comparison with all other countries included in the SGI sample.

“The Abe government has repeatedly reiterated its intention to achieve primary budget balance by 2020. However, before the October 2017 snap election, Abe announced that only half of the proceeds of the consumption-tax hike planned for 2019 would be used for debt consolidation, so the 2020 target for primary budget balance is now out of reach. Based on the weaknesses in the public-finance analysis category, Scope,

FIGURE 23: Economic Policies 2011–2018⁵²



Source: SGI.

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⁵² When interpreting the scores, it should be noted that, since the SGI 2014, the country sample includes 41 countries, compared with 31 in the SGI 2011 edition.

⁵³ Sotiropoulos, Huliaras and Karadag (2018), available under www.sgi-network.org.

⁵⁴ OECD (2018), OECD Economic Outlook, Volume 2018/1, OECD Publishing, Paris. https://doi.org/10.1787/eco_outlook-v2018-1-en.

a major European rating agency, downgraded Japan's credit rating to A+ in September 2017.”⁵⁵

Despite a slightly positive development, there is a clear need for action by OECD and EU countries, particularly with regard to the criterion “research and innovation.” The SGI 2018 score for this criterion is not only significantly lower than that of the other criteria in the SGI's economic policies category, but also lower than that recorded in the SGI 2011, partly due to the fact that government investment activity in this sector has hardly changed in the last 20 years. Since then, the governments of the 41 countries surveyed have spent an average of around 0.5 % of GDP on research and development. The fact that no increase can be observed is worrying inasmuch as innovations are of great importance for the economic sustainability of a country. Austria and South Korea spend the most (approximately 1 %), while less than 0.25 % of GDP is invested in research and development in Romania, Turkey, Latvia, Cyprus, Chile and Bulgaria. In terms of non-public research and development spending, the average value of 1.26 % of GDP is much higher, but here too there are significant differences between the countries. For example, the value of non-public R&D spending varies between 3.72 % in Israel and 0.16 % in Mexico.

A total of 34 countries have improved their economic policy performance since the SGI 2014 edition. Since then, Ireland has made the greatest progress (see Figure 24), with four of the six criteria (economic policy, labor market, budgetary policy and global financial system) showing the greatest improvement. The development of labor market indicators is particularly impressive.

“Ireland's rapid economic growth since 2014 has been reflected by significant improvements in the labor market. From a peak of 15 % in 2012, the unemployment rate fell to 6.2 % in 2017 and is forecasted to fall further, to 5.4 %, in 2018. Employment has pushed over the two million mark to 2,072,000 and the unemployment level has correspondingly fallen to 136,000. [...] With respect to long-term unemployment, there has been some improvement as it fell by a rate of 19 % in 2017 faster than

short-term unemployment (rate of 11%).

The composition of the labor force has shifted significantly away from relatively low-skill construction work toward higher-skill service and advanced manufacturing jobs. Some active labor market strategies, such as making unemployment support payments increasingly contingent on evidence of active job search, have contributed to these favorable developments.”⁵⁶

The labor market in Germany also continues to develop very positively. Compared to the SGI 2017 results, the country was able to increase the corresponding score by 0.6 points to 8.1, thus jumping from 6th place to 2nd place in the labor market ranking.

“Germany's success in reducing structural unemployment since the mid-2000s has been impressive. According to the German Council of Economic Experts (Sachverständigenrat), more than 44.3 million people were employed in Germany in November 2017, 0.6 million more than the previous year's record. Unemployment rates are at their lowest level in 20 years (4.0 % according to the OECD) and are further decreasing. Germany's youth unemployment rate is the third lowest in the OECD (7.0 %), attributable largely to a highly effective vocational training system. The unemployment rate is expected to further decline in 2018. Increasingly, the German labor market shows signs of a labor shortage with 1.1 million unfilled vacancies in the third quarter 2017.”⁵⁷

However, there is a downside to this positive development. In recent years, a dual labor market has developed, with traditional employment relationships on the one hand and a large proportion of atypical employment (e.g., low-wage sector, marginal employment, and temporary work) on the other hand. The proportion of employees earning less than two-thirds of the median income was 22.48 % in 2014, significantly higher than the average for the countries in question (16.06 %, rank 32). To counteract this, the German government introduced a statutory minimum wage in January 2015. Another central challenge in Germany in the coming years is the integration of refugees into the labor market.

⁵⁵ Pascha, Köllner and Croissant (2018), available under www.sgi-network.org.

⁵⁶ Murphy, Mitchell and Bandelow (2018), available under www.sgi-network.org.

⁵⁷ Rüb, Heinemann and Zolnhöfer (2018), available under www.sgi-network.org.

“Reducing barriers to labor market access, especially the regular labor market, as well as support for training and education will be crucial for the successful integration of refugees. The German Council of Economic Experts estimates a constantly decreasing unemployment rate of refugees during the next years from 76.2% in 2016 to 43.1% in 2022 (Sachverständigenrat 2017/2018: 150). Concerns that the 2015 wave of refugees would push up the total unemployment rate have so far not materialized with unemployment further declining throughout 2017.”⁵⁸

There is also still a clear need for action in the labor market integration of migrants in general in Germany. Unemployment among the foreign-born population in 2017 was almost twice as high as among the non-foreign-born population (1.94 times as high, rank 33 in the country comparison). This unfavorable ratio is not solely due to the refugee crisis. Already in 2014, one year before the massive influx of refugees began, the ratio of 1.76 was only slightly better and already significantly higher than the OECD/EU average (1.47).

In comparison with the SGI 2014 edition, the largest increases in the economic sector were recorded in Spain and Portugal alongside Ireland. As a result of the economic recovery, the situation on the labor markets in these countries has improved noticeably. In both countries, both the unemployment rate of the total population (from 24.6% to 17.3% in Spain and from 14.5 to 9.2% in Portugal) and long-term unemployment were significantly reduced. Significant progress has also been made in reducing the youth unemployment rate. It has been reduced by around 11 percentage points in Portugal since 2014 and by around 15 percentage points in Spain. However, with a youth unemployment rate currently at 38.6%, this is still the second highest level of unemployed young people after Greece. Furthermore, (long-term) unemployment is higher only in Greece than in Spain.

With regard to budgetary policy, Portugal is the country that, alongside Ireland, has made the greatest progress since 2014. The country report states:

“Clearly, the most important economic development during the reporting period was Portugal’s departure from the European Union’s excessive deficit procedure black list in May 2017. The budget deficit for 2016 stood at 2% of GDP, the lowest level since democracy was established in the mid-1970s. Moreover, this deficit was below the government’s own forecast for the year, as well as the forecasts offered by the EU and major credit-rating agencies. This represents a reduction of the deficit by more than half relative to 2015, when the shortfall stood at 4.4% of GDP. This review period’s advances were aided by some one-off measures, including the sale of military equipment. [...] However, it should be noted that the absolute level of public debt remains very high, actually increasing marginally in 2016 to 130.1% of GDP, up from 128.8% of GDP in 2015. Within the EU, this level is exceeded only by Greece and Italy.”⁵⁹

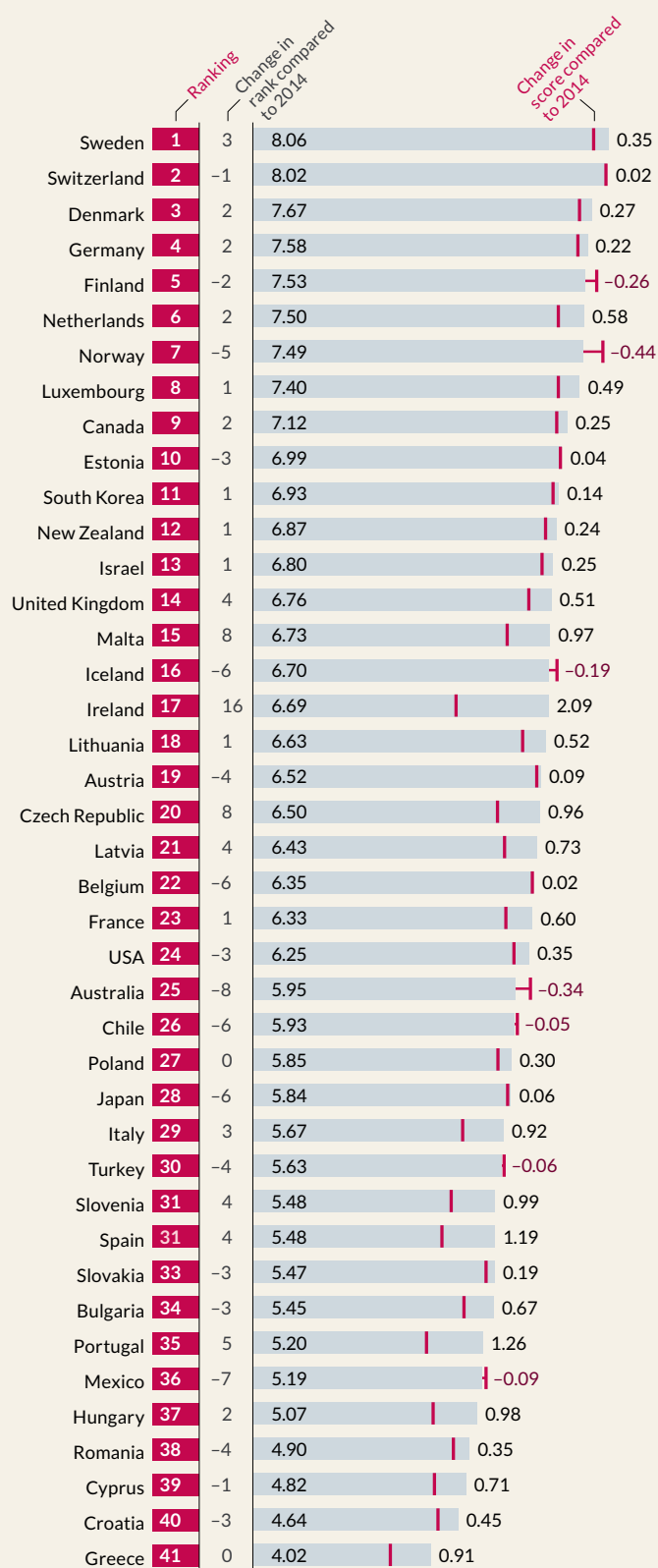
Despite this positive development, both Spain and Portugal are still in the lower third of the SGI’s economic policies ranking and are therefore still in urgent need of reform.

In seven countries, economic sustainability has worsened compared to the SGI 2014 edition, most severely in Norway. Although the country is still one of the top performers, the country experts point so to some negative developments:

“Growth rates are slowing and unemployment has increased in the country’s western region, which is most affected by reduced activity in the petroleum sector. [...] Although the country has managed its petroleum wealth responsibly, the economy is strongly petroleum-dependent and entrenched at a high-cost level, although costs have dropped significantly. Some observers are concerned that a lack of competitiveness in the mainland economy might pose a future challenge to maintaining the country’s high standard of living and to expectations for continued high public-service standards. The downside of a petroleum-dominated economy, critics argue, is an economy that lacks entrepreneurship, is weak in terms of conventional industries and has less long-term strength

⁵⁸ Rüb, Heinemann and Zolnhöfer (2018), available under www.sgi-network.org.

⁵⁹ Bruneau, Jalali and Colino (2018), available under www.sgi-network.org.

FIGURE 24: **Ranking – Economic Policies SGI 2018**

Source: SGI.

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than might be suggested by current favorable indicators. It also makes the economy vulnerable to changes in petroleum prices in world markets. These problems have now become strongly visible in the economy and a factor in economic policymaking.”⁶⁰

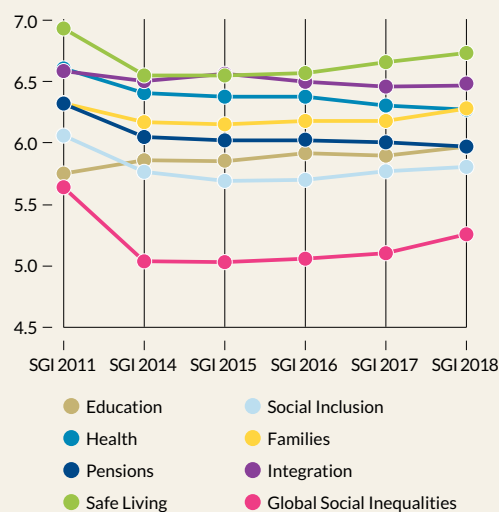
Social policies – findings show hardly any progress

In contrast to economic policy sustainability, which has improved on average since the SGI 2014 edition, hardly any progress can be seen in terms of social policy performance (cf. Figure 25). As a result, for the first time since the SGI 2016 edition, the economic performance of the countries under consideration is better than the social performance (cf. Figure 21). The social consequences of the economic crisis are still significant: The score for seven of the eight criteria in the SGI’s “social policies” category in 2018 remains below the value recorded in 2011 (cf. Figure 25). Only in the area of education do we observe a slight improvement compared to the SGI 2011 results. By contrast, the performance of pension and health care systems has – on average – even deteriorated slightly but continuously since the SGI 2011. However, this does not apply equally to all countries, since almost half of them have made progress in these systems. Turkey recorded the largest jump in the health sector, albeit from a very low level (+1.23 points). The country report states:

“By 2014, Turkey had achieved near-universal health insurance coverage, increasing financial security and improving equity in access to health care nationwide. The scope of the vaccination program has been broadened; the scope of newborn screening and support programs have been extended; community-based mental-health services have been created; and cancer screening centers offering free services have been established in many cities. The key challenge in health care is to keep costs under control as demand for health care increases, the population ages and new technologies are introduced. Total health expenditure as a share of GDP has been increasing steadily since 2003, reaching 5.4% in 2015. In 2015,

⁶⁰ Sverdrup, Ringen and Jahn (2018), available under www.sgi-network.org.

⁶¹ When interpreting the scores, it should be noted that, since the SGI 2014, the country sample includes 41 countries, compared with 31 in the SGI 2011 edition.

FIGURE 25: Social Policies 2011–2018⁶¹

Source: SGI.

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78% of this spending was funded by public sources, as compared to a 62% public share in 2000.”⁶²

Trends in the U.S. health care system are particularly unfavorable. Indeed, no other country records higher losses for this indicator’s score in the last two years.

“In 2010, Congress enacted the Patient Protection and Affordable Care Act (ACA, Obamacare). The main goals of the legislation were to lower costs in the health care sector and extend health care coverage to more people. The design of the ACA was essentially to fill gaps in the patchwork of financing arrangements that were embodied in the existing health care system. [...] In 2017, the Trump administration and Republican majorities in the House and Senate tried to enact a repeal bill but could not achieve sufficient agreement within the party on a specific measure. [...] Although the ACA has gradually become quite popular, the potential for continuing efforts at repeal will hamper the stabilization of health care insurance markets. Trump’s tax reform will eliminate major tax subsidies in the health care system, especially for low-income people. This will result in a higher number of uninsured people.”⁶³

With regard to pension systems, the pace of pension reforms in OECD countries has slowed down since 2015. One reason for this development is that the improvement in public finances has reduced the pressure to reform pension systems. However, some countries have changed the retirement age, benefits, contributions or tax incentives. Concerns about the financial sustainability of pension systems and the adequacy of pension income remain, considering the projected acceleration of population aging, higher inequality during the working age and the changing world of work. Previous financial sustainability reforms will reduce pension benefits in many countries.⁶⁴

Among the SGI countries, Latvia in particular recorded a negative development. The corresponding score for the pensions criterion has dropped by 1.61 points to 3.8 compared with the SGI 2014 edition; no country shows a worse score. The consequences of this lack of sustainability manifest themselves particularly in an increasing poverty in old age. In Latvia, for example, the proportion of elderly people living in poverty has more than doubled from 10.1% to 25% over the past four years. Only Mexico, Australia and South Korea feature an even larger proportion of older people living in poverty.

Germany also faces the great challenge of making its pension system fit for the future. With 5.7 points (SGI average 5.97), the country only ranks 25th in the country comparison. On a positive note, Germany has been the leader in increasing the employment rates of older workers since the turn of the millennium (+30 percentage points in the age group 55–64 since 2000). However, the rapid aging of the population will increasingly become a challenge to the financial sustainability of the public pension system. The old-age dependency ratio (i.e., ratio of the number of persons of retirement age and the number of persons of working age) was 32.4 in 2016, making it the fifth highest in the country sample. This dependency ratio will increase further in the coming years as the so-called baby boomers enter retirement. Moreover, as Germany has experienced an increase in wage inequality over the past decades, the close link between wages and pension benefits is likely to

⁶² Genckaya, Togan, Schulz and Karadag (2018), available under www.sgi-network.org.

⁶³ Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

⁶⁴ OECD (2017), *Pensions at a Glance 2017: OECD and G20 Indicators*, OECD Publishing, Paris.

lead to increased wage inequality also being reflected in greater pension inequality in the future. In particular, certain groups such as single parents, people with interruptions in their working biographies and low earners with low levels of education will be at higher risk of poverty in old age. The risk is particularly high for women in Germany, who currently suffer from the largest gender-specific pension gap in the OECD region. The net replacement rates of future pensioners are expected to remain below the OECD average. This applies in particular to low-income earners, who receive half of the average wage. Their net replacement rate is 55% compared to 73% in the OECD average. For average earners it is 51% compared to 63%.⁶⁵

Overall, social policy sustainability has slightly improved in a total of 27 countries compared with the SGI 2014, with the crisis countries of southern Europe – Italy, Malta, Spain and Greece – and Turkey making the greatest progress, albeit on a low level (see Figure 26).

Despite this slight upward trend, social policy sustainability in these countries still needs to be greatly improved. This applies in particular to the social inclusion of young people. Youth unemployment in Greece (43.6%), Spain (38.6%) and Italy (34.7%) is still dramatically high. At 27.9%, Italy also has the second-largest proportion of young people who are neither in education or training nor in employment (NEET rate). The country report states:

“The impact of the crisis on the incomes of a significant percentage of households and the increasing levels of unemployment – particularly among young people – have had important negative effects on social inclusion. The gap between the more protected sectors of the population and the less protected ones has increased. The traditional instruments of social protection (such as those guaranteeing unemployment benefits for workers with permanent labor contracts) do not cover a large part of the newly impoverished population, while new policies are only slowly being implemented. [...] Italian family networks still constitute the most important though informal instrument of social wel-

fare. [...] The government must also address the large proportion of young people not in education, employment or training, particularly in the south of Italy. Otherwise, a generation of young people will be marginalized, unable to participate in the economy. The high rate of youth unemployment is also threatening the pension system and future tax revenues. The government will need to develop special social policies.”⁶⁶

In Malta, the upward trend in social policy sustainability can be attributed mainly to an improved family policy. No other country has made greater progress in this respect since the SGI 2014. For example, the proportion of under-three year olds cared for in state institutions increased from 18.2% in the SGI 2014 to 31.3% in the SGI 2016. In the same period, child poverty was reduced from 14.8 to 10.9%. The country experts explain:

“In recent years, new workplace policies were designed to ensure that employed parents retain or are able to return to their jobs. This has included parental leave (both maternity and paternity leave), reduced working hours, career breaks, the introduction of financial incentives for mothers returning to work, free child-care centers, school breakfasts and after-school clubs. These measures are enabling more women to enter and remain in the labor market, with Malta experiencing the highest female activity rate increase in the EU since 2008.”⁶⁷

In 14 countries social policy sustainability is (slightly) lower in the SGI 2018 than in the 2014 results, with the largest decline of 0.6 points in the United States. The United States do not only show the most significant deterioration of health system conditions (–1.0 points), but also in no other country there has been a stronger decline in terms of integration conditions (–1.22 points compared to the SGI 2014 results).

“Events in 2016 and 2017 profoundly increased the insecurities faced by large categories of immigrants. In 2016, the federal courts blocked an Obama administration order that would have allowed several million current undocumented immigrants to remain in the country indefinitely. The Trump administration has taken numer-

⁶⁵ OECD: Pensions at a Glance 2017 – How does GERMANY compare? <http://www.oecd.org/germany/PAG2017-DEU.pdf>.

⁶⁶ Cotta, Maruhn and Colino (2018), available under www.sgi-network.org.

⁶⁷ Pirota, Calleja and Colino (2018), available under www.sgi-network.org.

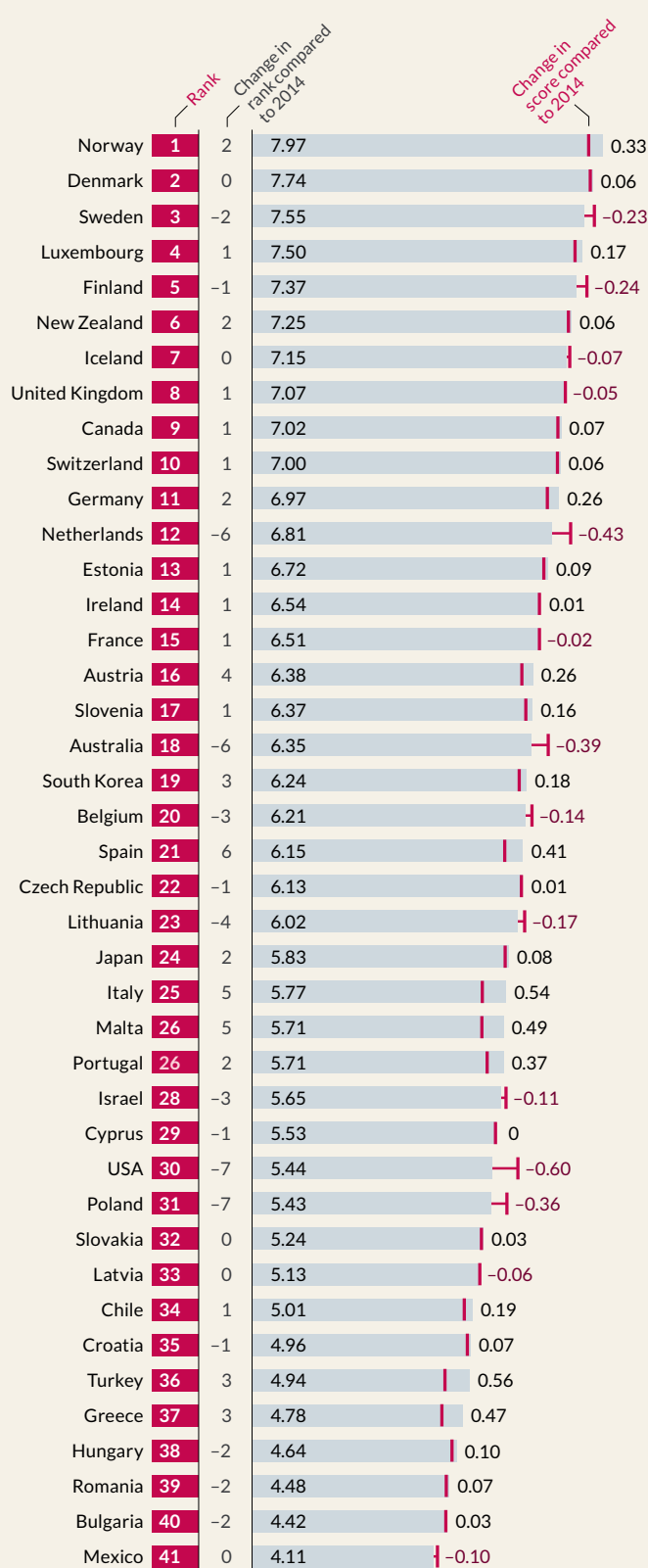
ous major actions on immigration during 2017. The administration has banned nationals of eight countries, most majority-Muslim, from entering the United States and reduced refugee admissions to the lowest level since the resettlement program was created in 1980. [...] The U.S. government also ended the designation of Temporary Protected Status for nationals of Haiti, Nicaragua and Sudan, and signaled that Hondurans and possibly Salvadorans may also lose their work authorization and protection from removal in 2018. Even more concerning, both as a presidential candidate and as president, Donald Trump has made intense, categorical opposition to immigration a centerpiece of his policy agenda. It is difficult to say how this active hostility toward immigration at the presidential level will affect, for example, educational and job opportunities and support for legal immigrants. In any case, Muslim, Latino and other immigrant communities have experienced a massive increase in uncertainty about their status and acceptance.”⁶⁸

Poland, which alongside the United States, the Netherlands and Australia is one of the biggest losers when it comes to the aspect of social policy, has also experienced setbacks in terms of integration policy in recent years.

“[...] when Europe faced a larger influx of migrants than usual in the summer of 2015, Poland was one of the countries that objected to the integration of refugees and other migrants, especially from countries with a predominantly Muslim population. [...] In many public speeches and on other occasions, PiS representatives denounced Muslim immigrants as potential terrorists, health risks and a threat to Polish culture and society. In 2017, the parliament amended the Act on Foreigners with a view to making the domestic institutional framework for dealing with immigrants harsher again.”⁶⁹

Unfavorable developments in Poland’s old-age pension system also account for the deteriorating social situation in the country: “A bill allowing women to retire at the age of 60 and men at the age of 65 was eventually passed in parliament on 16 November 2016 and became effective in November 2017. It will cost PLN 15 billion annually. The lowering of the retirement

FIGURE 26: Ranking – Social Policies SGI 2018



Source: SGI.

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⁶⁸ Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

⁶⁹ Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

age has reduced the sustainability of the Polish pension system and is likely to increase poverty among women.”⁷⁰

Environmental policies – urgent need for action remains

With regard to ecological sustainability, comparatively little progress can be observed across all countries since the SGI 2011 edition. The gap between the SGI scores for the indicator assessing national environmental policies and that assessing global environmental regimes increasingly grew smaller until 2017, only to have widened slightly since then. This is due to the fact that, for the first time since the 2011 survey, the score for national environmental policy has declined, while the score for global environmental regimes has improved slightly (cf. Figure 27).

However, this analysis of scores based on averages conceals the heterogeneous nature of developments in different countries since the SGI 2014 edition. A total of 23 countries have increased their scores in the field of environmental policies since then, five of them significantly, that is, by more than 0.5 points: Finland, Luxembourg, Spain, Italy and Chile. Sweden, the frontrunner, has also improved significantly and extended its lead in terms of environmental policy (cf. Figure 28). The country report states:

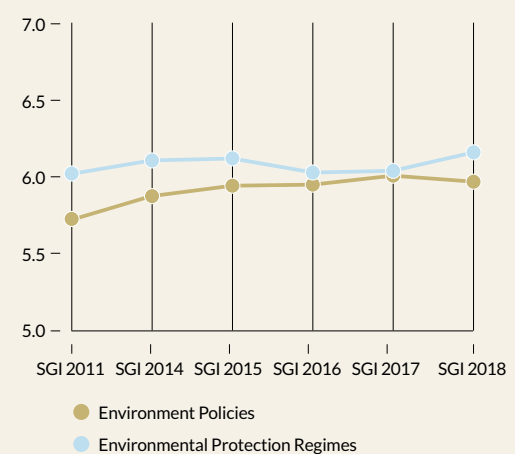
“Sweden continues to present a very strong international record in terms of supporting international environmental protection regimes, including the Paris climate change conference in November and December 2015. Indeed, the country has a record of going beyond the requirements of international accords, from the Kyoto Protocol to the Paris Agreement, as a means of setting an example to other countries.”⁷¹

With an increase of 1.4 points since 2014, Canada shows the best development by far. For both criteria of national environmental policies and global environmental regimes, Canada recorded the highest increase in score. Despite this success, the country is only 25th in the country ranking with 5.84 points,

around three points behind the frontrunner Sweden (8.79 points):

“In 2016, Canada ratified the Paris Agreement on Climate Change, committing to a reduction in greenhouse gas emissions by 30 % under 2005 levels by 2030, adopting this commitment as a national target. The Pan-Canadian Framework on Clean Growth and Climate Change represents a collaborative effort to ensure the target is met through carbon pricing, investing in energy efficiency and renewable energy strategies. Renewable energy policy is largely the responsibility of the provinces and several have already made significant efforts in the fight against climate change. However, the 2017 Commissioner of the Environment and Sustainable Development report concluded that federal government departments and agencies are ‘nowhere near being ready to adapt to the impacts of climate change.’ Further, in November 2016, the federal government approved two out of three major oil pipelines, including the controversial Kinder Morgan Trans Mountain pipeline. The Kinder Morgan pipeline would triple the capacity of the existing pipeline, increase greenhouse gas emissions and increase tanker traffic around British Columbia’s coast sevenfold. In the coming years, it will be challenging for Canada to fulfill its environmental commitments [...]”⁷²

FIGURE 27: Environmental Policies 2011–2018



Source: SGI.

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⁷⁰ Matthes, Markowski and Bönker (2018), available under www.sgi-network.org.

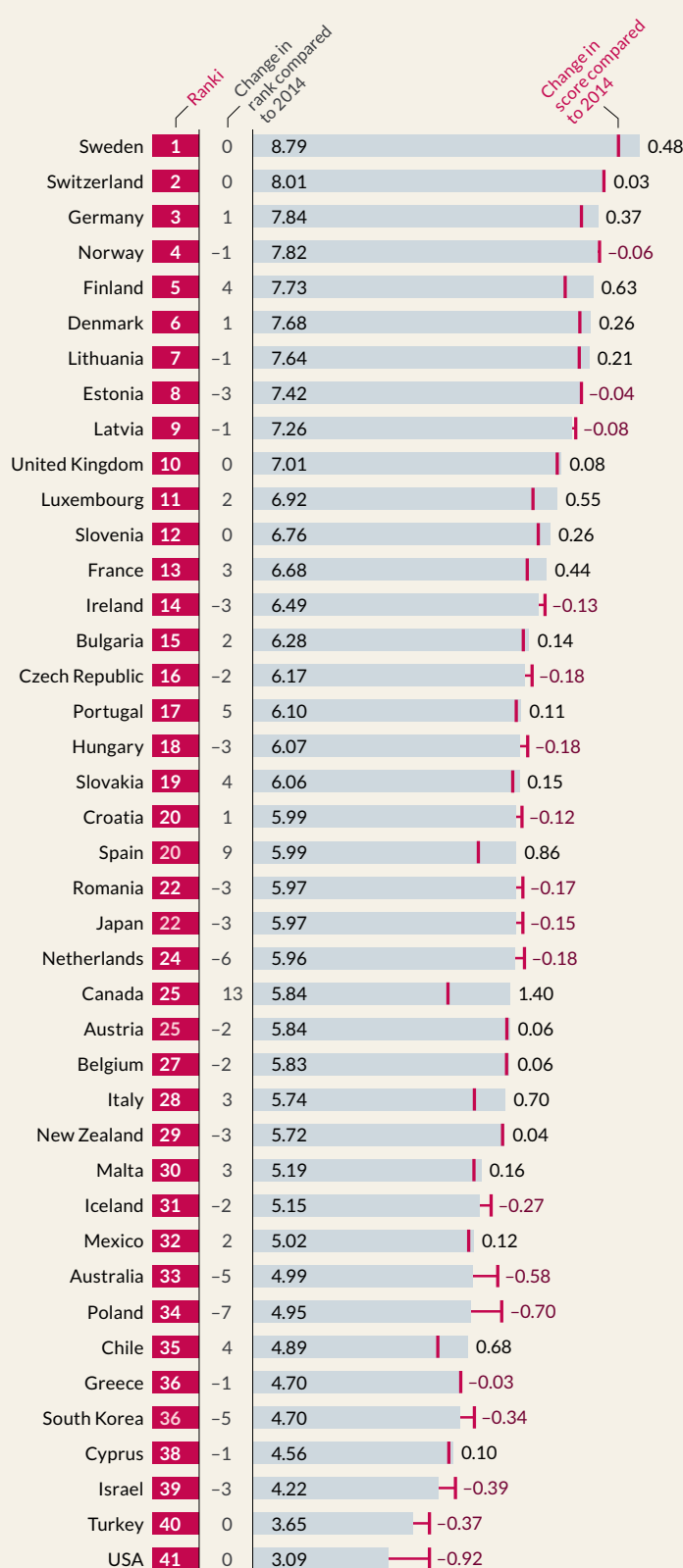
⁷¹ Pierre, Jochem and Jahn (2018), available under www.sgi-network.org.

While Canada has recorded positive developments in recent years, the situation in its neighboring country, the United States, has been exactly the opposite. The United States' already low score for environmental policies, particularly with respect to the SGI 2017, has again decreased significantly, registering a -1.0 point difference for the criterion of environmental policy and -1.54 point difference for global environmental regimes. While the leader Sweden scored 9.23 out of 10 possible points for this criterion, the United States scored just 2.13 points. This puts the United States in last place – by far – for both criteria and thus also for the environmental policy ranking. The country experts give the following explanation in their report:

“The Trump administration has been a rapidly escalating disaster for environmental policy. Trump has embraced an extreme version of climate change denial and declared that the United States will withdraw from the Paris Climate Agreement. Although some of the more liberal states will attempt to continue reducing carbon emissions, no national action can be expected during Trump's presidency. Indeed, Trump has promised to rejuvenate the coal-mining industry, an economic absurdity. Meanwhile, Trump has appointed hardliner opponents of environmental regulation from industry to top environmental positions. His EPA [Environmental Protection Agency] has ordered the cancellation of numerous Obama-era environmental regulations – actions that may, in the end, be struck down by the courts. It has decimated the EPA's scientific and expert staff – with more than 200 already departed.”⁷³

In addition to the United States, 17 other countries record a worse score for environmental policies in the SGI 2018 as compared to the 2014 edition, with Poland (-0.7 points) and Australia (-0.58 points) registering the largest losses among these countries.

FIGURE 28: Ranking – Environmental Policies SGI 2018



Source: SGI.

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72 Kessler, Sharpe and Thunert (2018), available under www.sgi-network.org.73 Quirk, Lammert and Thunert (2018), available under www.sgi-network.org.

Conclusions

Declining quality of democracy, increasing polarization and deficits in governance capacities – a heavy mortgage for many OECD and EU countries

The current issue of the Sustainable Governance Indicators shows some very worrying trends within OECD and EU countries which, given the major policy challenges ahead, may seriously burden them in the future.

The model of liberal democracy is subject to increasing pressures

Overall, the quality of democracy in the OECD and the EU has declined over the past few years. Although this is mainly due to particularly negative developments in countries such as Hungary, Poland, Mexico and Turkey, many other countries, such as the United States, are also showing signs of deterioration. The fact that since the 2014 edition of the SGI, democracy in 26 out of 41 countries has deteriorated while only 14 countries have seen improvements in this regard – is itself a worrying finding. It shows that even within the OECD and the EU, the model of liberal democracy is subject to growing pressure – in some countries this means that even central democratic and constitutional standards such as media freedoms are already severely damaged or undermined. With countries such as Hungary or Turkey, we can no longer speak of consolidated democracies – a particularly harrowing fact, given that OECD and EU membership actually presuppose an intact respect for democracy and commitment to protecting fundamental rights.

Increased political polarization makes governance more difficult

The worrying developments of declining democratic quality must also be assessed in the context of the increasing party-political polarization underway in OECD and EU countries. In most of the countries surveyed, including Germany, ideological polarization has clearly increased over the last three elections. The ideological gap between “left” and “right” has grown. The growing presence of populist parties in a political landscape, has generally reinforced the impact of polarization.

Increased polarization can make the process of governance more difficult which, in turn, limits the capacity for reform. Polarized systems, for example, face greater difficulty in building a broad social consensus on political solutions. Populist parties in particular often aim to systematically sabotage the struggle for suitable political solutions by exploiting emotions with their campaigns. Parties often find themselves in a kind of “permanent campaign” mode that makes fact-driven compromise across party lines more difficult. Growing polarization is

also associated with the significant deterioration seen in some key indicators of the SGI Governance Index over the last decade.

Less societal consultation, more confusing policy communication and increasingly weak media coverage

One such problem is the fact that many governments today rely less than before on the consultation of societal actors during the planning phase of political projects. Societal consultation is, however, an important tool in broadening the knowledge base needed for policy formulation and generating the broadest possible social consensus for political projects. In some cases – such as in Hungary, Poland or Turkey – governments even purposefully helped harden the lines of social conflict by engaging in limited and one-sided societal consultation. This clearly makes it difficult to achieve sustainable and balanced policy goals for the long term.

We also observe a clear deterioration in the communication ability of OECD and EU governments in recent years. Many governments are obviously less successful than before in pursuing a coherent communication strategy that is aligned with broader government agendas. Here, too, the negative effects of greater political polarization are often evident. In the current SGI survey, the deterioration of the United States under the Trump administration is particularly drastic. But governments in countries like Germany also show a weakened capacity to pursue coherent, strategic external communication. The recent fierce and notably public clashes between the Chancellor (CDU) and her Minister of the Interior (CSU) over the direction of future migration and refugee policy are evidence of this. This dispute must also be understood against the background of Germany's new party-political coordinates in which the ascendant right-wing populist party "Alternative für Deutschland" (AfD) now plays a role.

Another problematic finding is that in many countries the implementation of planned political projects is increasingly less efficient.

Here, too, party and social polarization are at the root of these implementation difficulties. In total, 18 countries have deteriorated with regard to implementation efficiency since the 2014 SGI edition and only nine have improved.

Given that many governments are today less likely to involve social actors in the policy planning process and increasingly fail to communicate their agendas to the public in a context of "permanent campaign" mode, party polarization is unlikely to decline significantly in the foreseeable future.

Another problem in this overall context is that a negative trend is also evident in the area of participation and control competencies (executive accountability), the second component of the SGI Governance Index. In addition to a decreasing number of quality media in the print sector, which can be observed in all countries, deteriorations in the quality of media reporting are also affecting participatory and monitoring mechanisms. Unsurprisingly, there is a direct link in some countries between executive accountability and certain negative trends in the quality of democracy: where governments interfere with the freedom of the press, the quality of reporting is also negatively affected and the media's capacity to monitor government activity is undermined.

In some countries, confidence in government is growing – despite lowered democratic standards

Also worth noting is the fact that in countries featuring a declining quality of democracy and government, citizens' confidence in the government does not automatically decline. On the contrary: in countries such as Poland, Hungary or Turkey, public confidence in government has even increased in recent years. There is, however, a significant share of the population in each country objects to the erosion of democracy. This points to a considerable social-ideological division within each of these countries and draws attention to the fact that fundamental democratic values are not sufficiently anchored in the political consciousness of a considerable part of society.

Poor conditions for solving long-term political problems

Overall, the trends noted above of increasing political polarization, declining quality of democracy and negative developments in the criteria for good governance mean that OECD and EU states will have greater difficulty facing numerous complex challenges such as:

- ongoing demographic change and its effects on social security systems;
- increasing digitization and its effects on the working world of tomorrow;
- ongoing climate change;
- sociopolitical challenges, such as increasing social inequality in many countries or the continuing dramatic situation of many young people in southern Europe;

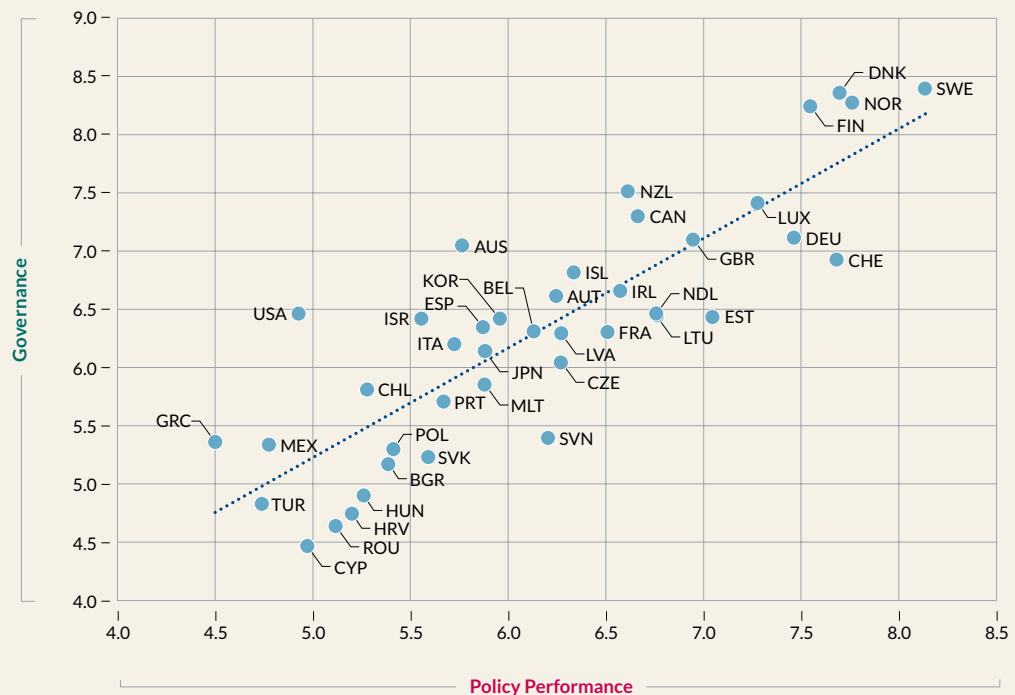
- fears of globalization and increasing protectionism.

The policy results of the SGI 2018 show that these challenges have so far been insufficiently addressed by many governments and that long-term, sustainable policy solutions are often lacking. Formulating and implementing such long-term policy solutions – as explained above – has become even more difficult instead of easier in many countries.

Social sustainability lower than economic performance for the first time since SGI 2016, weak investment in sustainability, backlog in SDG implementation

Although the economic recovery of recent years has helped to stabilize or slightly improve overall policy performance, the upswing has

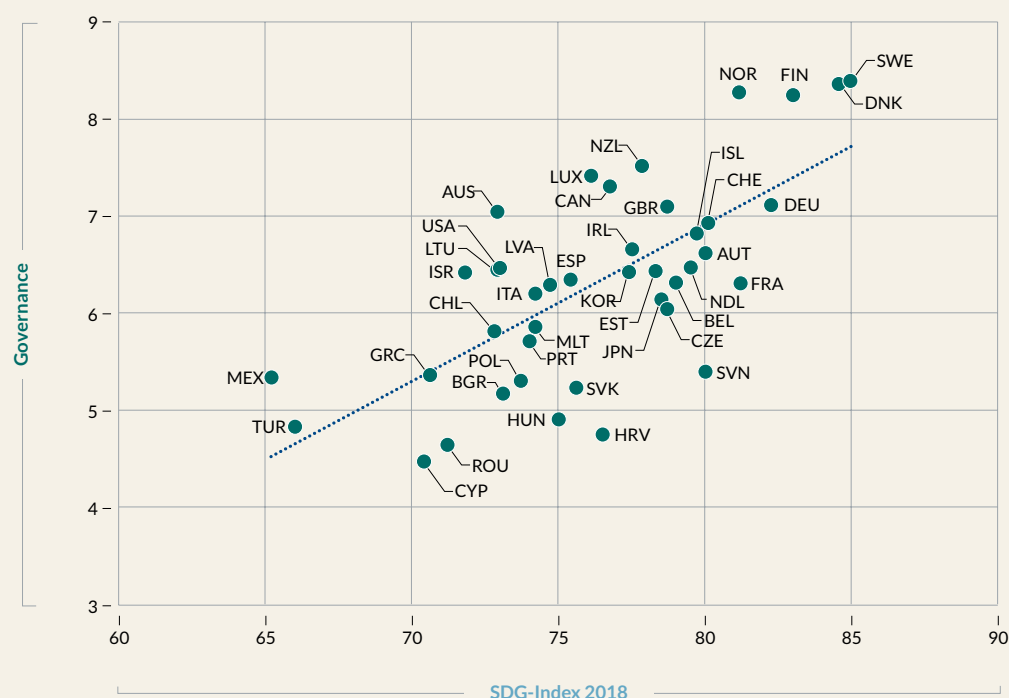
FIGURE 29: Correlation Governance and Policy Performance



Source: SGI.

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FIGURE 30: Correlation Governance and SDG-Index 2018



Source: SGI.

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not led to an improvement in social sustainability, which remains underdeveloped. Moreover, while until the SGI 2016 edition the states surveyed were more successful in ensuring social participation than in ensuring economic performance, the picture has reversed since then.

Another major problem area is the generally weak investment in future viability. The area of research and development in many OECD and EU countries still needs to be greatly improved. Increased investment in this area is, however, particularly important in order to participate in global competition and to keep up with rapid technological change.

Moreover, many OECD and EU countries are facing unresolved problems in coping with demographic change, as the majority of the countries examined are affected by an aging population. Although these problems have been known

for years, thoroughly researched and politicians are well aware of them, long-term sustainable solutions are often lacking. This also applies to Germany, for example, which cannot avoid a comprehensive reform of its pension system if poverty among the aged is to be avoided.

Even the debt crisis in Europe's southern states is still far from over, given the extremely high levels of public debt in the respective countries. And the global growth risks are also considerable in view of the escalating trade conflict with the United States.

Finally, with regard to the implementation of the global development goals (SDGs) many OECD and EU countries have a great deal of catching up to do: in terms of ecological sustainability in particular, hardly any significant progress can be seen. In global comparison, only a few countries can serve as role mod-

els in terms of SDG implementation (see Figure 30). Countries such as the United States have even set themselves on a complete opposite course, sending a disastrous signal to all other countries.

Quality of democracy and good governance are by no means “only” an end in themselves

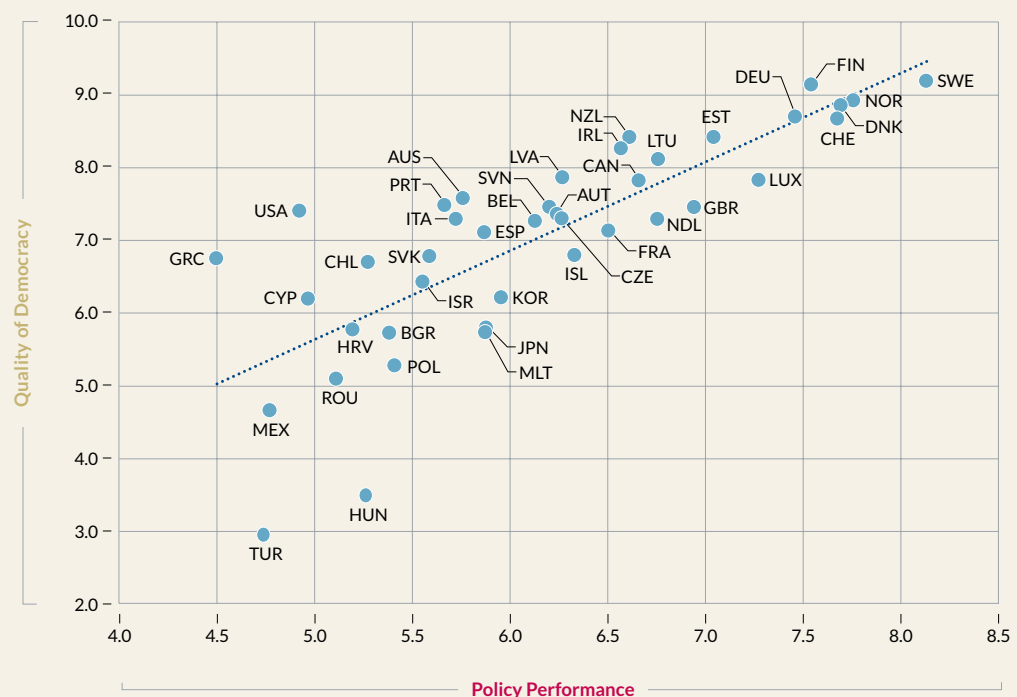
A high quality of democracy and a functioning rule of law are in themselves desirable normative objectives that do not require any instrumental justification. Democracy and human rights are core components of the fundamental canon of values that define the EU and the OECD. Demonstrating a clear commitment to these values is a basic requirement for membership in these organizations.

Moreover, looking at the countries' quality of democracy and governance performance on the one hand and the countries' policy results on the

other, we see a clear positive link between the two dimensions. Figure 29 shows that countries with higher governance quality tend to achieve more sustainable policy outcomes. The Nordic countries are at the top in both areas. These are also the countries that have been most successful in implementing the SDGs so far (see Figure 30).

If the trend line is taken as a benchmark, the countries above (or below) the line show below-average (or above-average) performance compared to their political governance. For example, the overall quality of governance score (executive capacity and executive accountability) in the United States is almost identical to that in Estonia, but with 7.05 points Estonia performs much better than the United States, which scores only 4.93 points on the issue of sustainable policy results. In addition to the United States, underperformers include Australia, Greece, Israel and New Zealand. By contrast, Slovenia and Switzerland posted significantly better results in terms of policy

FIGURE 31: Correlation Quality of Democracy and Policy Performance



Source: SGI.

| BertelsmannStiftung

outcomes than governance quality. Notably, all Eastern European countries also (still) surpass the trend line and achieve better political results than their governance quality would suggest. Germany is also one of the countries that has recently performed better with regard to policy outcomes than with respect to its governance capacities.

A similar picture can be seen in Figure 31, which reflects the connection between the quality of democracy and policy outcomes. While the link is not quite as strong as in terms of governance quality and policy performance, it is also evident here that countries with a higher quality of democracy tend to achieve better policy outcomes.

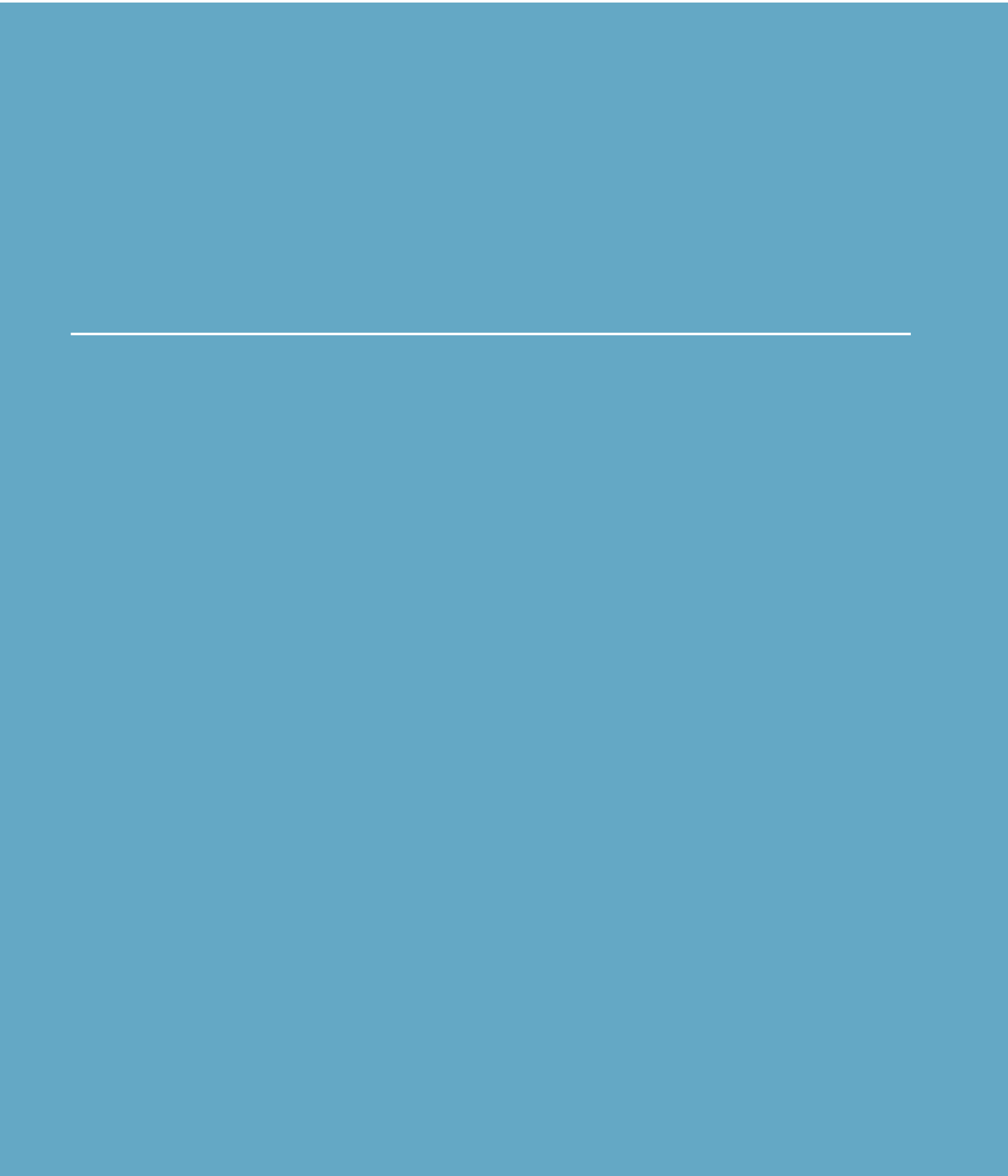
The Nordic countries, for example, have top values in terms of both the quality of democracy and political results. Here too, the underperformers include the United States and Greece, which are showing significantly worse political results than the quality of democracy would suggest. On the other hand, Turkey and Hungary could have expected even worse political results due to the extremely poor state of democracy. Germany almost reaches the benchmark.

Outlook

Drawing on the aforementioned correlations, we can expect that the observed phenomena of reduced democratic quality and dwindling governance capacity will lead to even greater deficiencies rather than improvements in the average policy outcome in OECD and EU countries in the future – at least in those countries where such trends are strongest. This applies in particular to the United States, Poland and Turkey, which are among the major losers in both dimensions. The fact that the world's largest economy, the United States, has already fallen by nine places in the SGI rankings for democracy, governance and policy performance since 2014, does not bode well for the future.

However, there are also some positive developments that can be seen as inspiration for other countries. France, for example, has taken an

extremely positive direction in terms of governance quality under new President Emmanuel Macron. Macron's new political style shows that improved government efficiency, clear and consistent political communication and the early involvement and consultation of societal groups can go hand in hand, even in a strongly polarized political system.



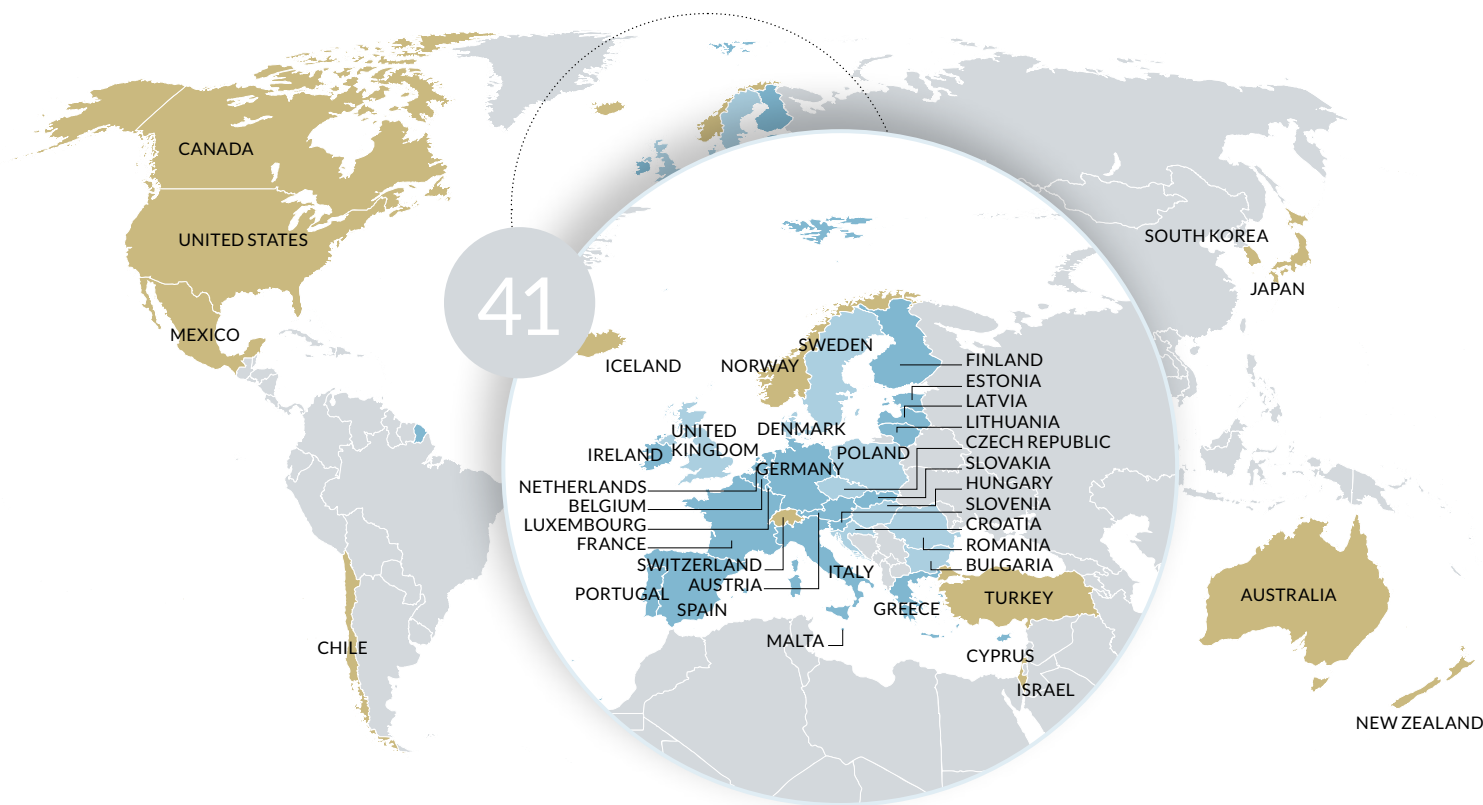
Measuring Sustainable Governance

Dimensions
Methodology
Survey structure

Sustainable Governance Indicators

Measuring Sustainable Governance

The Sustainable Governance Indicators (SGI) address one of the central social-policy questions facing the highly developed states of the OECD and the European Union at the outset of the 21st century: How can we achieve sustainable policy outcomes and ensure that political decision-making target long-term objectives?



Challenges such as economic globalization, social inequality, resource scarcity and demographic change, each of which cut across policy sectors and extend beyond national boundaries, require policymakers to adapt rapidly and learn from the examples of others. Ideally, governments should act with long-term consequences in mind. This involves generating policy outcomes that maintain or improve the quality of life for present and future generations without placing an unfair

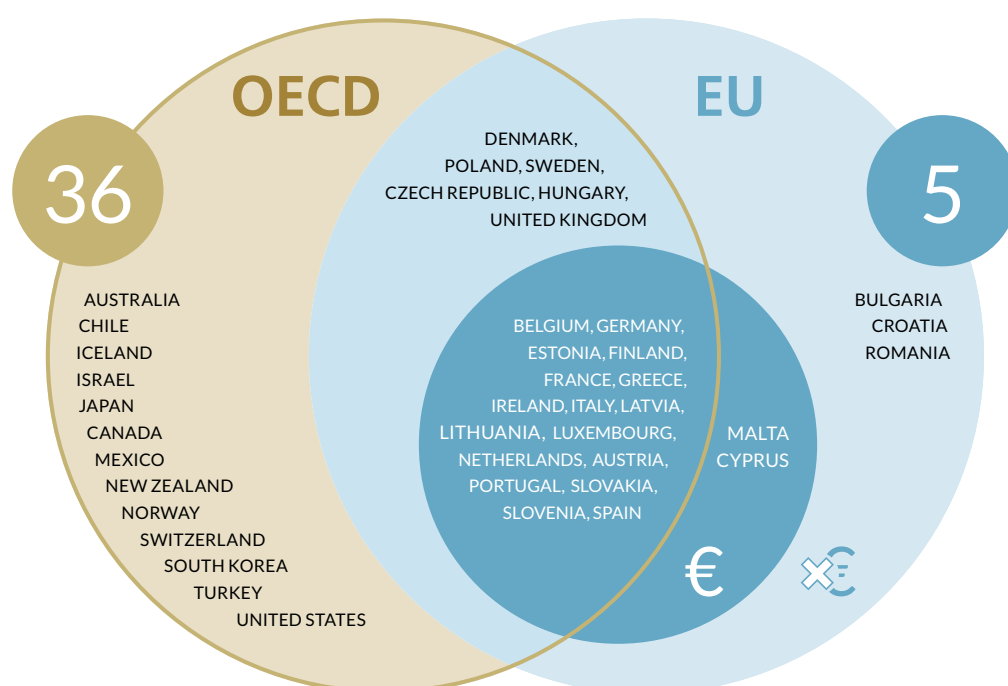
burden on future generations. This also means governments need to safeguard the long-term health of their societies' economic, social and environmental systems. However, long-term thinking of this nature is currently rare. Most governments tend instead to act with the short term in mind. Mounting public debt, the unequal allotment of participation opportunities and the wasteful exploitation of natural resources have significant negative implications for present

INFO

www.sgi-network.org

The entire set of results and each country report are available for direct use or download on our interactive website.

> Website, page 76



and future generations, thus imperiling the overall sustainability of OECD and EU states. Taking stock of these problems, the Sustainable Governance Indicators project aims to support OECD and EU governments' capacity to act with the long term in mind, thereby achieving more sustainable policy outcomes.

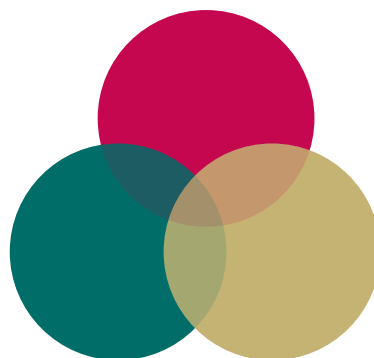
The SGI function as a monitoring instrument that uses evidence-based analysis to provide

practical knowledge applicable to the daily work of policymaking. The SGI thus target the spectrum of those individuals who formulate, shape and implement policies, from political decision-makers in centers of government and the democratic institutions of the OECD and EU states, to representatives of civil society and international organizations, to scholars and interested citizens. Underlying the SGI project is a cross-national comparison of governance in

Sustainable Governance Indicators

Three analytical pillars

The SGI project is built on three pillars – the Policy Performance Index, the Democracy Index and the Governance Index – that collectively identify examples of sustainable governance.



The SGI provide an itemized comparison of policy outcomes in 41 states that draws upon a customized catalog of indicators.

41 states of the OECD and the EU on the basis of a customized set of indicators. Operationalized as a survey, the SGI help identify successful examples of sustainable governance as well as policy and governance innovations. By comparing strengths and pitfalls, the SGI aim to activate (international) learning processes while

at the same time casting a spotlight on vital reforms for decision-makers and the public.

This instrument is built on three pillars – the Policy Performance Index, the Democracy Index and the Governance Index – that collectively identify examples of sustainable governance.

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The SGI expert network

With its innovative approach, the SGI project is the first survey of its kind to allow far-reaching assessments of the sustainability of OECD and EU member states. The SGI are by no means a system of purely quantitative data; the SGI also include qualitative expert assessments, which are gathered by means of a questionnaire used as part of a multistage data capture and validation process. A network comprising a total of more than 100 renowned scholars from around the world has been engaged for the study.

The inclusion of qualitative indicators is a major advantage of the SGI over many other indices, as this allows context-sensitive assessments that purely quantitative indicators cannot yield.

> *Methodology, page 72*



Sustainable policy outcomes

Policy Performance

The Policy Performance Index creates a map of reform needs in key policy areas for each country, asking how successful individual countries have been in achieving sustainable policy outcomes. In so doing, it references a range of ideas central to current international discourses on measuring sustainability, social progress and quality of life. Thus, the Policy Performance Index does not limit itself to the data associated with conventional measures of a society's economic growth and material prosperity.

A broad set of economic, social and environmental indicators.

Instead, this pillar of the SGI also relies on data that measure the success of states in a variety of policy areas that must be taken into account in seeking to develop robust, high-performing, long-lasting economic, sociopolitical and environmental systems, not to mention high levels of social participation.

The Policy Performance Index measures the performance of the 41 states surveyed in terms of the three core dimensions of sustainability, manifested here as economic, social and environmental policies. A total of 16 individual policy areas are addressed, with policy outcomes captured by means of a wide range of quantitative and qualitative data. In this respect, the SGI 2018 goes further than previous SGI surveys, as it also encompasses the contribution of individual countries in promoting sustainable development at the international level. And in the context of the United Nations' new Sustainable Development Goals (SDGs), the highly developed OECD and EU states have a particular responsibility for contributing to an increase in global public welfare.

Index dimension 1

Economic policies – prospects for inclusive growth

Economic policies that encourage competition and strengthen market principles remain the driver of growth, while safeguarding the resources necessary if a society is to be adaptable. However, such policies will be of the greatest advantage to the greatest number of people if they are accompanied by redistributive tax and labor-market policies, and underpinned by social policies that facilitate a just societal allocation of the benefits of economic growth. Therefore, sustainable governance can only be achieved through a successful, future-oriented approach to economic challenges. The decisive question with respect to sustainability is how opportunities for self-realization can be provided to the greatest number of people today without unjustly burdening future generations. Excessive public debt, for example, can leave future generations with a massive mortgage on their opportunities for self-realization, dwarfing the constraints felt by today's generations.

In assessing the individual policy areas comprising the economic sustainability pillar, the following aspects are addressed:



Assessment criteria for economic sustainability (Index dimension 1)

- Are economic policies applied on the basis of a coherent institutional framework, thereby enhancing the country's international competitiveness?
- How successful are government strategies in addressing unemployment and increasing labor-market inclusion?
- To what extent do the country's tax policies promote social equity, competition and positive long-term state-revenue prospects?
- To what extent are budgetary policies underpinned by principles of fiscal sustainability?
- To what extent do research and development policies contribute to the country's capacity for innovation?
- Does the country actively contribute to the effective regulation and stabilization of international financial markets?

Index dimension 2

Social policies – securing participation for present and future generations

Ensuring broad-scale participatory opportunities and justice across society are essential.

Social policies designed to enhance sustainability involve maintaining or increasing individuals' opportunities to act and live in accordance with their own values, which thereby ensures a high degree of participation in society. Political, social and economic systems must be constituted in such a way that individuals are provided with substantive opportunities for self-realization. Ensuring broad-based social participation involves more than providing safeguards against classic risks such as illness, accidents, aging, assisted living, disability and unemployment. Social policies should also be integrative in nature and empower members of the community to participate actively in public affairs. At the same time, all members of society should have equal access to these substantive opportunities: No one should be systematically excluded from those activities and states of being that com-

prise well-being. These include feeling safe, having good health and gainful employment, engaging in political participation, enjoying social relations, being able to participate in cultural life, and living in favorable environmental conditions. Seeking to enhance sustainability thus means ensuring the long-term viability of social welfare systems. Assessing the performance of OECD and EU states with this in mind involves more than evaluating the extent to which society provides opportunities and enables participation. It also involves taking a close look at factors such as the sustainability of public financing and the potential for reform within existing systems. Sustainability-minded decision-making maintains and even expands opportunities for social participation for today's generations without compromising the opportunities afforded to future generations.

The SGI's social policies category addresses the following questions:

Assessment criteria for social sustainability (Index dimension 2)

- To what extent do the country's education policies foster high-quality, inclusive and efficient education and training systems?
- To what extent do sociopolitical measures facilitate social inclusion, while effectively combating social exclusion and polarization?
- How successfully do policies secure quality, inclusivity and cost efficiency in the country's health care system?
- To what extent do family-policy measures make it easier to combine career and family?
- How successful are the country's pension policies in preventing old-age poverty while promoting intergenerational equity and fiscal sustainability?
- To what extent do the country's political measures foster the effective integration of migrants into society?
- How successful is the country in establishing secure living conditions for its citizens by combating crime and other security risks?
- And looking to the international level: To what extent is the country engaged in efforts to combat global social inequalities, such as the promotion of fair global-trade structures and just participation opportunities within developing countries?

Index dimension 3

Environmental policies

In terms of sustainability, environmental policies are particularly important given the far-reaching effects environmental conditions have on the quality of life. Our surrounding environment can influence the quality of life positively (by providing access to clean water, air and recreation areas) or negatively (through water, air or noise pollution, for example). The attractions or challenges provided by natural environments help determine where people want to live, drive migratory movements and make basic human existence possible. But natural environments (with their ecosystemic functions) are also dependent on human social systems – particularly the extent to which these latter systems observe principles of environmental sustainability. Lifestyles and economic systems dependent on an intense use of resources destabilize the ecosystem in the long term.

Indeed, the growing expectations of an expanding global population represent the greatest risk of destabilization. And yet the ability to fulfill these demands is constrained by immutable planetary limits. Environmental sustainability therefore means ensuring that regenerative resources are used only to the extent that they can be replenished. Environmental sustainability also involves ensuring that nonrenewable resources are consumed only to the extent that similar, renewable substitutes can be developed. Harmful pollutants such as greenhouse gases should be emitted only to the extent that they can be absorbed by natural systems. The goal of sustainable environmental policies must be to secure the natural foundation of human existence and leave an intact ecosystem for future generations.

Therefore, in this category of sustainability, the SGI address the following key questions for each of the 41 OECD and EU countries:

A broad range of quantitative indicators underlying this category also allow for a systematic assessment of environmental-policy outcomes (e.g., greenhouse-gas emissions, renewable energies, particulate pollution, waste recycling).

Comparing strengths and weaknesses across the three categories of the Policy Performance Index allows us to identify not only the areas in which individual countries are achieving positive policy outcomes, and the extent to which this is occurring, but also the areas in which there is a pressing need for further reform.

Behind this model is the idea that the long-term viability of economic, social and environmental systems can be achieved only through measures that consider these systems together. It is important to consider the diverse interactions and conflicting goals that arise from the three systems and their associated policies, with no single component viewed in isolation from the others. The structures, actors and processes through which such conflicting goals are addressed, and where possible resolved, are therefore of central importance in sustainable policy formulation (for more on this, see also aspects of quality of democracy and governance, on the next page).

Assessment criteria for environmental sustainability (Index dimension 3)

- How successful are the country's environmental policies in protecting natural resources and promoting livable environmental conditions?
- How committed is the country to the advancement of binding global environmental-protection regimes?

Comparing frameworks for democracy and the rule of law

Democracy

How do OECD and EU states compare with regard to the quality of democracy and the rule of law? This question is also vital in assessing sustainable governance because the rule of law and citizens' ability to participate in political processes are essential to ensuring a political system's good performance and long-term stability. Fully developed opportunities for political participation must be in place if a society is to achieve high levels of participatory justice.

The quality of democratic standards and the rule of law are key to any political system's long-term viability.

Indeed, the quality of democracy in a society must be high if it is to sustain pluralism in the processes that build and shape public will and opinions (input legitimacy), as well as in the policy-formulation and decision-making processes that accommodate the interests and needs of a broad spectrum of stakeholders in society (throughput legitimacy), while ultimately transforming these processes into concrete and efficacious actions (output legitimacy). Democracy and the rule of law are therefore fundamental to preventing the systematic exclusion or neglect of social groups or individuals, enabling all members of a society to participate in shaping opinions and building the will to reform. When managing the inherent conflicts underlying sustainable policy goals, it is particularly important to prevent the systematic exclusion of any group, thus following the principle of equal opportunity. The legitimacy of a political system rests upon its ability to provide appropriate oversight of decision-makers' activities, opportunities for democratic participation, protection of civil rights and legal certainty. Citizens' consent to and trust in a political system will depend heavily on these conditions. Moreover, democratic participation and oversight are essential in enabling concrete learning and adaptation processes, as well as the capacity for change. In SGI terms, a high

level of democracy quality and a rigorous observation of the rule of law are vital to achieving sustainability in the sense of long-term systemic viability. The SGI measure these conditions in detail through the Democracy Index.

Quality of Democracy

The SGI's Democracy Index is oriented toward the institutional and organizational realization of sound democratic standards. Its normative reference point is an ideal representative democracy.

The SGI criteria by which government systems in the OECD and EU are measured derive from those dimensions identified by democratic theory as most significant, and contain key indicators by which the quality of democracy can be assessed. In total, 15 qualitative indicators, comprising four criteria, are used to evaluate the fabric of democracy in each country. Criteria include the following:

Quality of Democracy



Civil Rights	To what extent does the state respect and protect civil rights and how effectively are citizens protected by courts against infringements of their rights?	
10	All state institutions respect and effectively protect civil rights.	
9	Citizens are effectively protected by courts against infringements of their rights. Infringements present an extreme exception.	
8	The state respects and protects rights, with few infringements.	
7	Courts provide protection.	
6		
5	Despite formal protection, frequent infringements of civil rights occur and court protection often proves ineffective.	
4		
3		
2	State institutions respect civil rights only formally, and civil rights are frequently violated. Court protection is not effective.	
1		

Civil rights contain and limit the exercise of state power by the rule of law. Independent courts guarantee legal protection of life, freedom and property as well as protection against illegitimate arrest, exile, terror, torture or unjustifiable intervention into personal life, both on behalf of the state and on behalf of private and individual actors. Equal access to the law and equal treatment by the law are both basic civil rights and also necessities to enforce civil rights.

Excerpt SGI-Codebook: www.sgi-network.org

Assessment criteria for the quality of democracy

- The electoral process, which includes the rules governing political-party ballot qualification and voter registration as well as the issue of party financing; for the first time, this edition of the SGI also evaluates direct-democracy structures and participation opportunities
- The public's access to information, which can be measured by the extent of media freedoms and media pluralism
- Civil rights and political liberties
- The rule of law, including legal certainty, the judicial review of laws and the prevention of corruption

An international comparison of reform capacities

Governance

In a context of rapidly changing environments and growing complexity, it is ever more important for policymakers (and the institutions through which they act) to respond quickly and resolutely while bearing in mind the long-term impact of actions taken today. It is therefore important that any assessment of sustainable governance look not only at policy outcomes, a country's underlying democratic order and the rule of law, but also at the political leadership's capacity to steer processes with success. Just how effective are OECD and EU leaders in managing strategic processes, and how well do they address and resolve the problems they face?

The Governance Index looks at a government's capacity to deliver sound policies as well as the participatory and oversight competencies of social actors.

The SGI's Governance Index answers these questions using a broad and innovative set of indicators. These indicators permit a contextualized assessment of the extent to which the governments of OECD and EU states – working together with other institutions and social stakeholders in the course of democratic decision-making processes – are able to identify pressing issues, develop appropriate solutions and implement them efficiently and efficaciously.

The modern concept of governance employed by the SGI emphasizes a government's capacity to deliver sustainable policies (executive capacity) as well as the participatory and oversight competencies of actors and institutions beyond the executive branch (executive accountability).

Index dimension 1

Executive capacity

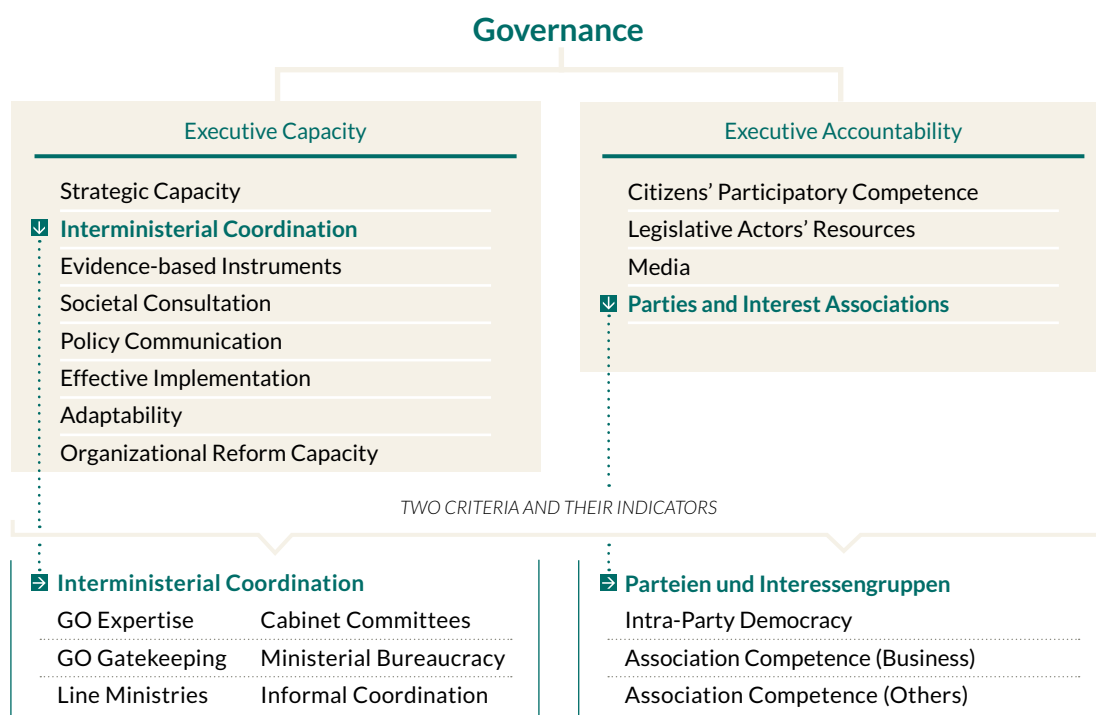
The executive capacity category focuses on the core activities of a government and examines the steering capabilities demonstrated by a political system's administrative apparatus. This includes strategic planning, interminis-

terial coordination, knowledge management, consultation and communication processes, as well as policy implementation and learning capacity. The key actors examined here are the governments of the OECD and EU states along with the organizational and institutional resources at their disposal (centers of government, ministries, agencies, etc.).

Index dimension 2

Executive accountability

The second category within the Governance Index, executive accountability, focuses on the forms of interaction between a government and other stakeholders in the policymaking process. It seeks to assess the extent to which participation and oversight competencies are produced and cultivated. If policies are to succeed in the long term and yield sustainable effects, governments clearly cannot afford to formulate and implement policies in isolation. Bearing this in mind, the SGI examines the extent to which other actors who perform essential functions in consolidating and mediating interests in a political system are able to participate in policymaking and monitor the process at each



step along the way. The capacity to exercise this oversight function in part reflects the government's obligation to account for its actions to citizens, parliaments, the media, parties and interest groups.

Moreover, executive accountability addresses the effectiveness of government communication, examining how well a government acquires and disseminates information, and the extent to which it involves and activates various elements of society in formulating and implementing policy. The SGI therefore include a series of indicators exploring the extent to which governments consult entities such as special-interest groups early in legislative planning processes. The category also includes indicators that explore the extent to which the associations, citizens and legislatures possess participatory competencies (knowledge of politics, financial resources, etc.). In short, this is about the checks and balances and participatory processes that can enhance the quality and legitimacy of political decision-making.

These aspects of modern governance are reflected in the architecture of the Governance Index, as shown in the figure above. As was the

case for the Policy Performance and Democracy indices, the figure depicting the Governance Index represents merely an overview of its most important features. In sum, 67 qualitative and 69 quantitative indicators underlie the three indices.

The issues and concerns discussed thus far highlight the SGI's two-pronged objective in assessing the future viability of OECD and EU states: to measure the need for reform with reference to sustainable policy outcomes and the quality of democracy; and to measure the capacity for reform in terms of governments' and social groups' abilities to steer these processes. The SGI take this approach further than other international rankings in two respects. First, the SGI never regard OECD and EU states' reform needs from a purely economic point of view. Instead, the SGI intentionally incorporate cross-cutting topics such as education, the environment, social issues and security. Second, the dimension of reform capacity remains underexplored by other indices to date. No other ranking offers a comparable analysis with such depth of field.

Combining quantitative data with experts' qualitative analysis

Methodology: Generating better data through an iterative process

The SGI draw on established survey and aggregation methods. In order to ensure the proper operationalization of the individual index components, the SGI rely on a combination of qualitative and quantitative data. This allows for an analysis in which the strengths of both types of data can be applied, and it avoids the pitfalls associated with the use of purely quantitative or qualitative surveys. In the SGI, the “objectivity” of quantitative data from official statistical sources is complemented by experts’ context-sensitive qualitative assessments. This combination delivers a detailed portrait of policy outcomes, the quality of democracy and steering capacities.

SGI methodology stands out for being transparent and context-sensitive.

The quantitative data underlying the SGI is drawn from official statistical sources, in particular those provided by the OECD and EU. While the SGI project team compiles this quantitative data centrally, the qualitative data is procured from a global network of more than 100 experts in a multiphase process of survey and validation. Each country is evaluated by (at least) two country experts (political scientists and economists) as well as a regional coordinator, each of whom respond to the questions posed in the SGI codebook. Country reports are then produced through an iterative evaluation process involving reviews and comments by each expert. This procedure is similar to that used by the Bertelsmann Stiftung in the SGI’s sister project, the Transformation Index.

The SGI Codebook (available at www.sgi-network.org) details the rationale behind each of the 67 qualitative indicators, thereby ensuring a shared understanding of each question among the SGI experts. The questions comprising this codebook include a range of answer options,

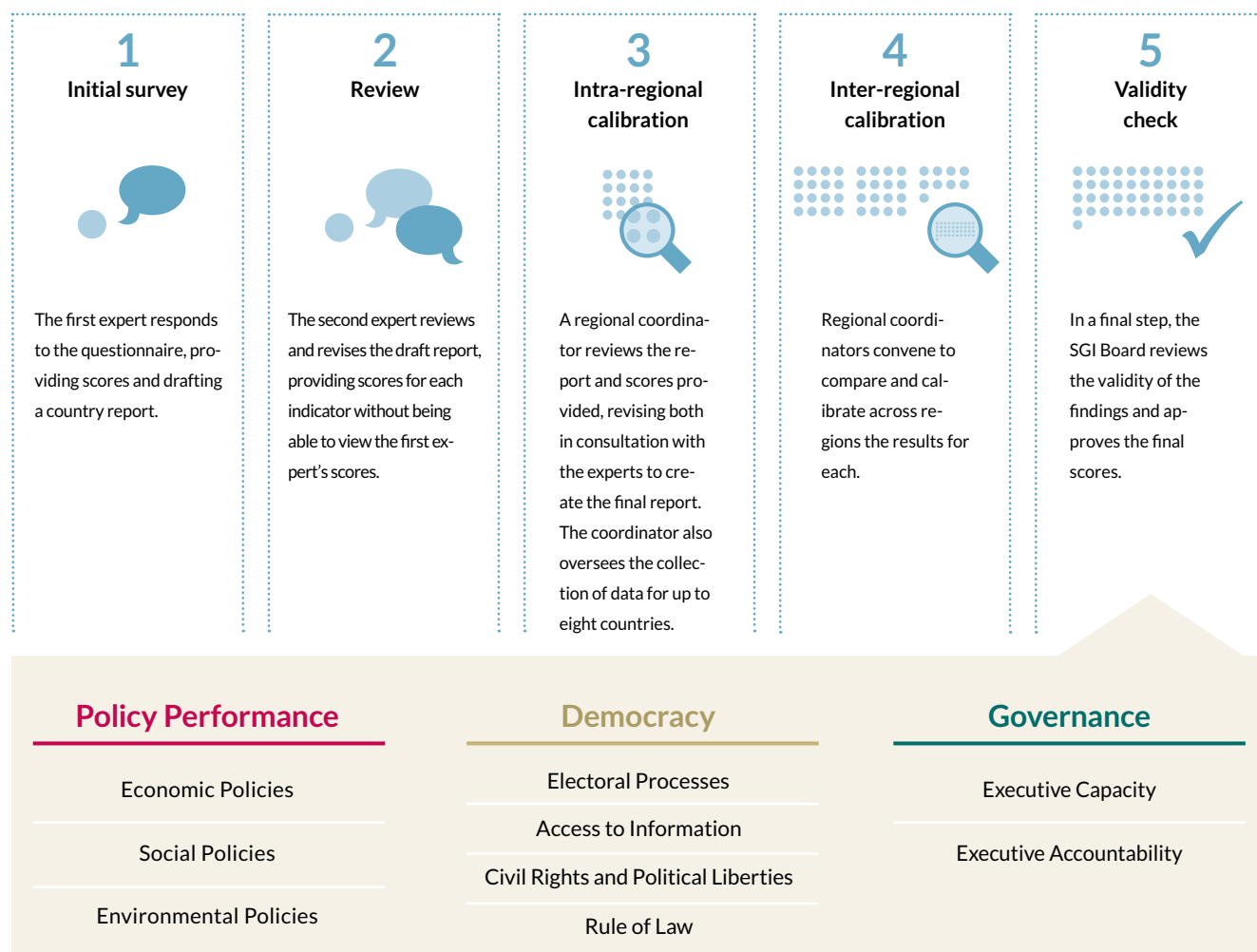
allowing for precise evaluations on a scale of 1 (lowest score) to 10 (highest).

The response to each question includes both a numerical score and a written response that substantiates and illustrates the score given. Throughout the course of the online survey process, experts refer to the quantitative indicators for all 41 countries as benchmarks, allowing assessments to be made on the basis of sound empirical data.

To ensure the comparability of quantitative and qualitative data, all quantitative data are standardized by linear transformation on a scale of 1 to 10. These figures are then subject to simple aggregation in establishing the three Policy Performance, Democracy and Governance indices.

The SGI evaluation process yields two products: detailed rankings and comprehensive reports on each of the 41 OECD and EU states surveyed (available free of charge at www.sgi-network.org). The SGI website provides access to every

A multi-stage survey of 41 OECD and EU states ensures that results are reliable and valid

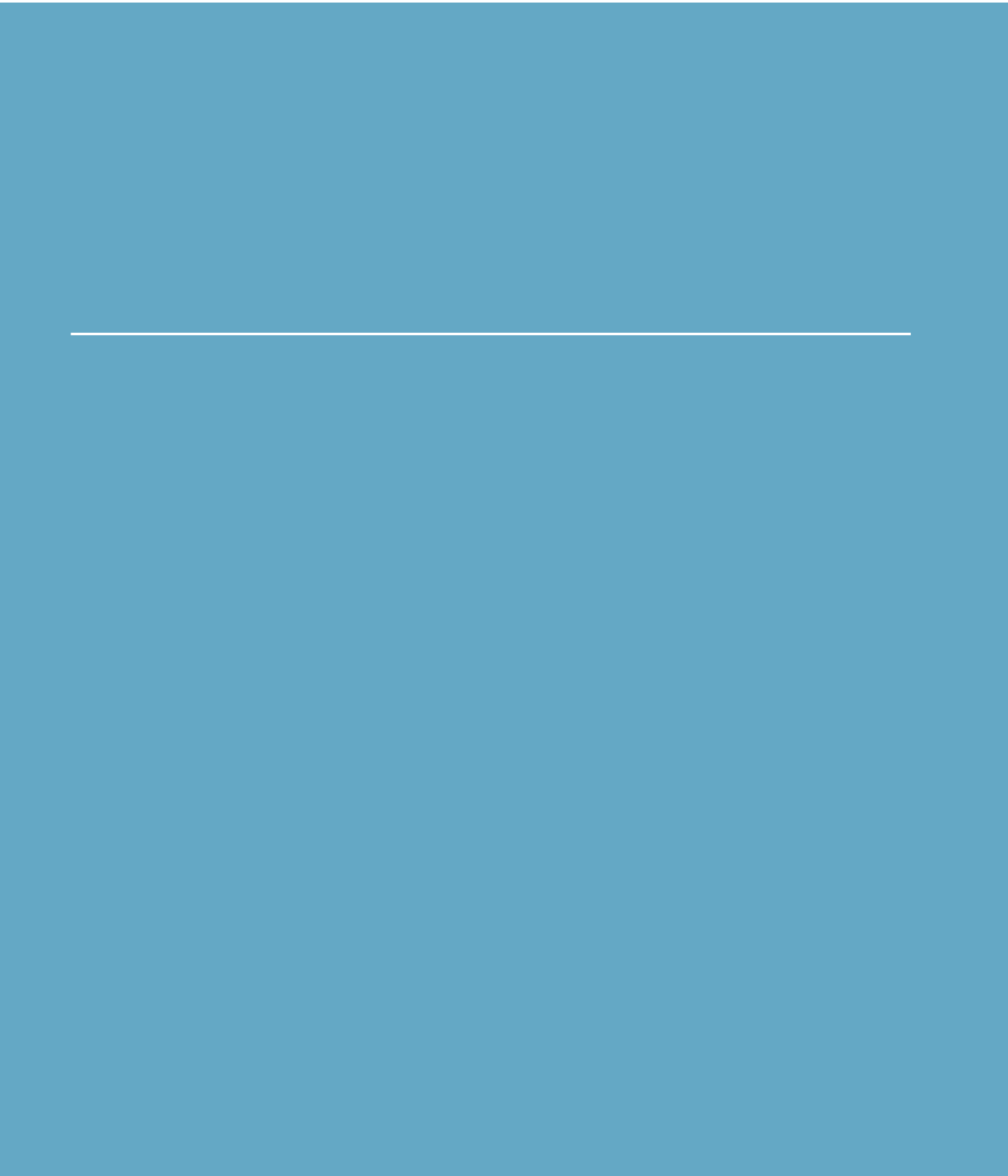


level of aggregation, from individual indicators up to the top-level indices. The country reports are also available as downloads.

The survey period for the Sustainable Governance Indicators 2018 extended from November 7, 2016 to November 8, 2017. The assessments provided therefore refer to governance exclusively within this period of time. Following earlier edition in 2009, 2011, 2014, 2015, 2016 and 2017, this is the seventh SGI survey.

Survey structure

Category	Economic Policies	Social Policies	Environmental Policies		
Criterion <ul style="list-style-type: none">IndicatorIndicatorIndicator	Economy <ul style="list-style-type: none">Economic PolicyGDP per CapitaInflationGross Fixed Capital FormationReal Interest RatesPotential Output, Growth Rate Labor Market <ul style="list-style-type: none">Labor Market PolicyUnemploymentLong-term UnemploymentYouth UnemploymentLow-skilled UnemploymentEmployment RateLow Pay Incidence Taxes <ul style="list-style-type: none">Tax PolicyTax System ComplexityStructural BalanceMarginal Tax Burden for BusinessesRedistribution Effect Budgets <ul style="list-style-type: none">Budgetary PolicyDebt to GDPPrimary BalanceDebt Interest RatioBudget Consolidation Research and Innovation <ul style="list-style-type: none">Research and Innovation PolicyPublic R&D SpendingNon-public R&D SpendingTotal ResearchersIntellectual Property LicensesPCT Patent Applications Global Financial System <ul style="list-style-type: none">Stabilizing global financial marketsTier 1 Capital Ratio	Education <ul style="list-style-type: none">Education PolicyUpper Secondary AttainmentTertiary AttainmentPISA ResultsPISA, Socioeconomic BackgroundPre-primary Expenditure Social Inclusion <ul style="list-style-type: none">Social Inclusion PolicyPoverty RateNEET RatesGini CoefficientGender Equality in ParliamentsLife Satisfaction Health <ul style="list-style-type: none">Health PolicySpending on Health ProgramsLife ExpectancyInfant MortalityPerceived Health Status Families <ul style="list-style-type: none">Family PolicyChild Care Density, Age 0-2Child Care Density, Age 3-5Fertility RateChild Poverty Pensions <ul style="list-style-type: none">Pension PolicyOlder EmploymentOld Age Dependency RatioSenior Citizen Poverty	Integration <ul style="list-style-type: none">Integration PolicyFB-N Upper Secondary AttainmentFB-N Tertiary AttainmentFB-N UnemploymentFB-N Employment(FB-N = Foreign-Born to Native) Safe Living <ul style="list-style-type: none">Safe Living ConditionsHomicidesAssaults and MuggingsConfidence in Police Global Inequalities <ul style="list-style-type: none">Global Social PolicyODA Rate	Environment <ul style="list-style-type: none">Environmental PolicyEnergy ProductivityGreenhouse Gas EmissionsParticulate MatterWater UsageWaste GenerationMaterial RecyclingBiodiversity ProtectionRenewable Energy Global Environmental Protection <ul style="list-style-type: none">Global Environmental PolicyMultilateral Environmental AgreementsKyoto Participation and Achievements	
	Category	Quality of Democracy	Executive Capacity	Executive Accountability	
	Criterion <ul style="list-style-type: none">IndicatorIndicatorIndicator	Electoral Processes <ul style="list-style-type: none">Candidacy ProceduresMedia AccessVoting and Registration RightsParty FinancingPopular Decision-Making Access to Information <ul style="list-style-type: none">Media FreedomMedia PluralismAccess to Government Information Civil Rights and Political Liberties <ul style="list-style-type: none">Civil RightsPolitical LibertiesNon-discrimination Rule of Law <ul style="list-style-type: none">Legal CertaintyJudicial ReviewAppointment of JusticesCorruption Prevention	Strategic Capacity <ul style="list-style-type: none">Strategic PlanningScholarly Advice Interministerial Coordination <ul style="list-style-type: none">GO ExpertiseGO GatekeepingLine MinistriesCabinet CommitteesMinisterial BureaucracyInformal Coordination Evidence-based Instruments <ul style="list-style-type: none">RIA ApplicationQuality of RIA ProcessSustainability Check Societal Consultation <ul style="list-style-type: none">Negotiating Public Support Policy Communication <ul style="list-style-type: none">Coherent Communication	Implementation <ul style="list-style-type: none">Government EfficiencyMinisterial ComplianceMonitoring MinistriesMonitoring Agencies/ BureaucraciesTask FundingConstitutional DiscretionNational Standards Adaptability <ul style="list-style-type: none">Domestic AdaptabilityInternational Coordination Organizational Reform <ul style="list-style-type: none">Self-monitoringInstitutional Reform	Citizens' Participatory Competence <ul style="list-style-type: none">Policy KnowledgeVoicing Opinion to OfficialsVoter Turnout Legislative Actors' Resources <ul style="list-style-type: none">Parliamentary ResourcesObtaining DocumentsSummoning MinistersSummoning ExpertsTask Area CongruenceAudit OfficeOmbuds Office Media <ul style="list-style-type: none">Media ReportingNewspaper CirculationQuality Newspapers Parties and Interest Associations <ul style="list-style-type: none">Intra-party DemocracyAssociation Competence (Business)Association Competence (Others)



The SGI Website

Results and data at a glance

SGI Website

Results and data
at a glance

The SGI website's interactive features provide access to the findings for 41 countries. Users can explore the full range of data provided, from individual indicators across various analytic categories to fully aggregated indices.

The screenshot displays the SGI website's main navigation and content areas. Three blue circles with numbers 1, 2, and 3 highlight specific features:

- 1** Points to the "SGI 2018 Survey" dropdown menu, which is currently set to "Policy Performance".
- 2** Points to the "Policy Performance" category, which is expanded to show sub-categories: "Economic Policies", "Social Policies", and "Environmental Policies".
- 3** Points to the "SGI News" section, which features a headline about Swedish General Elections and a "Play" button for a video.

The website header includes the SGI logo, navigation links for "Sustainable Governance Indicators", "Policy Performance", "Democracy", and "Governance", and a "Take the tour" button. The footer includes the Bertelsmann Stiftung logo and social media links.

1 Intuitive navigation

Direct access to the entire set of data, downloads and comparative features.

2 3 pillars, 6 categories

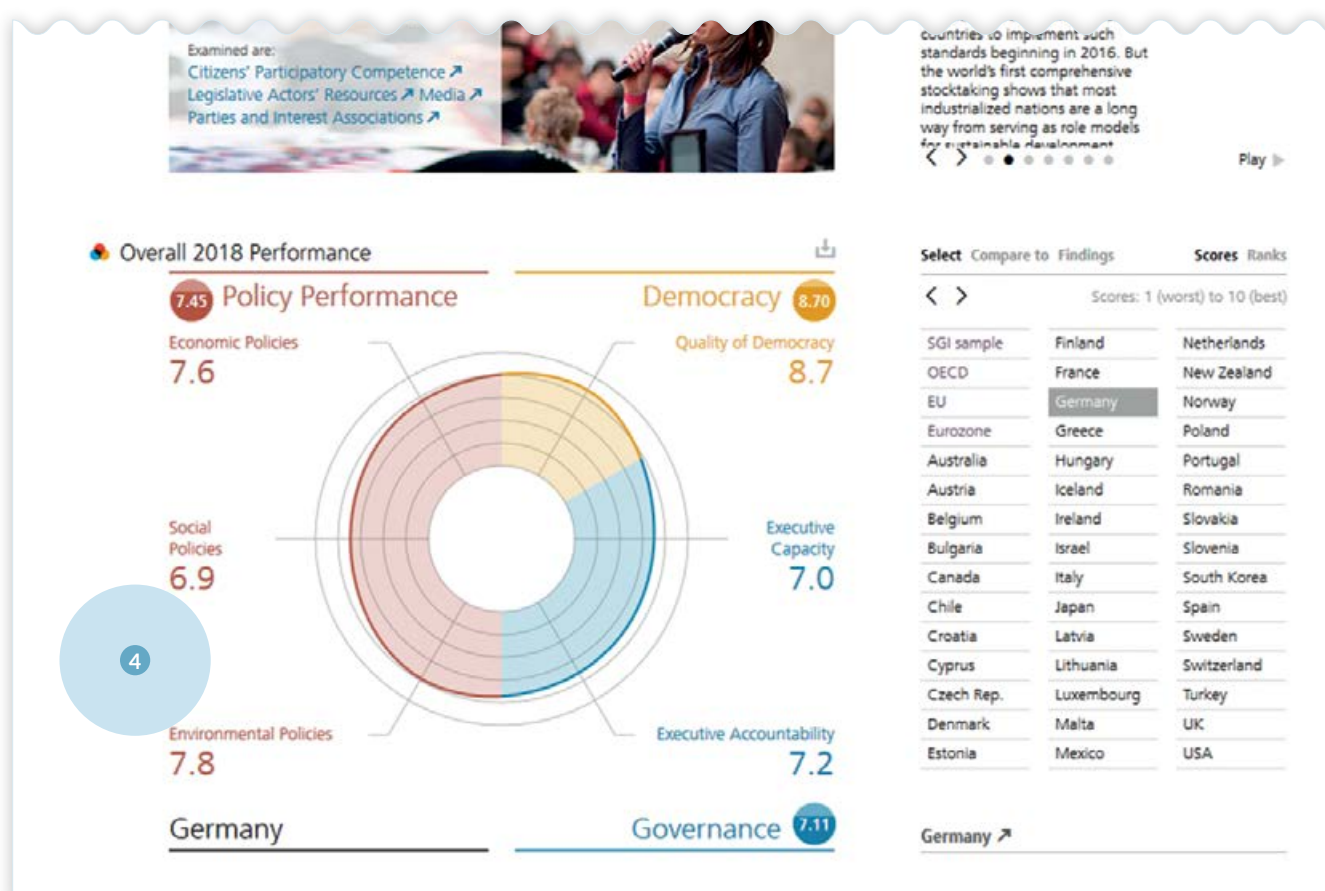
Access to every level of analysis – from indicators to indices.

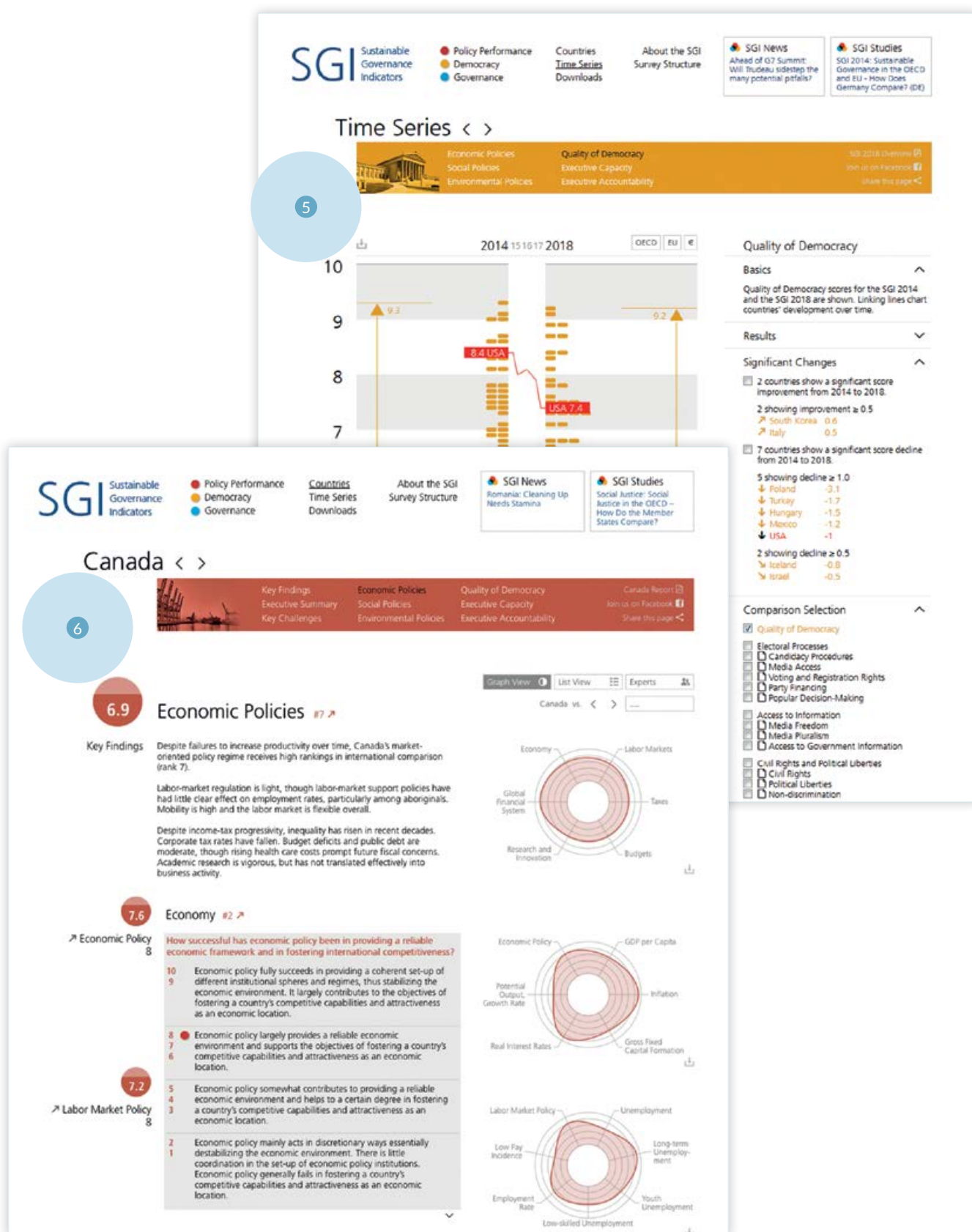
3 News and studies

Studies and ongoing blog reports that draw upon data for each of the SGI countries.

4 Interactive features

A variety of visualizations allow for a systematic comparison of strengths and weaknesses.





5 Time series analysis

Compare a variety of items over time (SGI 2014, 2015, 2016, 2017 and 2018).

6 Country reports

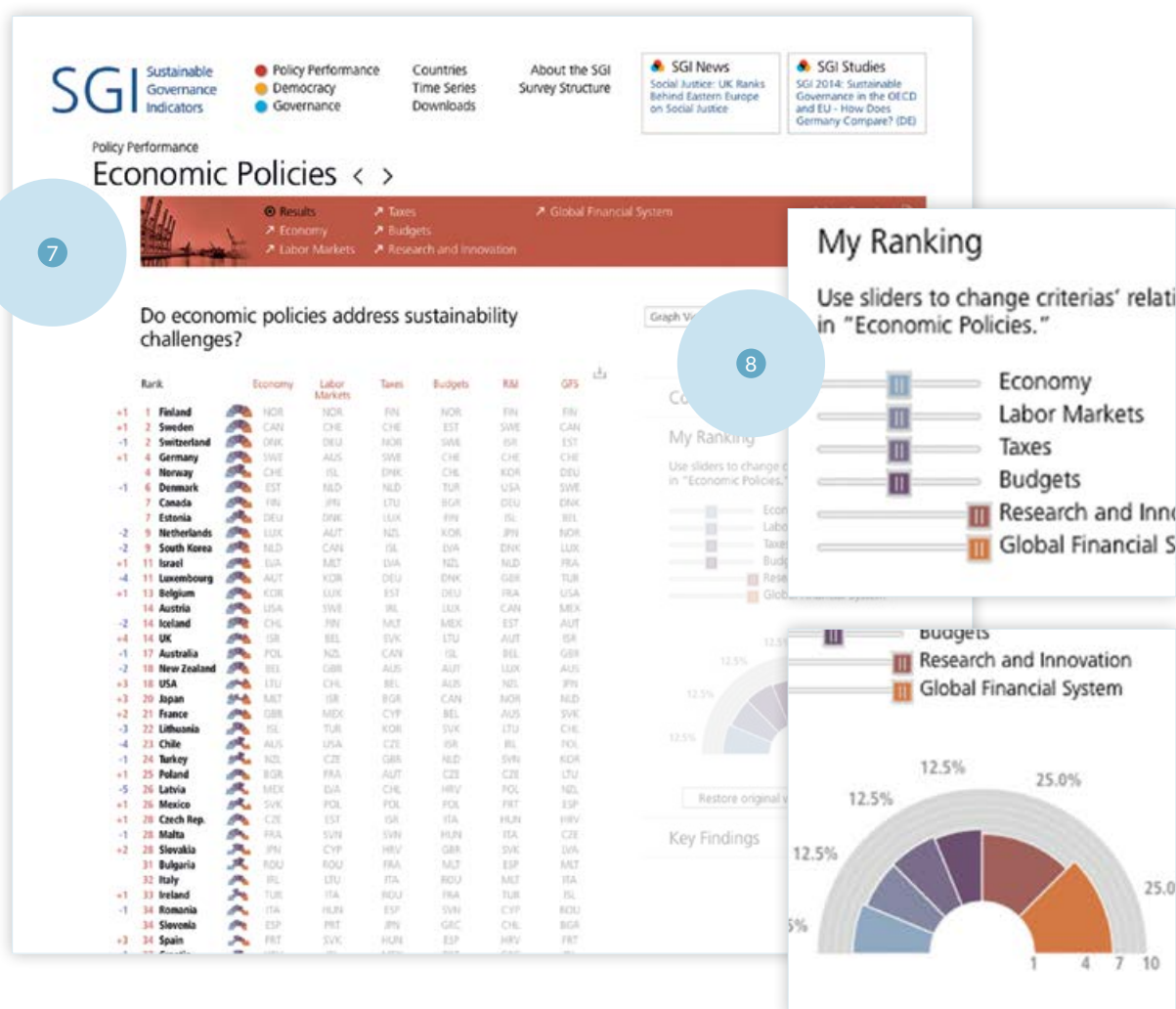
Explore country reports from every angle.

7 Policy areas in comparison

The SGI also allow for the crossnational comparison of policy areas.

8 Determine weighting

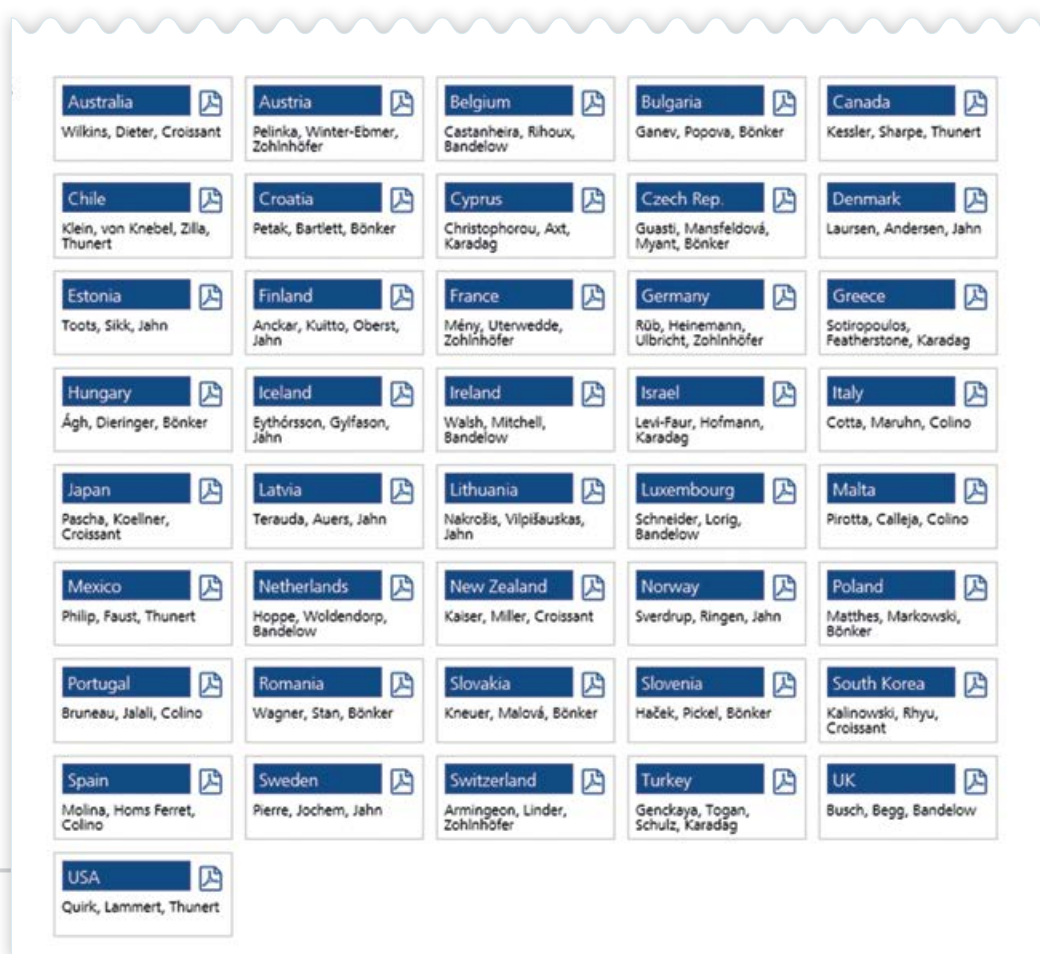
Users can for the first time select the relative weights of criteria used in rankings.



Countries and indicators – a sample

Excerpts from country experts' qualitative assessments

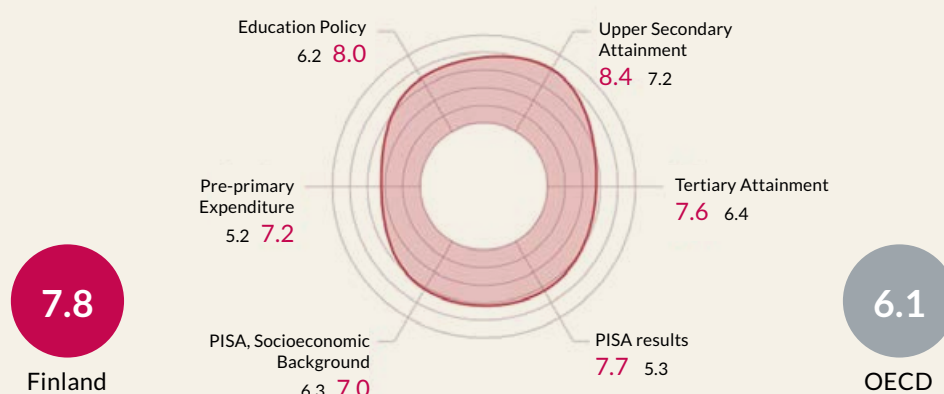
The SGI website offers a variety of opportunities to access our country experts' qualitative assessments, compare individual countries and thus explore the data and information behind each ranking. The written assessments for each indicator and country have been integrated into the website. The following pages feature excerpts from the assessments, showcasing different dimensions, indicators and countries. Each of the 41 country reports are available for download at no cost.



41 Country Reports, www.sgi-network.org

Policy Performance

FIGURE: Does education policy deliver high-quality, equitable education and training?



www.sgi-network.org

FINLAND – Policy Performance, Social Policies Rank 2

Indicator: Education Policy

The Education and Research Development Plan, revised every four years by the government, directs the implementation of education- and research-policy goals as stated in the government program. Since 2011, the plan has focused on the alleviation of poverty, inequality and exclusion. While Finland's expenditure on educational institutions as a percentage of GDP was above the OECD average some years ago, heavy cuts by the government in the education sector have now weakened the financial conditions for designing and pursuing education policy. In 2016, new curricula for compulsory basic education was introduced, designed to increase equality in compulsory education, enhance pupil participation in goal-setting and evaluation, and integrate more technology in teaching. While the curricula reflect more thoroughly the growing needs of a knowledge society, it has been criticized for the short

period of transition involved with implementing it and the lack of resources and training for teachers. Additionally, partial restrictions on the right to day care for children whose parents are not participating in the labor market undermine equal access to early education, especially in socially vulnerable families.

Excerpt Country Report Finland:

- Prof. Dr. Dag Ankar
- Dr. Kati Kuitto, Christoph Oberst
- Prof. Dr. Detlef Jahn (Regional coordinator)

Quality of Democracy

FIGURE: Are civil rights and political liberties respected? is there protection against discrimination?



www.sgi-network.org

TURKEY – Democracy Rank 41

Indicator: Civil Rights and Political Liberties

In the aftermath of 15 July coup attempt, even more serious violations of civil rights have occurred. Although the government claims it conducts the rules of emergency government with utmost care, these practices are based on the decrees having the force of law and are not subject to judicial review thereof. In addition to mass arrests of alleged coup plotters and sympathizers, confiscations of their properties and sentences against journalists and opposition politicians, renewed violence in the South-east, widespread restrictions on freedom of expression, association and assembly, deteriorated judiciary, violence against women and impaired relations with the international key actors demonstrate the institutionalized neglect of civil rights in Turkey.

Political influence and pressure on the judiciary as well as allegations of conspiring with Gülen-

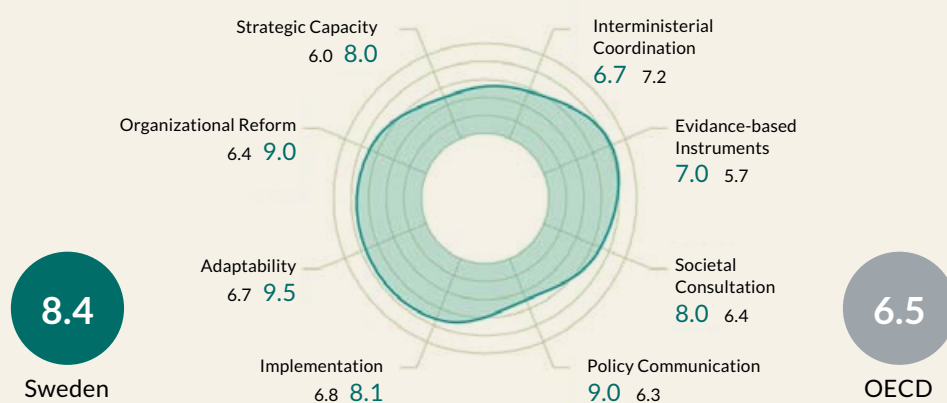
ist organizations weaken the independence of the judiciary as the sole guarantee for civil and political rights and liberties. The Justice Minister's right of veto, as ex officio President of the High Council of Judges and Prosecutors (HSYK), continued to be a source of major concern.

Excerpt Country Report Turkey:

- Prof. Dr. Ömer Faruk Genckaya
- Prof. Dr. Subidey Togan
- Dr. Ludwig Schulz
- Dr. Roy Karadag (Regional coordinator)

Governance

FIGURE: Does the government have strong steering capabilities?



www.sgi-network.org

SWEDEN – Governance Rank 1

Indicator: Strategic Capacity/Strategic Planning

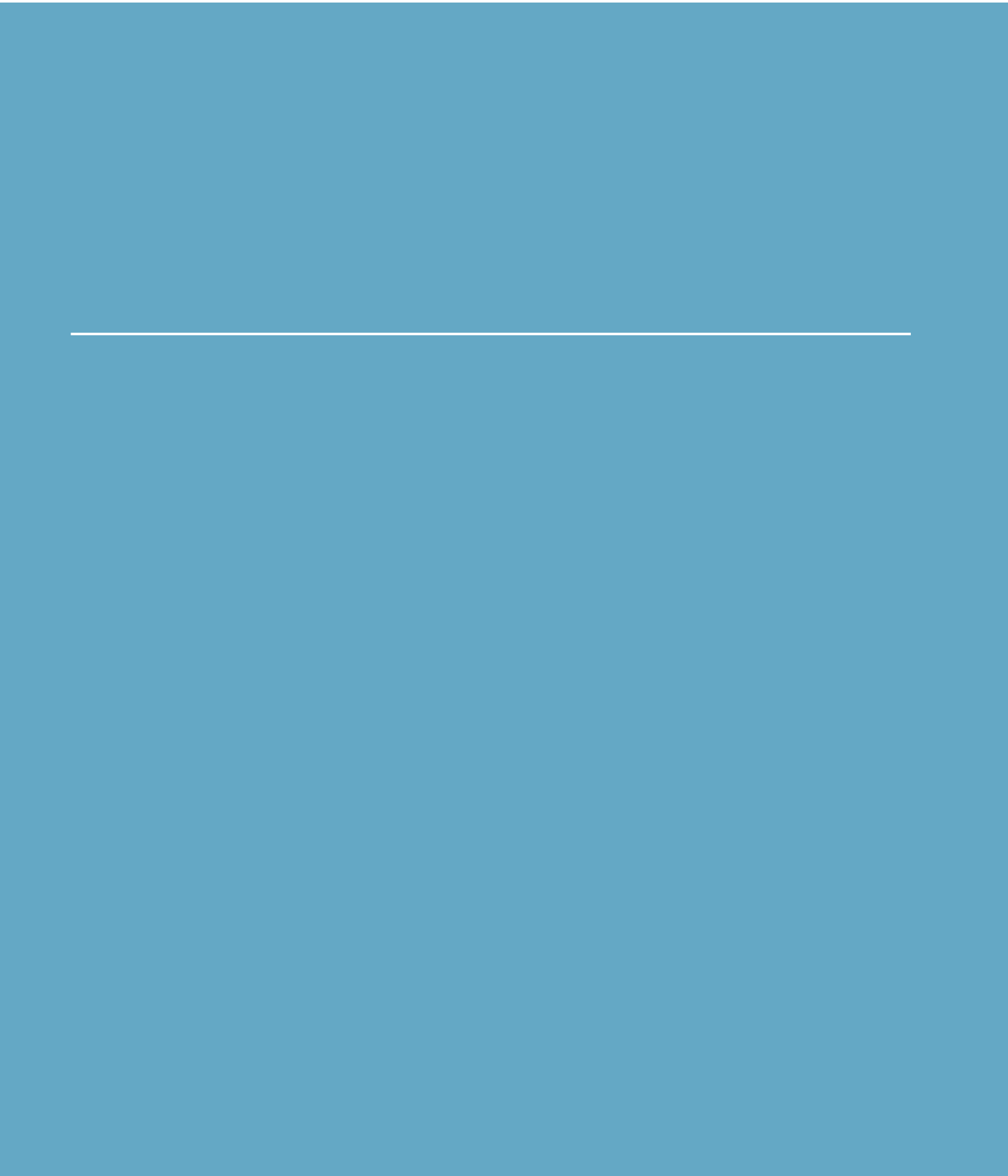
The strategic capacity of government has been enhanced over the past few years. Much of that capacity is found in the Department of Finance where most of the long-term planning takes place. The main role of the Prime Minister's Office is not so much long-term planning but more coordination within government.

A case in the point is the so-called “future commission” which presented its final report in early 2013. In the final report, the commission assesses the economic and social changes that are likely to shape the Swedish society in the longer term. Exactly how the commission's findings will flow into the policy process is yet to be seen. The commission is not an institutionalized feature of the normal policy process, but was a group of experts the government appointed to look into the long-term issues.

The creation of the commission does signal the government is thinking in the longer term, and there have since been other commissions appointed to take a similar long view on various issues on the policy agenda.

Excerpt Country Report Sweden:

- Prof. Dr. Jon Pierre
- Prof. Dr. Sven Jochem
- Prof. Dr. Detlef Jahn (Regional coordinator)



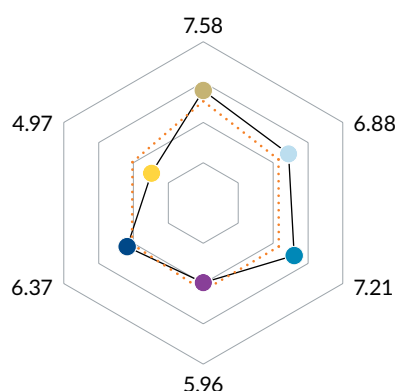
Sustainable Governance Indicators

Country profiles SGI 2018

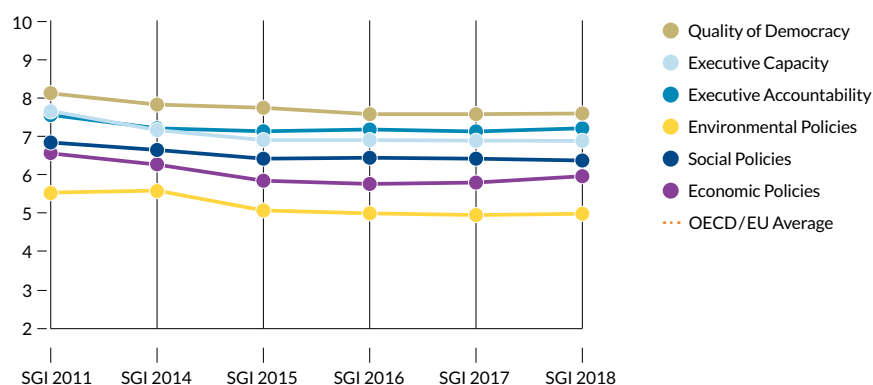
Country profile SGI 2018

Australia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Despite its comfortable victory in the September 2013 federal election, the center-right government of Prime Minister Tony Abbott soon found itself deeply unpopular with the electorate, particularly after the May 2014 budget was defeated in parliament. Discontent with Prime Minister Tony Abbott's leadership within the Liberal Party led to his replacement by Malcolm Turnbull in September 2015. However, Turnbull's popularity quickly evaporated and he secured only a narrow victory in the July 2016 federal election. Indeed, Turnbull's gamble on a "double-dissolution" election (whereby all 76 senate seats were contested, rather than 40) backfired and the senate has proven more intransigent since the election.

Since the end of the mining boom in 2012, Australia's economic circumstances have fundamentally altered and living standards have remained stagnant. Difficult fiscal-policy decisions will be necessary over the coming years, but there appears to be little hope of the gov-

ernment securing the passage of major reforms through the senate, as the balance of power in the senate is held by several minor parties and independents. That said, after an initial period of policy paralysis, in the current review period, the Turnbull government has begun to have some success in passing legislation to achieve reform. To a significant extent, this reflects the government adopting a more moderate or balanced agenda, which has been more acceptable to independents and minor parties.

Under Turnbull's leadership, the government has recognized the need to develop new growth industries. The prime minister has particularly emphasized the need for Australia to be "innovative and agile," although he has not laid out a plan for fostering innovation and agility. One factor supporting the economy is the relative weakness of the Australian dollar, which improves the competitive position for tourism and education services in particular.

Policy performance has improved very slightly over the review period. Slight progress

has been made in balancing the government budget, and policies to improve the funding and quality of health and education were implemented as part of the 2017 budget. Economic and social outcomes continue to be relatively good in absolute terms, and sustainable policy performance compares reasonably favorably with many other developed countries. In particular, the fiscal position continues to be considerably stronger than in many other OECD countries. That said, GDP growth has remained tepid, the labor market has remained relatively weak, and real wages and household incomes remain stagnant.

There is considerable scope for improvement in governance. The coalition government has cut public-sector employment, reduced funding for several government agencies, and partially reneged on the health and education funding agreements reached with the state and territorial governments prior to the 2013 election. This situation improved only slightly during the review period. Persistent problems therefore remain, such as vertical fiscal imbalances between the federal, state and territory governments; the absence of legally protected human rights; the politicization of the public sector; and the degree of concentration in media ownership.

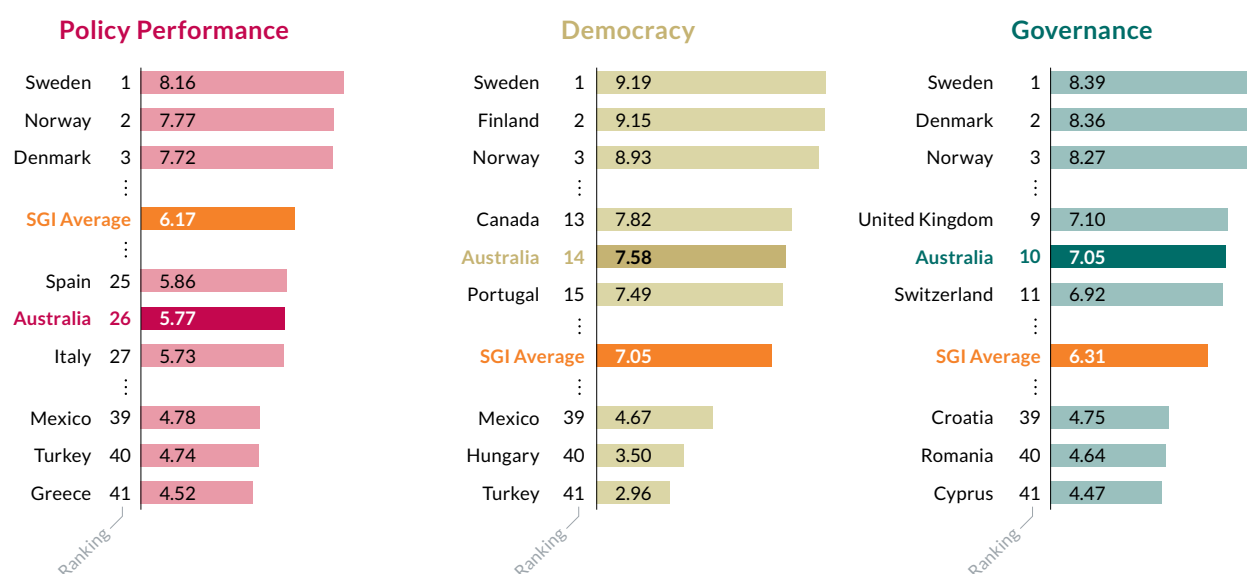
Prime Minister Turnbull has demonstrated an appreciation of the problems currently faced by the country, along with a willingness to negoti-

ate and compromise with other parties to achieve policy reforms. Unfortunately, he has so far been unable to translate this into substantive change.

Key Challenges

Australia faces a number of major strategic challenges over the coming years. The most pressing are the lack of investment in physical infrastructure, and the continued dependence of the economy on primary product exports and an inflated real estate sector. In addition, the tax system requires reform. While it is unclear how Australia could reduce its dependence on primary product exports and unwind the bubble in real estate prices without a crash, the tax system could be fixed more easily. The OECD has suggested raising the tax on goods and services tax, and introducing a land tax. The land tax would distribute the benefits from substantial foreign investment in real estate more evenly. Fiscal policy is heavily exposed to external risk and, in the medium term, Australia should establish a stabilization fund, as other resource-rich economies like Norway, have done.

Meanwhile, significant public investment is required to bring Australia's physical infrastructure to a level comparable to other advanced economies. The price for Australia's low level of



Source: Sustainable Governance Indicators.

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public debt has been underinvestment in roads, ports and railroads. Yet, the “structural fiscal deficit” impedes large spending programs on infrastructure. The coalition government has attempted to address some of the shortfalls in infrastructure investment, but has primarily focused on roads. It is unclear to what extent real increases in investment will materialize. Furthermore, the government has scaled back Labor’s National Broadband Network infrastructure project, essentially replacing the “fiber to the home” model with an inferior, cheaper hybrid fiber-copper network model.

In international relations, Australia is facing a rapidly deteriorating situation. Its biggest customer, China, is intervening in Australia’s domestic policymaking and becoming a much more aggressive player in the Indo-Pacific region. The Australian government is aware of the challenges, but may have to choose between political preferences and commercial interests. The choice will not be simple given the vulnerabilities of the Australian economy.

Other strategic challenges are more perennial. Closely related to the structural deficit has been managing the implications of an aging population. Existing policies have better prepared Australia for this demographic shift compared to most other developed countries. However, the inefficiencies inherent in the federal system of government have proven more problematic. Notable problems include the division between federal and state responsibilities, and a vertical fiscal imbalance. The need to secure agreement with the states on most major issues of shared concern has proven difficult for recent federal governments, particularly in the policy areas of water, health, education and transport infrastructure. The autonomy of states and their accountability should be strengthened, while the conditionality of grants from the federal budget should be reduced.

The federal Labor government was at least as proactive in addressing this issue as any past government but found progress difficult. “Cooperative federalism” was supposed to overcome entrenched, parochial interests, but has proven inadequate in facilitating reform on contentious issues. Policies designed, for example, to increase the efficiency of water use or ensure a fairer allocation of water rights have eluded

successive governments, and the issue of water security remains a prominent and immediate issue. Australia’s failure to address the water issue reflects structural problems in the federal system.

The tax system also remains complex and inefficient. The 2010 Henry Tax Review produced 138 recommendations for improvements. However, the previous Labor government only adopted a few recommendations. Similarly, the Liberal-National coalition government has shown little inclination to radically reform the system. Other long-standing deficiencies that should be priorities for reform include diversification of media ownership; improving regulatory impact assessments by expanding their scope and application; increasing public consultation and transparency, and conducting consultation prior to policy decisions; and introducing a bill of human rights.

In the past, Australia has addressed environmental challenges haphazardly. Considering Australia’s climate, there is much room for the development of sustainable policies on energy and the environment. Transport could be made greener, for instance, by financing improvements to inadequate public transport systems through an increase in excise duties on fuel.

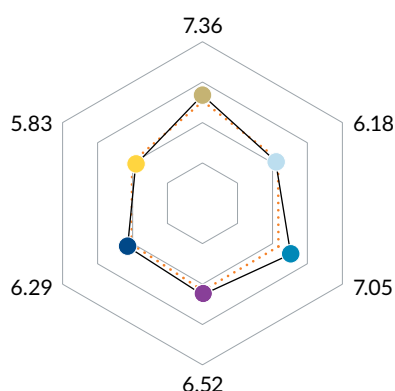
Finally, the situation of indigenous Australians continues to be the most serious social failure of the Australian political system. Over recent decades, numerous policy initiatives have attempted to address the appalling outcomes experienced by indigenous people, but there is little evidence that substantive progress has been made. Remedying this must remain a priority over the coming years.

- Roger Wilkins
- Heribert Dieter
- Aurel Croissant

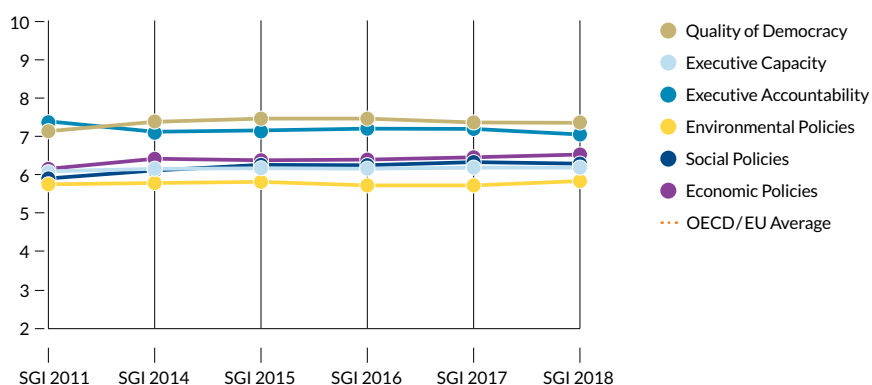
Country profile SGI 2018

Austria

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Incorporating a broad swath of interests into the policymaking process has traditionally been a strong point of the Austrian political system. However, this has started to change for two reasons, one more general and one more specific. As a result of Austria's *de iure* integration into the European Union (and especially into the European Single Market) and Austria's *de facto* integration into an ever more globalized economic system, the ability of Austrian governments to integrate and control social and economic trends is declining. Furthermore, the formation of a new coalition government, which includes a party that is widely seen as a prototype of right-wing populism (the FPÖ), introduces an additional factor. It remains to be seen to what extent the conservative Austrian People's Party (ÖVP) will succeed in controlling the government's right-wing populist elements and the wider risk populism poses to the Austrian political system.

Membership rates in political parties are now lower than ever. At the same time, electoral volatility has increased as voting behavior grows increasingly less predictable, with the success of several new parties demonstrating the system's adaptability. There has been widespread debate in recent years over instruments of direct democracy, such as popular initiatives, which could enhance the role of citizens in the policymaking process. However, greater direct democracy would make politics less predictable. The new government has included the introduction of such instruments in its agenda, but without clearly defining the instruments.

As a consequence of globalization and migration, social-partnership networks have lost some significance. Labor unions are playing less of a role in the economy, while globalization has meant the loss of traditional industries. As the Austrian economy is less and less an island led and controlled by Austrian institutions – from the government to the

neocorporatist social partnership – the situation is indubitably changing. The new government also aims to reduce the role and importance of the so-called social partners in the Austrian political landscape. A growing number of young people, in particular those without higher education, are finding it increasingly difficult to access the labor market, while migrants often feel isolated and unable to improve their position within society.

Austria also features contradictory tensions with regard to interest accommodation and societal participation. Austrian political parties have proved reluctant to criticize the xenophobic attitudes articulated by some influential print-media publications – and some parties (especially the FPÖ) are instrumentalizing xenophobic attitudes. Fears of losing votes have trumped concerns regarding participation, which has left Austria without an effective integration policy.

Austrian society and its political system are changing. Long considered to have one of the most stable party systems in Europe, Austria is increasingly subject to political polarization and voter volatility. Policymakers have yet to respond credibly to these developments, which underscores that the risks posed by growing instability are not being taken seriously.

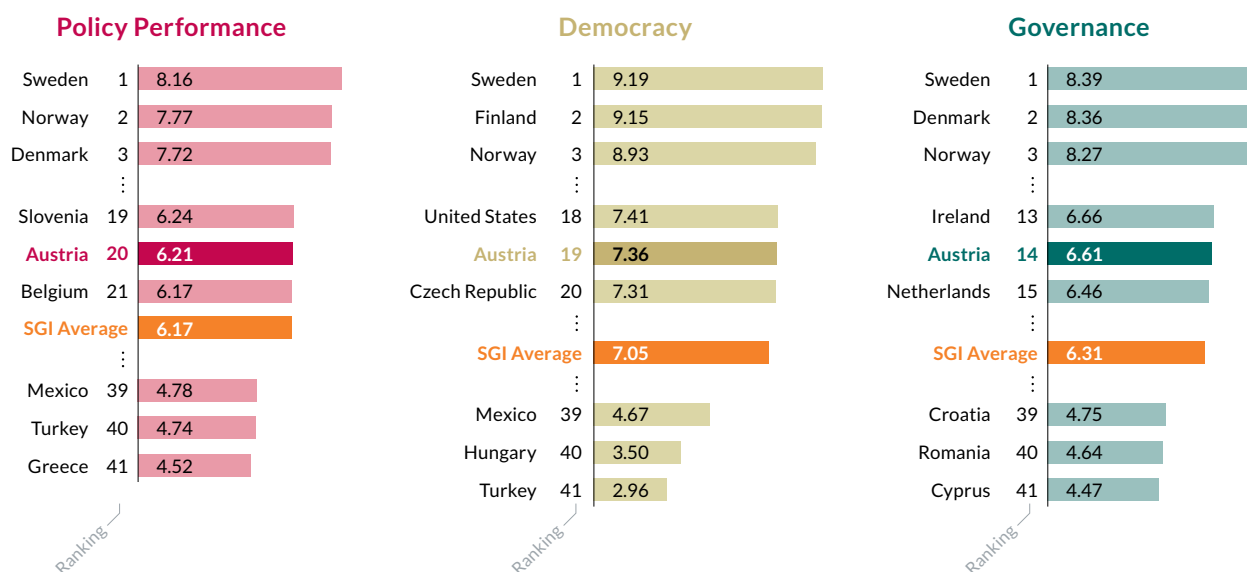
Key Challenges

If the Austrian government's overall performance is to improve, the government must examine and debate specific institutional and policy features more thoroughly.

From an institutional perspective, strengthening the authority of the central executive could significantly improve government efficiency. Within Austria's parliamentary system, this would involve the Federal Chancellery, not the Office of the Federal President. It could also imply strengthening the party of the chancellor – a move not in the interest of any coalition partner. In either case, it would certainly require shifting power from the state (Länder) governments to the federal government.

The fragmentation of the party system since the 1980s seems to have stopped. In 2017, all three major parties won votes (ÖVP, FPÖ and SPÖ), especially the ÖVP. It remains to be seen whether such a re-alignment of the party system is an exception or marks an end to the established trend.

A specific strategic option to improve the response to new challenges would be to follow the Swiss model: legally establish a permanent coalition of all major parties with significant improvements for direct voter participation. A permanent coalition would guarantee government



Source: Sustainable Governance Indicators.

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stability, while greater direct participation would provide the possibility to correct decisions made by a cartel-like government structure.

For its part, the parliament's efficiency could be improved by giving the opposition the right to better monitor government activities. With the exception of the vote of confidence (which is inherently a right of the majority), all oversight competencies can and should become minority rights. The 2014 reform, which made it possible for a minority to establish an investigative committee, was a significant improvement.

Current imbalances between the federal and state levels of government could be improved through a better separation of powers. There are two options: either allow the states to raise their own taxes or increase centralization. Allowing the states to raise their own taxes could result in decreased spending, but may also encourage unfavorable tax competition between very small jurisdictions. Meanwhile, given the small size of Austria, centralization of certain authorities (e.g., education or public health care) now seems mandatory.

A more coherent migration policy – an increasingly urgent subject given the recent mass immigration into Austria – would allow the government to better manage the challenges and benefits associated with migration, many of which are not fully acknowledged. Migration policies that define who to attract and how to facilitate their integration into Austrian society are a must. From a democratic perspective, the negative consequences of intra-European economic migration on less educated populations and more vulnerable sections of the Austrian workforce must be addressed, if those people are not to be left to populist seduction.

In terms of education, Austria's school system could benefit from coherent reform of its two-track system which determines an individual's educational and vocational trajectory at an early age. Moreover, a new university-system structure is needed to secure adequate funding for universities and students. Access to the tertiary sector for students from the middle and lower social strata should be improved, and measures such as admission examinations and student fees evaluated with regard to effects on the social composition of students.

Environmental policies must be updated and better enforced, with a particular focus on a significant reduction of CO₂ emitted by vehicle traffic and industry. The challenges arising from Austria's geographic position as a transit country can only be addressed by improving cargo-rail infrastructure, which implies the need for coherent modal shift policies and substantial investment in rail infrastructure. This would be best combined with policies facilitating research and production of more green technologies. Finally, public resources should be more equitably allocated between older and younger generations, especially with respect to retirement policies and the health care sector.

The European dimension of these reforms is evident in all policy areas. A migration policy is only feasible if coordinated within the European Union, while any reform of the educational system must draw on lessons provided by other, significantly more successful European education systems. Austria has to deal with the consequences of integration into the European Union, including weakened national sovereignty. It could accept integration into the European Union with all its consequences and try to advance its own national interest within the European political framework. Alternatively, it could follow the example of the so-called Visegrád countries and torpedo the common European interest. The second option not only implies slowing down European integration efforts, but excluding the country from the current construction of a "core European Union," with all the detrimental effects of such an exclusion on the Austrian economy (and society) at large.

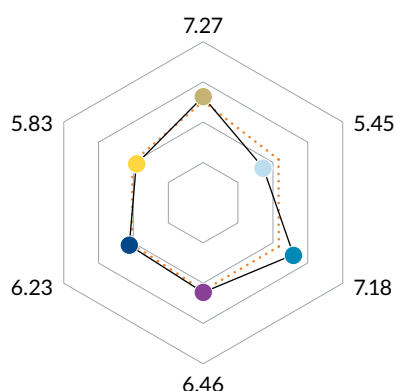
Full report available at
www.sgi-network.org

- Anton Pelinka
- Rudolf Winter-Ebmer
- Reimut Zohlnhöfer

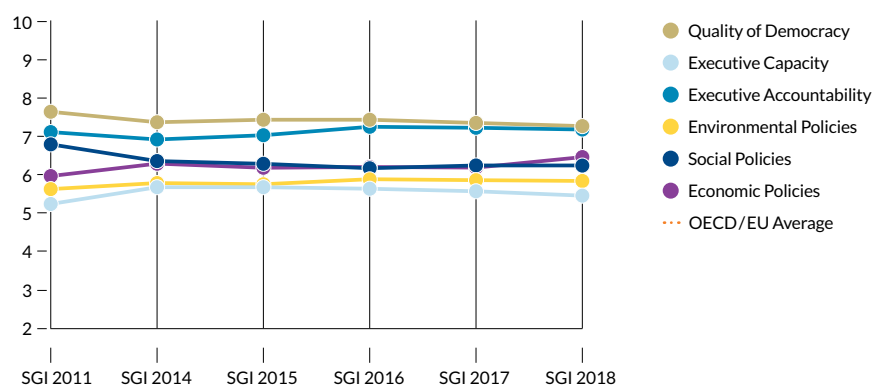
Country profile SGI 2018

Belgium

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Belgium, located at the heart of northwestern Europe, is a small, densely populated country of 11.4 million inhabitants. Its economy is generally healthy despite strong and enduring regional disparities. In comparative terms, Belgium has been one of the euro zone's most stable performers in recent years. At the time of writing, the country's 2017 gross domestic product (GDP) was projected to reach € 436 billion (at current prices, equivalent to \$ 492 billion). In real terms, this represents a 8.5 % increase over 2008. As contrast, France and the Netherlands each registered cumulative GDP growth rates of 6.7 % over the same period, while Germany's economy grew by 10.9 %.

Belgium has an extremely open economy, with imports and exports totaling 170 % of GDP. This renders the country very vulnerable to international trade fluctuations. This openness has also led to employment losses as a result of the country's tendency toward inflation rates higher than those of its neighbors. In part due to

a vigorous tightening of unemployment-benefit conditions imposed by the government, official unemployment rates have remained consistently below the euro area average. However, employment rates have also fallen consistently below targets, and have shown little growth.

The country boasts a well-educated population, attracts substantial foreign direct investment, maintains high-quality hospitals and R&D facilities, and hosts the seats of multiple supranational institutions (prominently including the European Union) as well as the European headquarters of numerous multinational companies. Global macroeconomic conditions affecting the country are generally favorable and should keep improving given accelerating growth across the EU. With its comprehensive road, rail, water and information-technology networks, as well as its world-class harbors, Belgium provides direct access between Europe and the rest of the world. Its openness in terms of trade and high reliance on exports forces Belgian companies to maintain competitiveness or lose their market position.

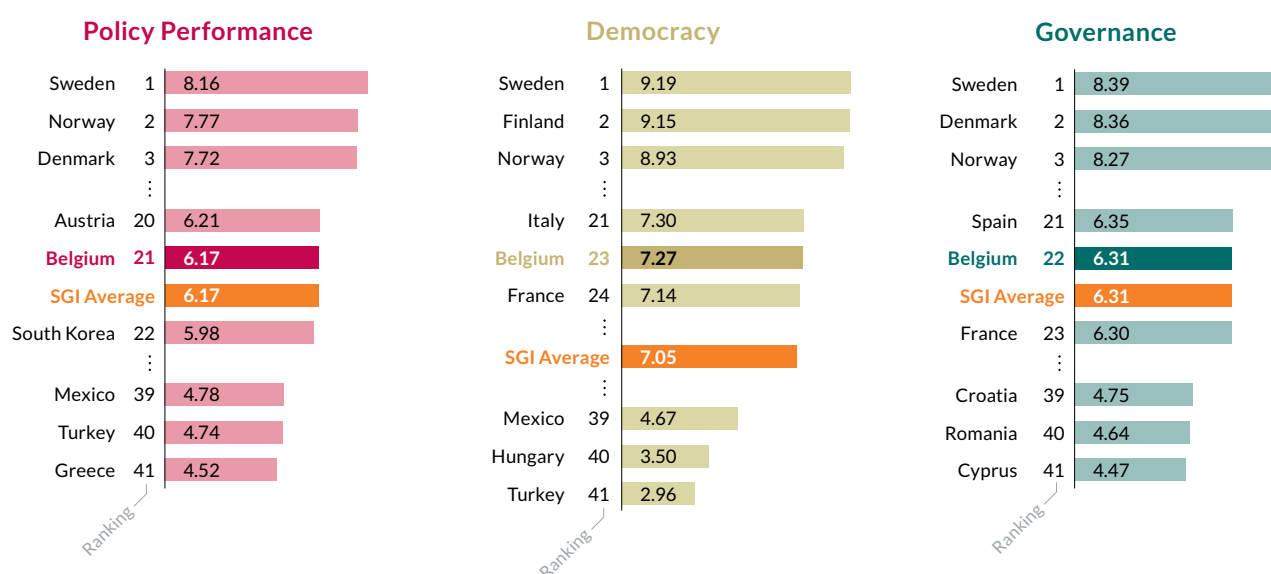
Yet despite its economic strength, Belgium has recently found it difficult to maintain its international standing. This is in part due to a succession of external shocks. Like all euro area nations, the country suffered from the global financial and economic crisis and was forced to bail out some of its banks. In combination with these economic shocks, a series of terror attacks on the country had a non-negligible impact on the economy. This reinforced the country's pre-existing public-debt problem and required significant budgetary adjustment, with the result that public investments in infrastructure and in education have declined below a healthy level, with the consequences already visible. From a structural perspective, Belgium is also home to one of the most significant separatist movements in Europe, a fact that has produced public institutions that are both complex and fragile, undermining efficiency.

Summarizing these strengths and weaknesses, the International Institute for Management Development (IMD) ranks Belgium as the 23rd most competitive economy in the world (a five-position improvement over 2014, but one place below its level a year ago), and the World Economic Forum (WEF) ranks the country 20th out of 137 (17th in 2014) in terms of global competitiveness.

The Charles Michel government, which took power in October 2014, committed to avoiding

institutional infighting, resolving to focus instead on structural and socioeconomic reforms. It has had some success in this regard. Belgium's main policy challenge is that of successfully balancing economic growth with social inclusion, both among economically weak native Belgians and within its foreign-origin population. It must accomplish this while capping government outlays, particularly with regard to social expenditures, and reinforcing the long-term sustainability of its public finances. Future public pension liabilities, which represented close to 180 % of GDP in 2002 (Flawinne et al. 2013), are a critical concern here. This general financial challenge has become increasingly complex in the wake of the refugee crisis and in the context of the slow-growth environment that plagued much of Europe through early 2017.

However, a restoration of economic growth was evident last year thanks to a positive global environment, increasingly restrictive immigration policies (with some decisions testing both moral limits and the limits of the Geneva conventions, though stopping short of outright abuses). Moreover, a series of political scandals involving abuses of office by mid-level public officials (not ministers nor party leaders) triggered a fall of the subnational Walloon government, which was followed by majorities that were de facto more homogeneous across the various



Source: Sustainable Governance Indicators.

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levels of government, potentially improving government efficiency.

As noted, the federal government did manage to achieve some of its objectives. However, distinct failures were also evident, such as its botched attempt to tax capital gains, which it had to reverse after only a single year. A more significant corporate-tax reform seems on track. Planned pension reforms are progressing as well, albeit slowly. Other “structural” reforms aimed at improving labor-market competitiveness have had some limited impact. However, there has been little effort to engage in structural reform of the goods and services markets, and progress with regard to limiting corruption and abuse of office has been slow. Among its other ambitious goals, the government has set its sights on improving government efficiency, restoring the sustainability of social security and strengthening the judiciary. To date, limited progress has been made in any of these areas.

The long-term challenges for the current and for future governments will be fourfold: They must increase investment and jobs in ways that benefit all Belgian regions and socioeconomic groups; they must maintain fair intra- and intergenerational transfers; they must promote knowledge creation and innovation in the private sector without impairing access to the public goods and services necessary for social cohesion; and they must better integrate the second- and third-generation immigrants who are now Belgian citizens, both socioeconomically and culturally. These challenges will require better concertation and more fluid collaboration between the political authorities at the national (federal) and subnational levels.

Key Challenges

Belgium’s key challenges are several. It must 1) improve its competitiveness and reinforce the sustainability of its economy (in numerous areas including public accounts, the environment, education and so on); it must 2) rationalize and stabilize its institutional arrangements; and it must 3) better integrate those on society’s margins, particularly second- and third-generation Muslim minorities.

During the Great Recession, Belgium managed to limit the damage inflicted on the country’s small- and medium-sized enterprise sector. On the whole, the country experienced only a slight recession. By 2010, real GDP had fully recovered and today sits 8.5% percentage points above its 2008 level. Clearly, Belgium’s economic situation better resembles that of Germany than that of Greece. However, it has suffered from a progressive erosion of competitiveness that the government has struggled to address effectively. It has one of the most open economies in the world, with small policy missteps thus having sizable consequences. Belgium’s (and, more generally, Europe’s) share of global exports has shown a consistent decline, as has its share of technological exports more specifically. The country has lost considerable ground in the car-manufacturing and high-tech-steel sectors, as well as in other industries. It thus needs to identify new areas capable of fostering high levels of GDP growth and aggressively transfer productive efforts toward these sectors.

To improve its economic standing, the country needs to free up resources in such a way as to enable it to resume infrastructure investment and tackle its environmental and mobility issues. In the longer run, it will have to improve its education system further and reinforce the economy’s general innovative capacity, both by improving workers’ skills and through product-market reforms stimulating the entry and expansion of new innovative firms. To date, the government has largely focused on a so-called tax shift intended to increase incentives for firm-level investment and job creation. Together with a tightening of unemployment-benefit conditions, this has slightly reduced the cost of labor. However, results have been limited – perhaps due to sluggish growth and investment levels worldwide. However, many pundits have criticized these reform efforts as being too timid.

With respect to institutional arrangements, Belgium has suffered from decades of political instability caused by persistent cultural and political tension between the Flemish and the Walloon regions. Flanders remains wealthier, with unemployment rates about half the level seen in Wallonia. Wallonia’s economy once relied on coal mining and heavy industry. Today, the region continues to struggle with

the process of shifting away from dependence on these industries. Moreover, the Spanish separatist tensions pitting Catalans against Castilians may prove to rekindle similar frustrations in Belgium. Maintaining a relationship of mutual respect between the country's different communities will be critical in order to avoid falling back into political paralysis and sluggish socioeconomic reforms.

The current government has said it would relinquish any additional institutional reforms, seeking to minimize political complications. Nonetheless, tax reforms implemented on the national level will have significant distributional consequences on the regions (in particular, for Wallonia). As a result, the deficit in Wallonia may balloon in the coming years. This will prevent the region from pursuing expensive reforms or making necessary public investments. There is thus a risk of political deadlock as the next round of elections approaches (2018 for municipal and 2019 for regional, federal and European elections).

Finally, Belgium will have to deal with increasing inequality and social tensions. The country's health care system is today one of the planet's best and most accessible. But the objective of reducing the costs of social security will reduce its generosity. Similarly, the pension system has allowed for broad early-retirement benefits, with this practice becoming the norm at very high cost for the Belgian economy. Reforms on this front have been necessary for decades. Current efforts have certainly moved in the right direction, but have simultaneously stoked social tensions. Racial divisions have also widened since the terror attacks in Belgium and the rest of Europe. Anti-terror and anti-crime policies are an obvious necessity, but must be accompanied by significantly improved integration policies. Some of these efforts must start at the primary-school level or even before. However, education policies have been delegated to the subnational authorities, producing very unequal outcomes. For example, Flanders fares well in international rankings, whereas the French-speaking community fares very badly (in part due to a larger proportion of socioeconomically deprived groups within this population).

Unemployment and poverty rates remain stubbornly high in Brussels, a city that attracts

a large share of the country's immigrants.

However, education-sector underinvestment means that space within the city's schools has been increasingly insufficient to provide adequate schooling to the city's growing student population. It is unclear whether recent increases in investment will reverse this problem. Given the comparatively broad dissemination of radical Islamist propaganda in the country, disenfranchisement must be addressed. Integration is bound to remain a major issue in Belgium over the next decade.

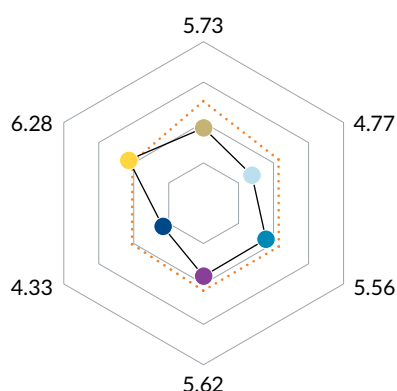
- Micael Castanheira
- Benoît Rihoux
- Nils C. Bandelow

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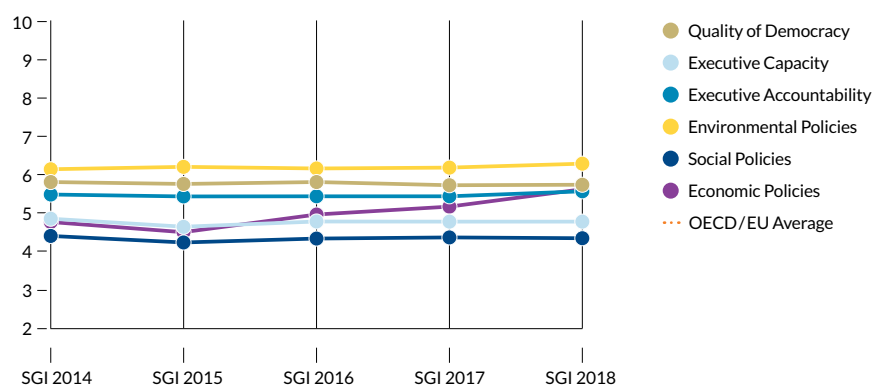
Country profile SGI 2018

Bulgaria

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

The election of the opposition candidate for president, Rumen Radev, in November 2016 led to the resignation of the center-right Borissov government and early parliamentary elections in March 2017. However, Boyko Borissov's Citizens for European Development of Bulgaria (GERB) managed to win the parliamentary elections, while the Bulgarian Socialist Party (BSP) came second – more than five percentage points behind GERB. In April 2017, Borissov formed his third government, this time in coalition with the United Patriots – a formation of three extreme nationalist and xenophobic parties. The United Patriots' electoral success is largely attributable to the hostile public reaction to the relatively small number of refugees residing in Bulgaria and failure of integration policies.

During the second and third Borissov governments, economic performance improved due to the restoration of fiscal control, increased labor market flexibility, improved export per-

formance and the impact of increased economic growth in Europe. As a result, labor force participation and employment rates increased noticeably reaching record levels for the last 25 years. These positive developments notwithstanding, Bulgaria still faces serious challenges in terms of improving skills levels, innovation capacity and productivity. The country continues to lag severely in both public and private research and innovation funding. Other serious problems include the relatively low-skilled labor force, and the economic exclusion of people with low educational attainment and some minority groups. Three main challenges in this area remain, namely reform of the education sector to produce a more adequate skills base; negative demographic trends which, given the existing health care and pension systems, continue to squeeze the labor market; and the need to further increase labor-market flexibility.

Recent years saw minor changes in electoral law and some attempts to reform the judiciary. In 2016, voting became obligatory, although the

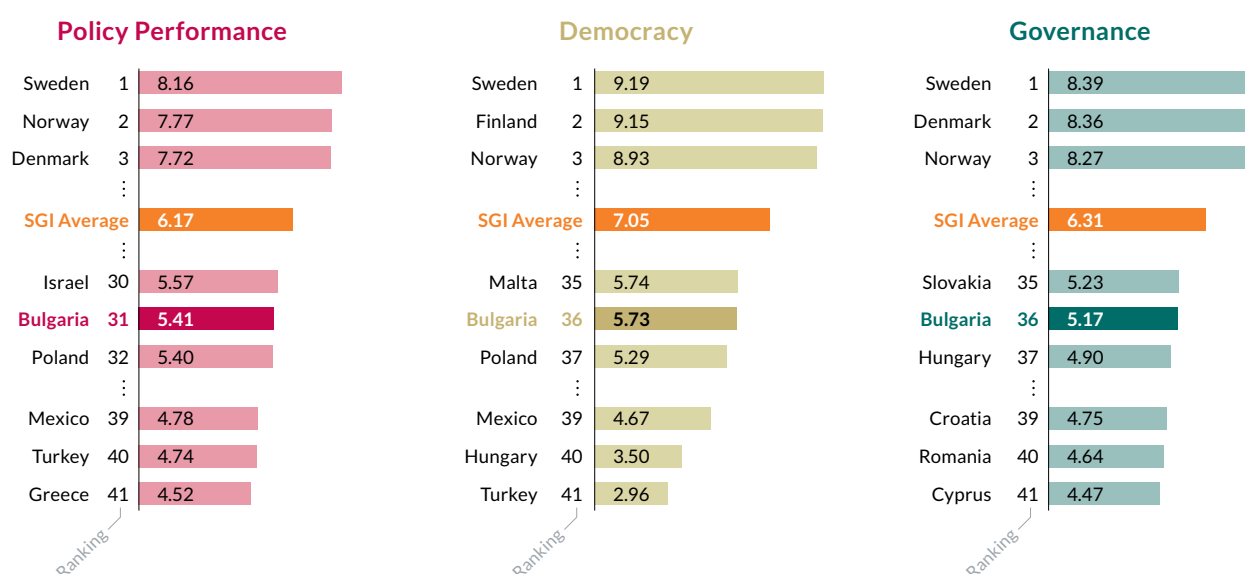
initial sanction for non-compliance was largely symbolic and later declared unconstitutional by the Constitutional Court. Constitutional amendments to the structure of the Supreme Judicial Council were adopted and the election of a new council in 2017 promises improvements to the judicial system, especially with respect to judges' career development and independence. Implementation of anti-corruption reforms has been slow and yielded little in the way of palpable change, with a newly introduced reform package awaiting parliamentary ratification in late 2017. Traditional media remains nontransparent in terms of ownership, and serves narrow business and political interests. Overall, media independence and performance continues to deteriorate. Under the Borissov governments, the scope for popular decision-making was expanded significantly, with national referendums taking place on several occasions. The November 2016 referendum almost passed the approval threshold for becoming obligatory for parliament.

The executive's institutional capacity to coordinate and plan strategically is limited. While EU membership has increased strategic planning, interministerial coordination is weak and there is no mechanism for regularly monitoring institutional arrangements. The second and third Borissov governments paid little attention to addressing these issues. Even though both Borissov

governments were coalitions, which could have provided explicit coalition agreements precisely detailing policy coordination and responsibilities, Borissov and his key coalition partners chose to proceed in an informal manner without explicit agreements. This remains the case with the 2017 government coalition between GERB and the extreme United Patriots. Despite the lack of a clear coalition agreement, the United Patriots, at least as part of the government, have behaved more moderately than initially expected.

The RIA framework was enhanced in 2016, even though initial evaluations of its first few months of implementation indicate only limited progress in strengthening impact assessments. Slow starts notwithstanding, the existence and operation of the independent Fiscal Council and the RIA framework promise better-informed legislation. The necessity for Bulgaria to formulate priorities and take a leadership position with respect to the EU agenda due to Bulgaria's upcoming Presidency of the Council of the European Union in the first half of 2018 may boost strategic planning and coordination capacity within government.

Internationally, Bulgaria continues to behave reactively on issues ranging from international financial stability to climate change, international democratic assistance and migration. Even though migration is an important



Source: Sustainable Governance Indicators.

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issue in domestic Bulgarian politics, the country remains incapable of formulating a concise and well-defined position. While it never obstructs measures aimed at developing the framework for international cooperation, it is also never among the drivers of international cooperation.

Key Challenges

Bulgaria's party system over the last decade has been dominated by two parties of the center-left and center-right, with various configurations of smaller parties representing an increasingly fragmented political space around them. Government majorities have been secured through the formation of coalitions. However, these coalitions have tended to be unstable, leading to three consecutive early elections in 2013, 2014 and 2017.

The potential for political instability represents a major challenge facing the country, since instability inevitably affects both the government's ability to adopt a long-term perspective and the economy's ability to sustain economic growth. The negative effects of the fluidity of the party system and the frequent changes in government have been partly mitigated by the fact that the country has had the same prime minister and the same party leading the ruling coalitions for most of the last decade. Increased governance experience of the prime minister and main government party may lead to improvements in the capacity of the government to develop strategies, and coordinate and assess policies.

In the past, Bulgaria managed to generate rapid economic growth primarily by attracting foreign capital and adding previously unoccupied low-skilled labor to the workforce. Today, these mechanisms for generating economic growth are no longer available and Bulgaria needs to strengthen its internal growth drivers. While economic growth over the 2015–2017 period has been relatively strong, and economic activity and employment have reached record levels since the beginning of the current transition, the potential of key economic drivers – such as raising skills levels, innovation capacity, productivity and policy effectiveness – remains a serious challenge.

Judicial reform will be key to Bulgaria's ability to meet these challenges, particularly reform

of the prosecution service. Presently, there are illicit mechanisms within an unaccountable judiciary that allow individuals to acquire privilege, and political and economic influence. These mechanisms contribute to the capture of the prosecution service by special interests with a political agenda. Consequently, legitimate businesses and entrepreneurs do not compete on a level playing field. While the new Supreme Judicial Council, in office since September 2017, has been evaluated as containing many more reputable and professional people than before, the council still selected a representative of the old status quo as chair of the Supreme Administrative Court, despite needing to establish and protect judicial independence and professionalism through its rules and appointments.

A second important reform area is education. The exclusion of various – especially minority – groups from adequate education and labor-market participation, and low basic literacy rates need to be addressed. The promotion of a skilled and flexible labor force remains a major challenge. The Ministry of Education has presented reform proposals that point in a desirable direction, but they need to be implemented and supplemented by further reforms.

A third challenging area is the health care and pension systems. Negative demographic trends impose a substantial financial and political challenge on both social systems, making them financially unsustainable, easy victims for political opportunism and a heavy burden on the economy. These weaknesses need to be addressed to improve their financial and social sustainability.

Fourth, despite visible improvements over the last decade, infrastructure must continue to be enhanced, especially at the regional level.

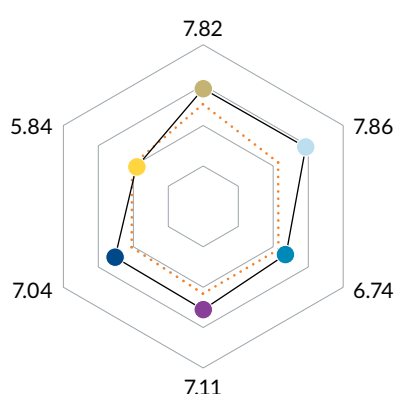
Politically, Bulgaria's most significant challenge is the fragmentation of the political party system observed over the last two parliaments. In particular, the resurgence of nationalist and xenophobic parties increases the likelihood that parties and social groups opposing reform will prevent the formation of government majorities willing and able to address Bulgaria's key challenges.

→ Georgy Ganev, Maria Popova, Frank Bönker

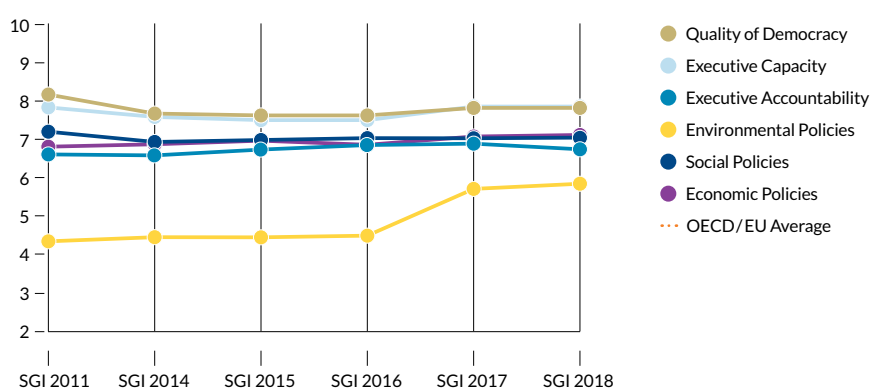
Country profile SGI 2018

Canada

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Canada has been performing well economically, unemployment rates are at their lowest since 2008 and the government's fiscal situation is strengthening. Two years into their mandate, the Liberals under Prime Minister Justin Trudeau continue to implement an ambitious policy agenda involving additional tax dollars for innovation and infrastructure, pension reform and tax reductions for the middle classes, and support for oil projects balanced against action on climate change. With respect to SGI criteria, Canada continues to receive high scores on economy, taxes and budgets. The government continued to focus on fiscal stimulus, which seems to be having the desired effect. Stephen Poloz, governor of the Bank of Canada, recently credited the newly introduced Canada Child Benefit program with the country's strong economic performance, which in turn has helped to keep budget deficits below projected levels.

The Comprehensive Economic and Trade Agreement between the European Union and Canada came into effect in 2017, and Canada has been renegotiating the terms of NAFTA since August 2017. The government has also revised national security laws to reign in the powers of security agencies and create an oversight committee to improve accountability. Balancing the needs of the country's oil and gas sector against concerns for the environment, Prime Minister Trudeau worked with the provinces to establish a pan-Canadian framework for carbon pricing, energy efficiency and renewable energy strategies, while at the same time approving two highly contentious crude oil pipelines and expressing support for Keystone XL. The Liberals have also delivered on their promise to strengthen evidence-based policymaking. The government has consulted with experts, making ample use of advisory boards for policymaking, and created new departmental positions designed to incorporate evidence into the policymaking process.

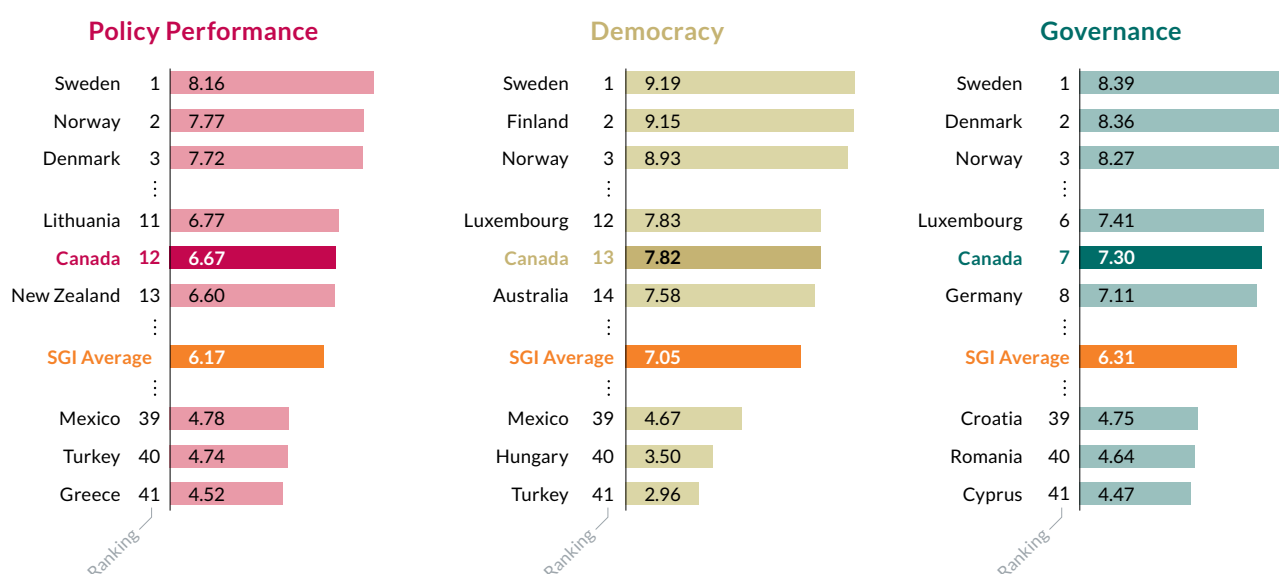
Some glaring gaps between what the Liberals pledged and what they have accomplished since taking power in 2015 remain, however. The largely rookie government started out with a host of new initiatives and bold reforms, but quickly learned that structural reforms often run into organizational and administrative obstacles, do not happen overnight, and in any event tend to develop a life of their own. In early 2017, after months of public consultations, the Liberals abandoned one of their central election promises, namely changing the first-past-the-post electoral system. Shortly after, they had to back down on parliamentary reform. Most recently, their planned overhaul of corporate taxation has encountered fierce opposition from small businesses and professionals, and may yet be abandoned.

Although the Trudeau government tried to distance itself from the previous Conservative government in terms of transparency and accountability, little headway has been made. Access to information requests have piled up and processing continues to be slow. A first attempt at revamping access to information laws met with harsh criticism. Although the legislation would give the information commissioner the power to order the release of records, the reforms do not apply to the Prime Minister's Office or other ministerial offices. The government also limited the powers of the Parliamentary

Budget Officer to preform audits requested by members of parliament, a mechanism frequently used by opposition members of parliament to hold the government to account on policy decisions. This restriction has put the public's ability to properly scrutinize policy proposals in jeopardy. The SGI indicators on accountability reflect this and will further decline in years to come if the Liberals remain on this path.

On the positive side, since its election, the government has renewed efforts to mend relationships between First Nations and indigenous groups. Canada finally adopted the United Nations Declaration on the Rights of Indigenous People. Following a recommendation of the Royal Commission on Aboriginal Peoples report (1996), the ministry responsible for indigenous affairs was split into one department focused on facilitating a nation-to-nation relationship, and a second dedicated to providing quality public services to indigenous people across the country. These changes have been widely praised, but in view of the continued challenges experienced by Canada's indigenous groups, indigenous leaders and scholars have called for more meaningful change rather than symbolic gestures.

Halfway through their term, there is no doubt that the Liberals have made progress in several critical areas of sustainable governance. The vast majority of this progress came during



Source: Sustainable Governance Indicators.

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2016, their first year in office, when there were notable gains in policy performance and executive capacity. Meanwhile, 2017 saw very little movement in the SGI indicators, as many of the Liberals' planned structural reforms have stalled or been abandoned. Instead, the government seems to be shifting gear toward policies that deliver more immediate results.

Key Challenges

In its latest (October 2017) economic outlook, the IMF estimated that Canada's GDP will grow 3 percentage points in 2017, the highest of the G7 countries. Projections for 2018 are somewhat lower. Yet, at 2.1%, the IMF's 2018 growth forecast for Canada is topped only by its forecast for the United States. Justin Trudeau and his cabinet can thus expect a solid economy for the second half of their term in office. Whether the situation south of the border is detrimental or beneficial to Canada has yet to be determined. On the one hand, trade with the United States will be negatively impacted if NAFTA renegotiations fail. On the other hand, a number of initiatives proposed by the Trudeau government, which are designed to attract investment and simplify the hiring of high-skilled foreign labor, will likely benefit from the Trump administration's protectionist stance. The country's ability to absorb people from diverse cultures will help mitigate the growing gap in the prime working-age population, although it is important to note that recent immigrants do not fare as well in Canada's job market as Canadian-born workers.

Many items on the government's policy agenda are still pending and some may face serious obstacles. Two of the government's signature projects, the Canada Infrastructure Bank and the Invest Canada Hub, are not yet up and running. The Canada Infrastructure Bank, which aims to attract private investment for public infrastructure, has been criticized for a lack of transparency and concerns were raised that it has the potential to increase overall costs to taxpayers while privatizing the most high-return, low-risk infrastructure assets. There have been very few details released on the Invest in Canada Hub, but some worry it may not be able to attract substantial investment under excessive regulatory provisions.

NAFTA talks are currently at an impasse and delays are expected due to what senior officials have called "significant conceptual gaps." President Trump threatened to scrap NAFTA in the event that a deal is not reached. With the United States as Canada's largest trading partner, a lot is at stake.

Bill C-59 is the Liberals' response to the controversial Bill C-51 passed by the Conservatives. However, civil rights organizations have voiced their concerns about the excessive powers of security agencies and information sharing that will remain. It is unclear if the government is planning to revise the bill, but if the issues are not addressed the legislation is likely to be challenged as unconstitutional.

One of the aspects that set Trudeau apart from his predecessor in the election campaign was Trudeau's pledge to lead a more open, transparent and accountable government. However, despite significant changes in the day-to-day transparency of the Prime Minister's Office and departmental mandates, the issue remains fundamentally unresolved. Planned legislation to reform access to information (Bill C-58) has been heavily criticized as "a step backward" and may undermine the government's credibility regarding key issues. Similarly, after the Liberals formally abandoned electoral reform, advocacy groups called on the Ethics Commissioner of Canada to rule on whether Prime Minister Trudeau's decision violated ethics codes. A formal investigation into the matter would be damaging to the government's image and public trust.

Improving the well-being of First Nations in Canada remains a major challenge for the government. The Liberals reinstated previously frozen funding for First Nations, but it will be years before the effects of this are measurable. Many of the government's promises remain unfulfilled, such as ending the boil water advisories on reserves by providing clean water within five years. Implementing the U.N. declaration will require substantial restructuring of departmental mandates to ensure that policymaking respects indigenous rights, which may not be desirable from the perspective of bureaucrats.

Although the Liberals under Trudeau have moved forward in several areas of sustainable governance, there is still plenty of room for improvement as well as the potential to regress.

Initiatives that address overdue institutional reforms, which were once praised, have resulted in inadequate legislation or have been abandoned. Success will depend on whether economic policy ideas (particularly with respect to infrastructure investment and innovation) have the desired effect and whether the government can revisit institutional change without getting caught up

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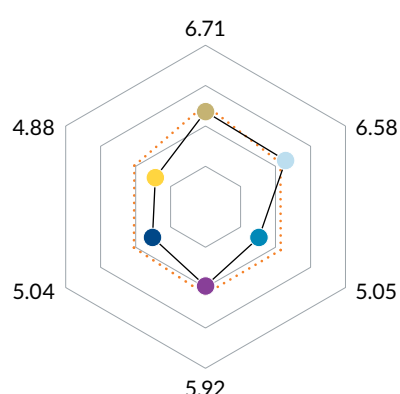
in controversies over minor policy proposals. With two years left before the next election and the economy humming along strongly, the Liberals should have enough time and resources to deliver on their more ambitious projects.

→ Anke Kessler, Andrew Sharpe, Martin Thunert

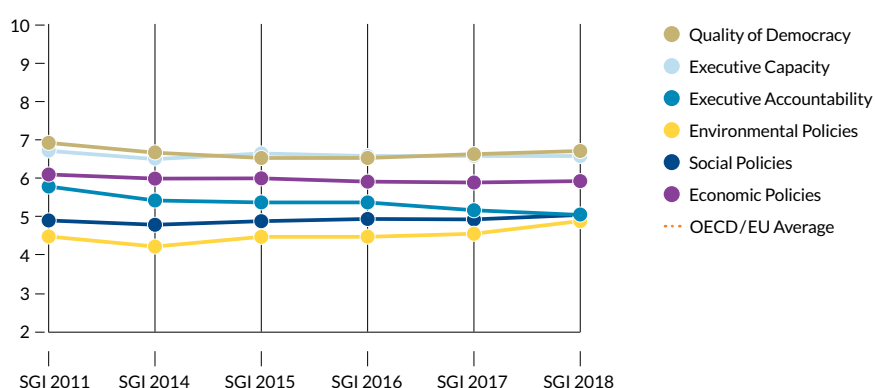
Country profile SGI 2018

Chile

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

In accordance with the decision of the Development Assistance Committee (DAC), Chile left the group of countries eligible for Official Development Assistance (ODA) in October 2017. There is no doubt that this “graduation” reflects the economic and social development the country has undertaken during the past two decades since

the return of democracy. But despite this sound macroeconomic performance, Chile is still facing structural challenges which impede equal participation in economic growth and the active claim of social rights, especially by the more vulnerable population.

Strongly polarized political discourses and positions, which are still marked by an ideological division inherited from the Cold War and

Augusto Pinochet's military regime, in combination with high constitutional barriers to implementing structural changes have impeded essential pension reforms and efforts to decentralize. In addition, the country has not managed to significantly reduce poverty levels or close the gap on income inequality.

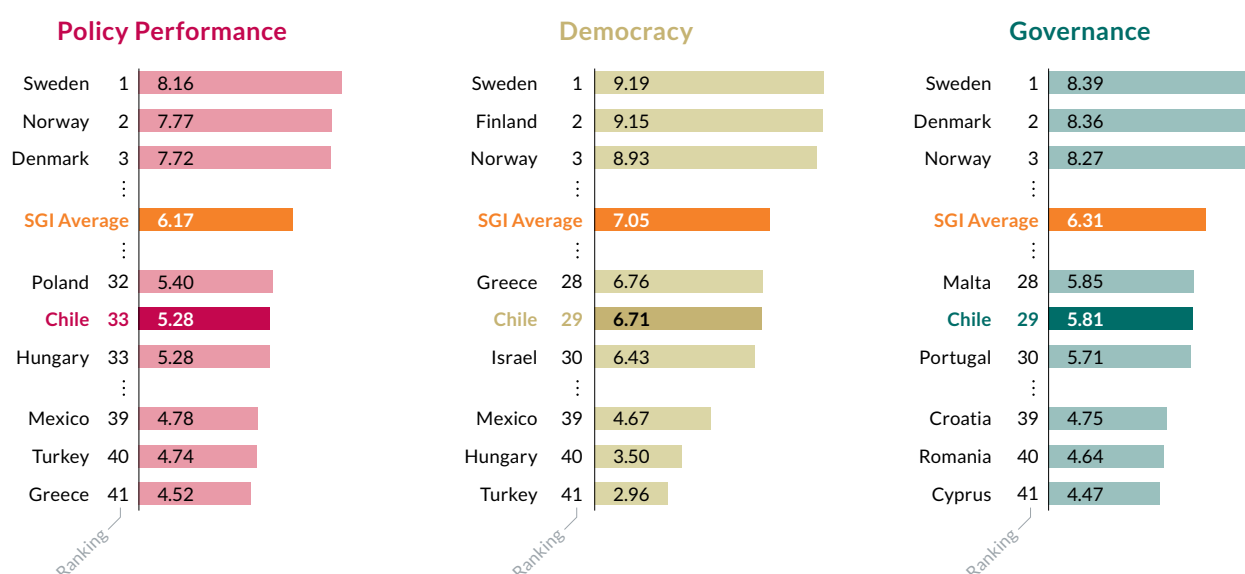
The prevailing legacy of Augusto Pinochet's military government must be taken into account in any evaluation of the country's democracy and governance. Turbulence under the Salvador Allende government and subsequent military dictatorship led to a political culture that favors consensus and avoids conflict. Key actors and citizens generally tend to favor the status quo and harmony. Nevertheless, social tensions are rising in the OECD's most neoliberal country. Official and unofficial strikes as well as protests lead to violence and police repression with relative frequency. Student protests of recent years appear to have replaced by protests against the pension system, and the indigenous conflict in the country's south has worsened.

Strongly agitated by several far-reaching corruption scandals that involved both right-wing and left-wing politicians and parties, Chile's traditional political camp pattern seems to have changed significantly for the first time since the return to democracy in 1990. Some serious cases of corruption involved representa-

tives of important state institutions, including the national tax authority, the police and the military, which have been evaluated in public opinion polls during the past twenty years as among the most trusted institutions. Political institutions have a bad reputation because it is widely known that many of the current influential political and economic actors are interrelated due to direct family bonds or business relations. Also, public officials tend to abuse their position by sharing high-level political and administrative posts only within this very limited oligarchic circle. The government has responded to recent corruption scandals by introducing more restrictive regulations on party and campaign-finance. Nevertheless, political disaffection is growing. Participation in the October 2016 communal elections dropped to a historical low of 35 %, a clear indication of widespread discontent among the Chilean population, irrespective of their political background.

All these aspects explain the growing discontent with national politicians and politics in general, especially among the younger population and in middle-income households – a development that notably influenced the 2017 presidential elections.

Chile is a particularly heterogeneous country, yet economic and political power remains highly centralized in the capital Santiago.



Source: Sustainable Governance Indicators.

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Consequently, regional and local interests are often not sufficiently reflected in national policymaking. Also, unresolved ethnic conflicts often trigger a response by the state that, at times, fails to respect the civil and political rights of ethnic minorities (e.g., the Mapuche). In addition, certain forms of political discrimination inherited from the military dictatorship remain. For example, convicts with a prison sentence exceeding three years are barred from voting. Furthermore, convicts with less severe sentences and individuals in custody are de facto excluded from suffrage as institutional structures do not provide the necessary internal procedures to guarantee their constitutional right to participate in elections.

The downside of Chile's relatively stable political system has been low citizen participation in politics. The country lacks mechanisms of direct democracy and citizen participation that could promote citizens' interests as well as public (vertical) accountability. Even the media is unable to fulfill its role as the fourth estate. Chile's oligopolistic media system shows strong biases in the expression and depiction of various political, social and economic positions. This constrains pluralistic public debate, especially on highly ideological topics such as economic inequality and the country's military past. Nevertheless, both the audit office and congressional control over the government work quite well (horizontal accountability).

Although Chile's economy and gross income per capita have consistently grown over the last decade, the country remains extremely dependent on copper exports. Consequently, Chile is highly vulnerable to instability in this commodity's international price. Also, poverty rates and wealth inequality did not show significant changes during the period under review. According to the Gini index, Chile's degree of income inequality is among the most extreme in Latin America.

In general terms, the government under President Michelle Bachelet has continued to pursue its reform ambitions. However, several reform needs have not been thoroughly addressed and implemented reforms have often had to be significantly scaled back in order to win congressional approval. Nevertheless, the reforms that have been successfully introduced (espe-

cially in the field of taxes, education and the binominal election system) might prove to serve as cornerstones for the country's positive development in the long run.

Key Challenges

Although Chile, an OECD member, has undergone a considerable and successful modernization process in recent years, it continues to face serious challenges in closing the gap with more developed countries – as well as the gap between the rich and privileged and poor and marginalized sectors within the country. The Bachelet government has only partially succeeded in implementing its ambitious political, economic and social reform agenda. A lack of consensus and financial resources (due to the downswing of the commodity prices which largely determine the country's macroeconomic performance) holds back wider reform aspirations on tax, labor, pension, education and health care policies, as well as constitutional reforms.

Long-term challenges:

Political and strategic planning is undermined by a lack of state capacities and instruments to ensure policymaking has a medium- to long-term perspective, especially in the case of social, economic and ethnic issues. A lack of political and economic decentralization also hampers efficiency. Chile is one of the most centralized OECD countries despite its economic, geographic and ethnic diversity. Neither poverty rates nor socioeconomic disparities have been significantly reduced. Chile remains one of the most unequal countries in the region and OECD. This has consequences for the whole social system, but the effects are particularly palpable in education, health care and pension policies. The lower-middle class is highly indebted and faces strong social pressure to consume. Many middle-income families struggle to maintain their living standards; if one wage earner loses a job or falls ill, families almost immediately have to significantly lower their living standard. The enormous gap between the quality of the poorly funded public education system (where per student expenditure tends to be less than half the OECD average) and its expensive private counterpart renders the elimination of structural

poverty and socioeconomic disparities much more difficult. Additionally, the private education system is largely controlled by economic and political elites, both in government and the opposition. In this context, the effect of education reform, especially the end of state-subsidies for private and profit-oriented educational institutions within the primary and secondary education, will be shown in the medium term.

Short- and middle-term challenges:

In the general election of November 2017 (beyond the review period), former president Sebastián Piñera received the highest number of votes in the first round (36.6 %) and won the runoff for the presidency (54.6 %). During the new congressional period 2018–2022, Chile Vamos, the coalition of four center-right parties that he leads, will hold 46 % of the mandates in the lower chamber and 44 % of the mandates in the upper chamber. Due to the impact of gender quotas, the share of women has significantly increased in both chambers: 22.5 % of deputies and 26 % of senators.

In his electoral campaign and particularly during the runoff, Piñera pursued a moderate course that even considered the extension of fee-free education, a demand closely associated with the political left. At the same time, he was able to mobilize votes against his opponent Alejandro Guillier, arguing that a Guillier-led government would lead Chile down a dangerous path similar to that observed in Venezuela (“Chilezuela”).

Since he will lack an absolute majority in congress and widespread social demands call for a stronger and more centralized state role, some convergence to the center will be needed to get support for political initiatives. A series of economic and labor reforms are expected in order to put Chile on the path to growth. Chile Vamos’ proposal includes lowering corporate tax rates.

In addition to other ongoing reforms, the newly elected parliament will have to make decisions regarding the proper institutional mechanism for the constitutional reform process initiated by the outgoing Bachelet government, since the constitution does not foresee any criteria for reform or replacement. Procedural options which are being discussed include a bicameral parliamentary commission (Comisión Bicameral), a mixed constituent convention consisting

of citizens and members of the parliament (Convención Constituyente mixta), an elected constituent assembly (Asamblea Constituyente) or a plebiscite to let citizens choose between one of the previously mentioned options.

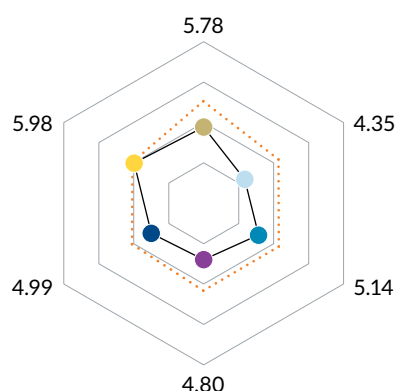
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- Fabian Klein
- Edgar von Knebel
- Claudia Zilla
- Martin Thunert

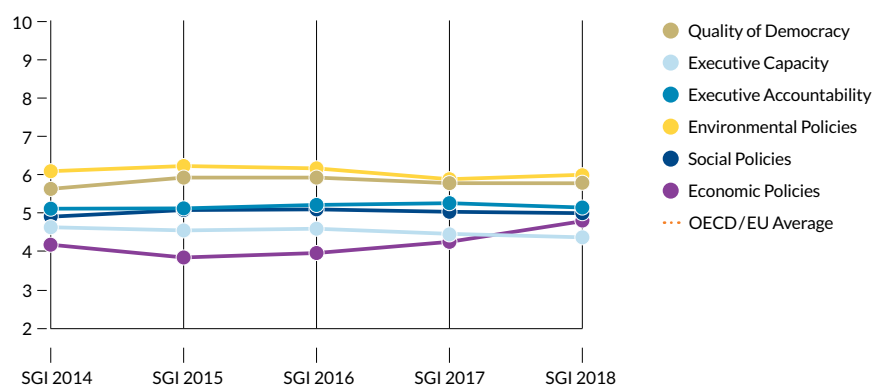
Country profile SGI 2018

Croatia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Having won the parliamentary election in September 2016, the center-right HDZ (Croatian Democratic Union) held power throughout the observed period, with Andrej Plenković as Croatia's new prime minister. HDZ first formed a center-right coalition government with the centrist party MOST (Bridge), which mustered a very solid majority in the Sabor (Croatian parliament). The two parties fell out with each other in May 2017, when a crisis hit Agrokor, Croatia's biggest company, and when MOST insisted that Finance Minister Zdravko Marić be removed from office (as he had been employed in Agrokor before joining the government). A new coalition was thus formed in June 2017, when representatives of the center-left HNS (Croatian Peoples Party) entered the Plenković government, securing it a paper-thin parliamentary majority. This led to a split in HNS; some of its members of parliament, like former foreign minister Vesna Pusić, left the party and founded a new, liberal party Glas.

Despite initial fears, the economic fallout of the Agrokor crisis has remained limited. The Croatian economy kept growing by about 3 % of real GDP in 2017. The strong growth contributed to a further decline in the unemployment rate and helped to bring down the fiscal deficit. However, the Agrokor crisis had a negative effect on the government's willingness and ability to adopt much-needed policy and institutional reforms. After a comprehensive tax reform in late 2016, which had been prepared by Minister of Finance Marić already under the previous government, the government largely failed to carry out other reforms. The pending reform of school curricula has regained momentum only since autumn 2017. As it stands, pilot projects for the implementation of the reform in 3 %–5 % of schools will not begin before fall 2018. The only step taken so far has been to make computer science, which has so far been an elective subject, a compulsory course in the 5th and 6th grade of elementary schools. Little progress was also

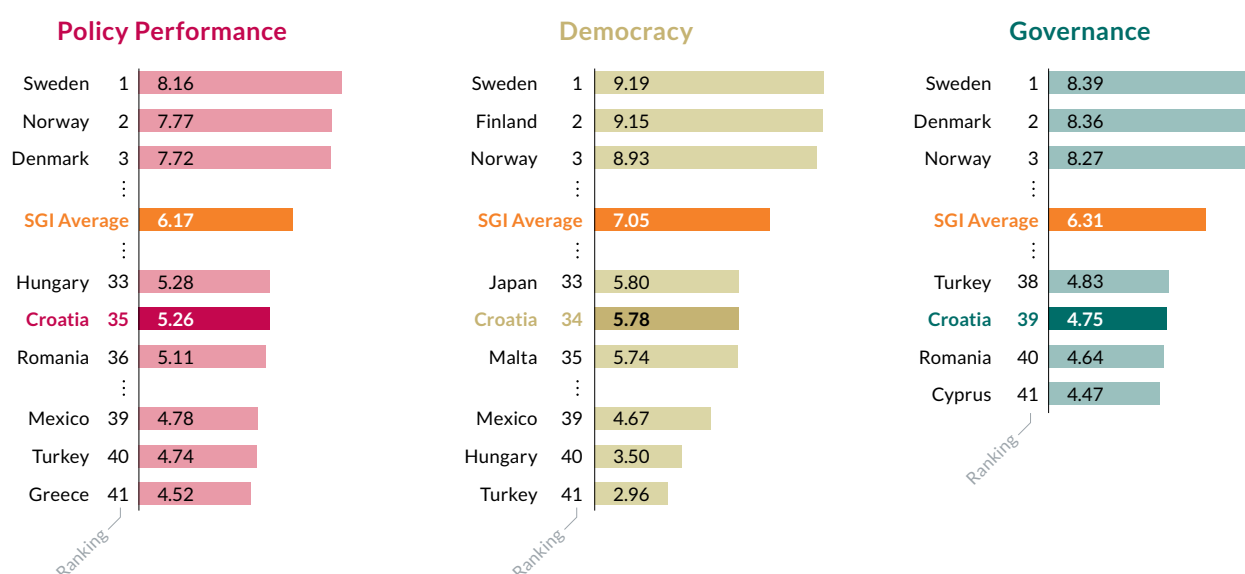
made with the reforms of public administration initiated under the previous governments.

In political terms, the Agrokor crisis has once again demonstrated the co-mingling of economic and political interests in Croatia. Despite various announcement, the two Plenković governments have done little to improve the quality of democracy. They have left the large differences in the number of voters per constituency, a fundamental lack of the electoral system in Croatia, untouched, have failed to adopt the promised new media strategy and have continued to exert substantial influence on the media. Attempts at a further reform of the judiciary by Ante Šprlje, the MOST nominated minister of justice in the first Plenković government, were abandoned after his dismissal and the change in the governing coalition in May 2017. In the period of review, a number of acquittals of prominent accused have demonstrated the Croatian court's lack of effectiveness and independence. While the main anti-corruption office, the USKOK (Ured za Suzbijanje Korupcije i Organiziranog Kriminala, Croatian State Prosecutor's Office for the Suppression of Organized Crime and Corruption), and the parliament's commission for the conflict of interests have been quite active in opening and investigating cases, the courts have often failed to sanction corruption, be it because of outside pressure or simply a lack of competence.

Key Challenges

For a number of years, Croatia has failed to find a proper way of coping with the fundamental challenges that have a crucial effect on the country's socioeconomic development. Due to the lack of adequate answers that had characterized almost all of Croatia's successive governments since the beginning of the EU accession negotiations in 2005, the country is significantly lagging behind most of the Central and Eastern European EU member states. This has created a strong feeling of hopelessness, manifesting in the markedly high emigration rates attaining alarming proportions in some parts of the country (e.g., in Slavonia).

The first set of policy challenges the Plenković government will have to face includes sustaining the fiscal discipline and the initial successes in the reduction of budget deficit and public debt. However, targeted public expenditure reduction policies, very important for any lasting sustainability of the fiscal achievements, are not even in sight. Indeed, the government decided to substantially increase the funds allocated for some public expenditure items such as disbursements for Homeland War veterans. The next question within fiscal issues is related to new fiscal sources that could contribute substantially to the sustainability of the public



Source: Sustainable Governance Indicators.

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finance. This particularly refers to increasing the efficiency of drawing assistance from EU funds – something that places Croatia far behind the comparable countries – and to a much more successful sale of the government property. The latter one is of particular importance, given the fact that the government gave up the introduction of the property tax.

The second set of policy challenges has to do with Croatia's unfavorable business environment. High administrative expenses and quasi taxation, the huge number and the slowing issuing of permits required for running business, inefficient judicial system with lengthy legal proceedings and a huge backlog of unsolved cases and the still inadequate condition of land register are important reasons for the rather low competitiveness of Croatian enterprises. The steps undertaken in this area in late 2016 and in 2017 were more than insufficient; most of the announced steps were never implemented or implemented only partially.

The third set of challenges concerns the labor market and pension policy. Although the unemployment rate continued to drop, numerous structural weaknesses have remained. The key challenges here concern the development of the measures required for a mid-term increase of the activity rate of Croatia's working-age population, which is still among the lowest in the EU. An additional problem here is the fact that the country's working-age population has been decreasing because of a negative population growth and a very high population drain due to economic emigration. Also, the system still offers the possibility of early retirement, the percentage of disability pensions is very high and so is the share of privileged pensions (more than 20 %), with the war veterans' pensions accounting for most of the latter ones.

The fourth set of challenges concerns some fundamental public services. In the health care system, the continued huge losses of this money-losing system are periodically covered by special transfers from the state budget funds earmarked for covering the health care system losses. Croatia therefore faces major challenges in increasing the efficiency of this system, which is to include the consolidation of the health care public procurement system, mergers of hospitals and finding a more efficient hospital-manage-

ment model. The continuation of education reform is also long overdue. The implementation of the fundamental reform of the school curricula that has been prepared since 2014 and was further delayed, should become a reform priority.

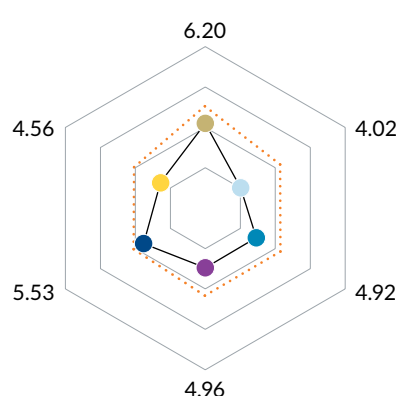
In order to address these policy challenges, public governance needs to be improved. The reliance on academic expertise, interministerial coordination as well as the quality of regulatory impact assessment should be increased and the often-announced reform of public administration should eventually be implemented. As it stands, Croatian public administration is both highly centralized and fragmented at the same time, often with a blurred division of competences between the central authority and local authorities.

- Zdravko Petak
- William Bartlett
- Frank Bönker

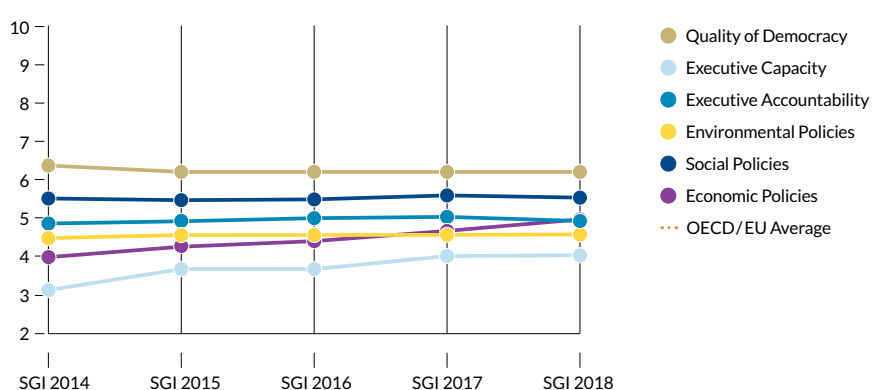
Country profile SGI 2018

Cyprus

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Following Cyprus's successful exit from its bailout agreement with international lenders, post-program surveillance by creditors continued into 2017. Strong fiscal policy performance was sustained and even improved upon. Favorable conditions increased the vital flow of tourists and, thereby, income; the latter also assisted by growth in the construction sector. The danger of economic collapse that emerged in 2011 appears to have receded, nevertheless risks for the economy remain. The government must resolve deficiencies in the economy as well as implementation reforms to the system and its structures. The broadly recognized need for greater strategic planning and policy-implementation capacities has not received the necessary level of attention. Current reform efforts insufficiently focus on ending the unmeritocratic hiring system that continues to undermine state capacities.

A memorandum of understanding (MoU) with creditors led the government to design pol-

icy proposals for long overdue reforms. In addition to the obligation to pay back its debt, the MoU committed the government to develop sustainable policies and structures. Financial indicators showed sustained and better than forecast performance in 2017. Nonetheless, the pace of systemic and structural reforms continued to be slower than planned. In addition, some policy decisions appeared to be guided primarily by political expediency, contradicting previous policy positions and fiscal principles.

Democratic processes and institutions continued to function satisfactorily, though several indicators (e.g., rule of law and access to information) revealed weaknesses that impede Cyprus's democracy. The administrative system remains slow to respond and inefficient, in part a consequence of measures pushed under the MoU. Democratic practices involving citizen participation and consultation as well as the promotion of fundamental rights, such as equality, received little or no political consideration. Clientelistic relationships persist in Cyprian pol-

itics. As a result of legislation passed in 2015, for the first time, transparency in political party funding was effected, albeit with limitations. No final evaluation of this legislation is yet possible. Anti-corruption rhetoric coexisted with enforcement, yielding new corruption prosecutions, but interference from government and political parties continued. Despite the launch of an administrative court in 2016, the dispensing of justice remains unacceptably slow.

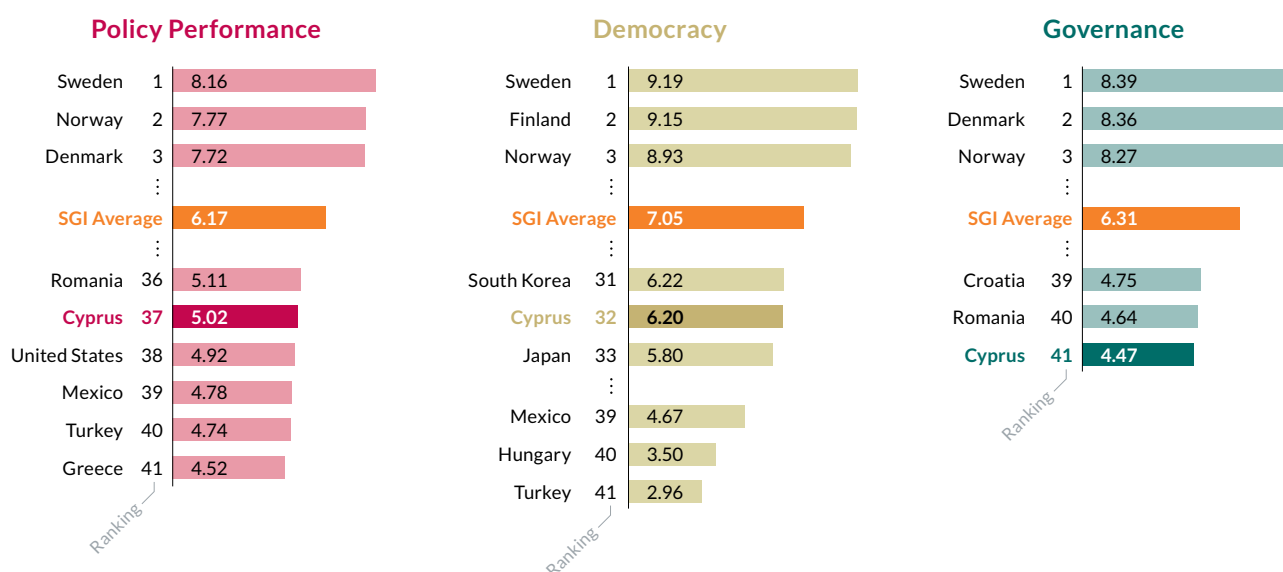
Progress has been made in implementing some new legal frameworks, including on banking system oversight. Fiscal performance and workforce unemployment were again better than forecasted. Unemployment in September 2017 was down to 10.3 % (2015: 15.9 %). The government abolished the immovable property tax and opened a discussion on whether and how to re-establish salaries, pensions, benefits and family-support measures to previous levels. A guaranteed minimum income and targeted measures have already mitigated the negative effects cuts have had on the living conditions of pensioners and other groups.

The overall share of persons at risk of poverty and social exclusion declined slightly in 2016. The rate increased for pensioners and declined slightly for immigrants (both EU and non-EU), the two most vulnerable groups, followed by single women over 65. Despite

improvements, measures and policies for the social inclusion of migrants and asylum seekers remain below international standards. The same holds true for environmental policies, where EU observes note a general failure to implement the law. Thus far the government has insisted on favoring land development at the expense of environmental conservation, placing Cyprus below EU standards on many environmental measures.

In 2017, disagreements and confrontations persisted. Proposals by the executive for reforms were rejected by the parliament, causing further delays to the implementation of essential reform policies. The banking system, and economy more generally, continue to suffer, burdened by foreclosures and non-performing loans. The future of quasi-governmental institutions pending privatization remains unclear.

Favoritism in political appointments and politically motivated interference with institutional functions remain challenges. At the same time, public sector reforms aimed at developing strategic-planning capacity, fiscal responsibility and stronger regulation appeared to have slowed or stalled. These deficits combine with a reluctance to comply with adopted rules and the absence of a coordinating body necessary for control. When action is taken, lack of policy skill and an effective administrative culture are obstacles to sustainable results.



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Key Challenges

The main challenges Cyprus faces today remain the same as those identified in the bailout agreement. What is needed now though is increased resolve for change and willingness to comply with new policies. Policy actions aimed at preventing another crisis must go beyond solving the economic crisis. Given the negative repercussions of policy measures already taken, additional remedies will require close monitoring and repeated reassessment. Anticipating and, in some cases, addressing possible repercussions will be necessary. The government must recognize that the current crisis extends beyond the economy. Improvements in performance on some indicators must not weaken the resolve to engage resolutely in structural and procedural reforms. Successfully implementing these reforms also requires avoiding a return to the government's past administrative culture; what are needed now are sound goals and operational efficiency. Deepening respect for and enhancing fundamental democratic practices warrants administrative consolidation.

Within the financial sector, the government must solve longstanding challenges to reestablish trust in the economy and increase the country's international competitiveness. The effective settlement of non-performing loans would have positive effects on banks and the market. Clarifying policies on the privatization of quasi-governmental institutions also remains a necessity, to avoid their market value declining, which would harm stakeholders.

In the interest of sustainability, social and environmental policies must be radically reformed and considered holistically. The persistently excessive emphasis on business and financial interests should instead shift to favoring broader social benefits. The development of reliable infrastructure – expanding public transportation and reducing the excessive use of private cars – would benefit the economy, environment and society. The economy must be restructured to reduce its reliance on deeply business-cycle-dependent sectors; today's tourism and construction successes should not distract from this need for change. The country's economic success should be shifted to productive sectors, including research and innovation. Building planning capacity in the short

term and managing hydrocarbon issues as a medium-term target may be part of this restructuring of the economy.

As stressed by the European Commission in 2017, the tax system requires revision so that taxation increases equality. Solving challenges in tax collection and tax avoidance remain imperative. While the system should treat all persons equitably, the fair reallocation of resources should be the system's goal; adequate funding of family, pension, health care and other welfare policies would enhance social equity. A medium-term target should aim at gradually returning to a functioning welfare state, rather than simply reducing the risk of poverty.

A sustainable recovery is only viable through efficient policies promoting greater transparency and enhancing law enforcement's ability to confine the margins of discretion that make corruption possible. Efficient oversight of corporate governance through clear monitoring mechanisms is still needed. A proper evaluation of the implementation of the law on party and elections funding would further assist efforts to increase transparency. Transparency is urgently needed on most policies, including on media ownership and the criteria and procedures governing appointments to public bodies.

The attainment of these diverse goals will require the government to accelerate the development of strategic-planning capacities and more effective policy implementation. For swift progress, governing bodies with clear mandates for coordination and coherent action are urgently required. Reforms of state structures and procedures at the central and local government levels can only advance units with sufficient strategic capacity. A governing body with sufficient powers and resources to evaluate laws and policy proposals remains a critical objective.

Overcoming favoritism to place capable managers in key positions remains a major challenge. Plans to develop strategic-planning capacities, and ultimately broad-based sustainability, will only be successful when a meritocratic administrative culture prevails.

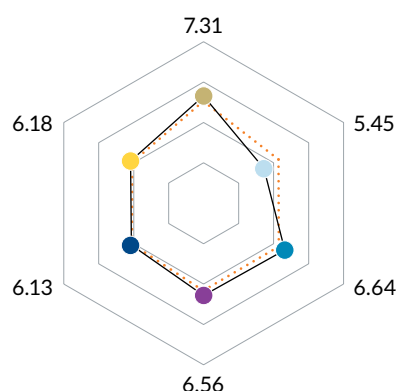
→ Christophoros Christophorou, Heinz-Jürgen Axt, Roy Karadag

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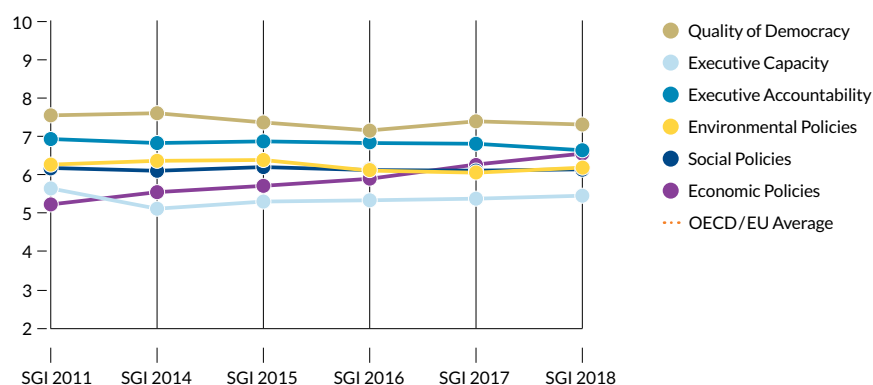
Country profile SGI 2018

Czech Republic

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

From January 2014 to the parliamentary elections in October 2017, the Czech Republic was governed by a coalition government led by Prime Minister Bohuslav Sobotka of the Czech Social Democratic Party (ČSSD). Junior coalition partners included the Movement of Dissatisfied Citizens (ANO), led by billionaire Andrej Babiš, and the Christian Democrats (KDU-ČSL). Babiš served as deputy prime minister and minister of finance. Tensions in the coalition grew as ANO began to outperform ČSSD in opinion polls and won the 2016 regional elections. Following a fraud investigation by the European Anti-Fraud Office and the Czech police and the publication of evidence he used his media businesses against political rivals, Babiš was dismissed in May 2017. The public perception of Babiš's dismissal was generally ambivalent. Public support for the prime minister's ČSSD continued to slump, leading to Sobotka's resignation as party chair. Elections in October 2017 left the political left

seriously weakened – with only 7 % of the votes for ČSSD compared with 20 % in 2013 – and Babiš's ANO emerged as the biggest party with 30 % of the votes.

Despite the tensions in the governing coalition, the Sobotka government was able to fulfill a number of popular campaign promises. These achievements include the lowering of the fiscal deficit, raising of public sector salaries (particularly in health and education), increases in pensions and in the minimum wage, more police personnel and accelerated drawing of EU funds. However, the government failed to successfully implement an education reform. While it succeeded in expanding public R&D funding, it has only taken initial steps toward realizing a newly announced strategy on economic development. Despite accelerating economic growth in 2017, weaknesses will remain for the long term. Much of public investment is funded by EU structural funds; their extension beyond the end of the current funding period in 2020 is increasingly questionable. The increasing volume of

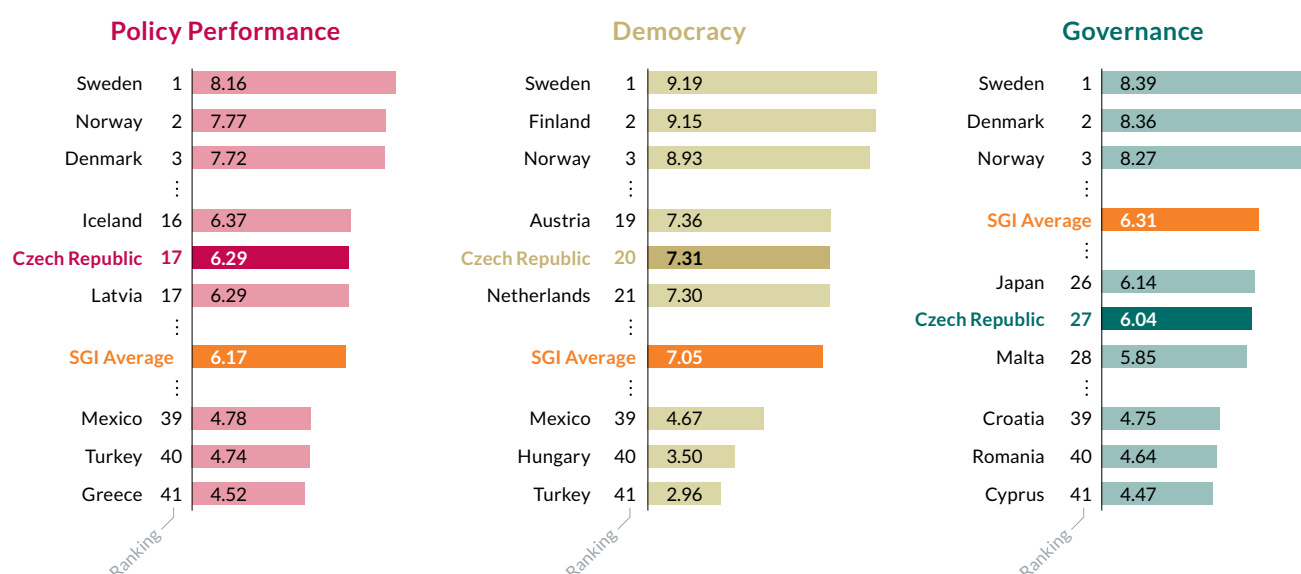
R&D funding, mostly redirected into applied research, fails to generate competitive and innovative output, while underfunded primary research is undergoing an increasing brain drain. A shortage of skilled labor hampers the transition to a more innovative economy, but Czech society remains opposed to integrating migrants. Though the number of refugees remained small, mainstream politicians, including President Zeman, Deputy Prime Minister Babiš, Minister of Interior Chovanec, and the radical right leader Okamura, aroused fears of a threat to national security, values, and identity posed by migrants (including Muslims) and a unified Europe. Amplified by the media, this discourse undermined any discussion about the country's international responsibility. Notwithstanding, the Czech Republic continued to comply with the Dublin III framework and resumed accepting refugees.

The 2017 parliamentary elections were the first held under the new party and campaign finance rules. To run for office, Babiš was required to divest his property and media, which he transferred into two blind funds, albeit controlled by long-term Agrofert employees, his wife and adult children. These measures aimed at strengthening media independence and pluralism as well as reducing corruption. Their effectiveness will be tested by what occurs after Babiš's victory in the elections.

Since the shift from indirect to direct presidential elections in January 2013, the institutional structures of governing in the Czech Republic have undergone no major changes. The Sobotka government sought to improve its strategic capacity by bringing in more expert advice and increasing public consultation. There remains very little interministerial cooperation, especially across party lines. The Czech parliament has the means to exercise substantial control over the government. It has a separate audit office that monitors public bodies and the implementation of its recommendations. An ombuds office investigates complaints against public institutions but has no powers beyond publishing its findings. The internal structures of the main political parties allow for both the election of leaders and members of principal bodies, but the internal debate is limited and divisions became evident in 2017. The appearance of new political forces – such as Okamura's Freedom and Direct Democracy and the Czech Pirate Party, which both took 11% of the vote in 2017 – make it even less clear what real power ordinary members may have.

Key Challenges

The parliamentary elections in October 2017 have made the formation of a new and stable govern-



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

ment difficult. While Babiš's ANO secured by far the highest share of votes, it has lacked coalition partners as most other parties committed in their campaigns to not build a coalition with ANO. The large fragmentation of the Czech parliament – where the second strongest party, the right-wing Civic Democratic Party (ODS) obtained a mere 11 % of seats – has further complicated the forging of a new coalition. Given the Czech president's substantial role in the appointment of governments, the uncertain outcome of the presidential elections in January 2018 has further added to the challenges.

Babiš's vision of populist technocratic efficiency – limiting parliamentary deliberation, abolishing the Senate and strategic demobilization – will not provide a basis for solving the country's economic and social problems. A government led by Babiš would risk progress on anti-corruption and strengthening media freedom and pluralism.

The long-term sustainability of economic growth remains problematic. With inward FDI declining, an increasingly important source of growth has been EU structural funds. Multinationals have continued to locate lower value-added activities in the Czech Republic, but there is already a significant shift underway of activities that rely on less-skilled labor to even lower wage countries. Without innovation and structural change, this pattern of growth will not bring income levels up to those in wealthier EU member states and leaves the Czech Republic vulnerable to economic downturns.

Diversification and support for startups in ICT and higher added-value sectors could improve the chances for future growth (wage growth as well as overall economic growth). A secure economic future also depends on raising the quality of R&D output and sustainable financial support from both domestic firms and foreign investors. Despite increasing financial support for R&D, technological advances still depend overwhelmingly on what foreign companies choose to bring into the country. The volume of funding for applied research is not reflected in the innovative output.

The country's educational system requires further reform and investment, including financial incentives to attract and retain top graduates and strengthen teacher training and reten-

tion. There is also a need for increased support in the development of a highly skilled labor force, including on enabling a harmonious balance between work and family life and creating a more welcoming atmosphere for immigrants. This latter aim has become more difficult as reactions to the refugee crisis have strengthened those groups, represented across the political spectrum, opposed to the idea of a multicultural society.

Government spending as a share of GDP is below levels seen in other, richer EU member countries. A major difference in the Czech Republic is the low level of direct taxation, particularly personal income tax. This limits the financial support for policy areas such as education, R&D and environmental protection after 2020, when EU structural funding will end.

The Czech Republic's aging population will pose a challenge for the pension and health systems in the future. Attempts by previous governments to increase charges and the reliance on private providers have failed to win public trust. An open discussion is needed to reach some degree of consensus on how to finance higher pension spending, raise the pension age and cover higher health care spending.

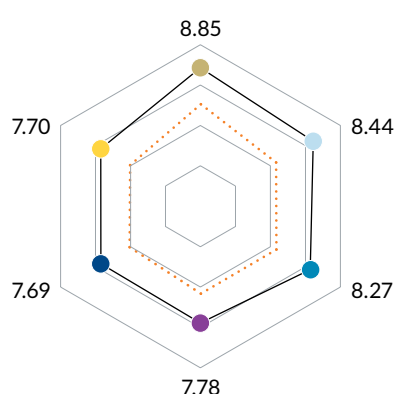
In respect to European integration, the country risks remaining marginalized on the periphery, alongside its increasingly illiberal peers Hungary and Poland. Populist calls for "defending the national interests against Brussels" (including calls for "Czexit") are counterproductive domestically and internationally. Internally, they present a distorted vision of the future relationship between the Czech Republic and European Union. Internationally, the Czech Republic does not present itself as a reliable partner to the EU, which jeopardizes foreign investment on which the country depends.

- Petra Guasti
- Zdenka Mansfeldová
- Martin Myant
- Frank Bönker

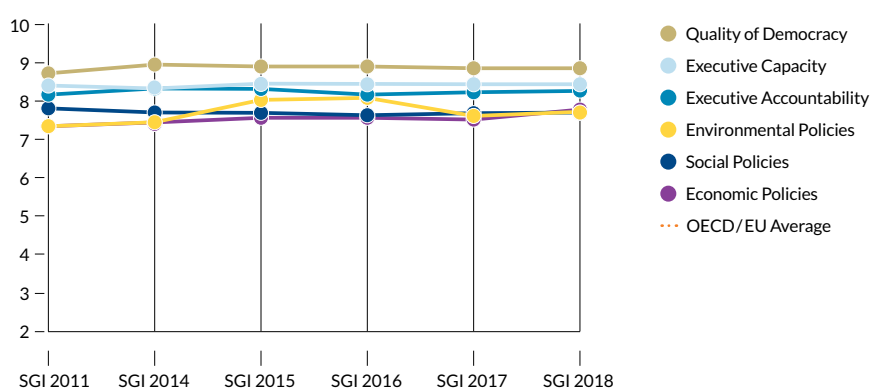
Country profile SGI 2018

Denmark

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Democracy functions well, and governance is credible and transparent in Denmark. Public trust in government and public administration is high. Comparatively, Denmark is extraordinary for having achieved a relatively strong economic performance (e.g., as measured by per capita income), but also a relatively equal distribution of income and low poverty rates. The Danish welfare state is extensive both in terms of service provision and the social safety net. Though this translates into a high tax burden. Overall, Denmark has shown that it is possible to combine an extensive welfare state with a well-functioning economy.

The economy has now fully recovered from the Great Recession. Current levels of activity and unemployment are close to their structural levels, and public debate is increasingly focusing on possible bottlenecks in the labor market. Key macroeconomic indicators are favorable and perform comparatively well. Key economic pol-

icy debates focus on increasing labor supply, integrating immigrants and the provision of welfare services (e.g., education, and social and health care).

In an attempt to strengthen the incentive structure, and boost labor supply and employment, both the previous and present governments have had strong reform agendas. These agendas have aimed to overhaul the structure and design of the social safety net (e.g., pensions, early retirement, social assistance and disability pensions), labor market policies and the tax system. Higher labor supply and employment is an objective in itself, but also improves public finances through both lower government spending and higher tax revenue. This reform strategy obtained broad support in comparison to alternative strategies involving tax increases or spending cuts. The reforms will ensure the fiscal sustainability of current welfare arrangements. Denmark is among the frontrunners in terms of addressing the challenges to fiscal sustainability arising from an aging population.

All of the previously mentioned reforms were based on work by parliamentary commissions, an important policy instrument in a country with a strong consensus tradition that has mostly been governed by minority governments. Even so, the reform of the country's unemployment insurance scheme has been controversial and has again been reformed following proposals from a commission.

The country's significant strengths notwithstanding, several issues are high on the political agenda. First, Denmark ranks among the top OECD countries with regard to educational expenditure, but scores lower on various indicators of educational performance. Recently, this led to educational reforms that increased curricular demands and improved teacher training. Second, the public sector (mainly municipalities) has experienced increased strain in relation to service provision. Many citizens have found that standards lag behind their expectations, but tight finances have made it difficult to improve services.

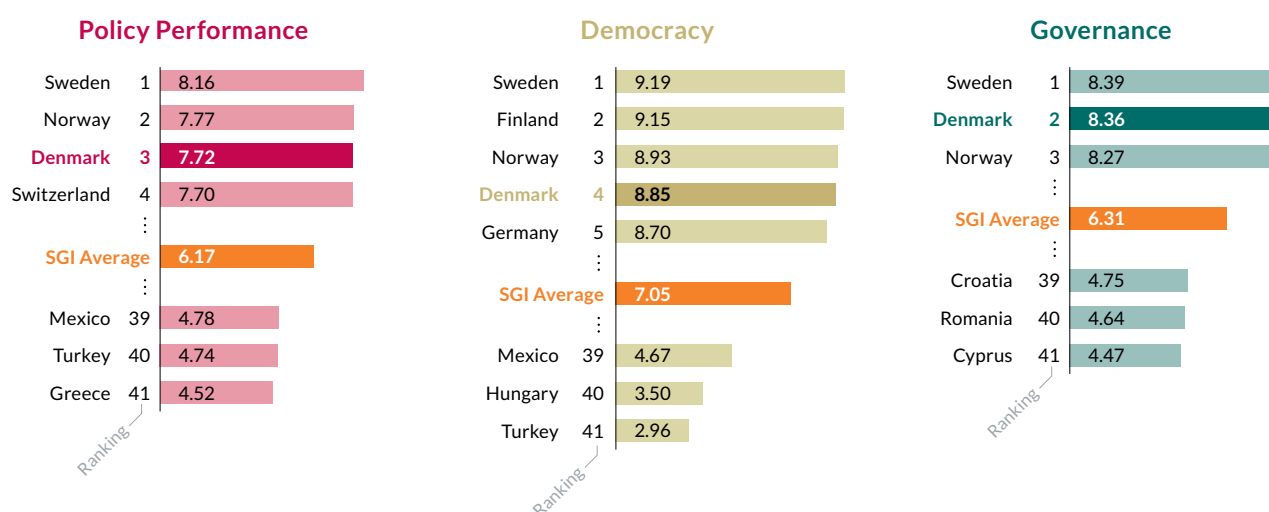
Third, immigration and the integration of immigrants remains controversial. The general trend, with broad parliamentary support, has been toward increasingly strict immigration rules and further tightening is currently being considered. Moreover, the new Liberal government reformed social assistance for immigrants, introducing differentiated levels of social assistance depending on the period of residence (applying for migrants coming from outside

European Union), to restrict access to welfare payments.

Finally, Denmark's engagement in international politics remains a controversial issue. This debate applies to foreign policy in general, and military operations in Afghanistan and Iraq in particular. As these earlier military operations were being phased out, Denmark joined the international coalition against the so-called Islamic State (IS) in Iraq and Syria. The country's position vis-à-vis the European Union also remains a contested issue. It is an implicit political arrangement that all essential EU decisions are put to a referendum. A December 2015 referendum confirmed the Danish opt-out position on justice and home affairs. A special agreement on Danish cooperation with Europol was reached in April 2017.

Key Challenges

Having a small and open economy, Denmark has a long tradition of meeting the challenges posed by international integration and globalization, and has shown a capacity to enact needed reforms to reconcile an extensive welfare state with a well-functioning economy. Comparatively, Denmark is favorably positioned with regard to adaptability and the enactment of political reforms to address challenges, despite sometimes delaying and deferring such reforms. A tradition of open dialog, cooperation



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

and broad-based reform goals contribute to the country's adaptability. Trust between different actors and societal groups, often referred to as "social capital," has also been an important factor. However, to remain among the leading industrialized nations, Denmark must continue to monitor its policies and institutions. Additional changes and reforms will be necessary.

The following briefly lists areas of crucial importance to Denmark and outlines where policy initiatives are needed:

First, the government must address possible bottlenecks in the labor market, and address the challenges presented by technological changes (e.g., automatization) and globalization. This has revitalized the debate on whether the education system is sufficiently equipped to supply the type and quality of education needed by the private sector.

Second, due to low productivity growth in the private sector, the economy's growth potential is an issue. In addition, given the relative size of the public sector, improving government efficiency and productivity will be an important task.

Third, although comparatively inequality is low and social cohesion is high, Danish society is trending toward more disparity and inequality. A particular challenge involves the integration of immigrants and other marginalized groups into the labor market, which is often difficult due to insufficient job qualifications.

Fourth, while the long-term financial viability of the welfare state despite an aging population has largely been ensured by a recent series of reforms, fiscal challenges remain due to increasing demands on welfare services in general and health care in particular. In the design of welfare policies, it is important to balance concerns for equality and social insurance with incentives for education and work. The hallmark of Danish society has been its balance between low inequality and an extensive public sector, and a well-functioning economy with high-income levels. Reconciling these objectives remains an ongoing challenge.

Fifth, Denmark, with its small yet open society, has a long tradition of being an active participant and partner in international political cooperation. At the same time, there is a strong desire within society to establish "arm's length distance" over certain issues, both to underline

Denmark's independence and prevent the country's marginalization in international forums. As a result, the Danish debate on the European Union has always been somewhat fragmented and not always comprehensible to foreign observers. A case in point are the four Danish opt-outs included in the Maastricht Treaty. European Monetary Union membership remains a very delicate subject since the referendum in 2000. Denmark is not a member, but pursues a tight, fixed exchange rate policy to the euro. This peg has been very credible, as reflected in a very small (and in some periods negative) interest rate spread. Denmark is, in this sense, a shadow member of the euro zone, although it is not directly represented in the supranational executive bodies. The recent referendum on justice and home affairs cooperation confirmed Denmark's "sideline" participation in EU cooperation.

Overall, both the previous and current governments have set ambitious strategic targets. Various policy plans signal a political awareness of the country's structural problems. Dealing with these challenges is a work in progress.

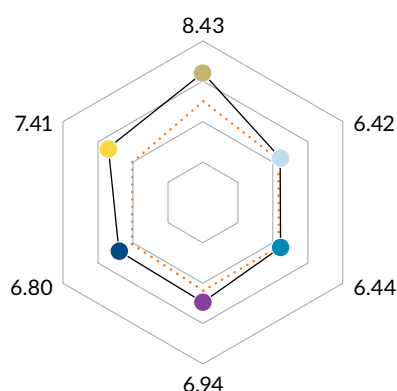
- Finn Laursen
- Torben M. Andersen
- Detlef Jahn

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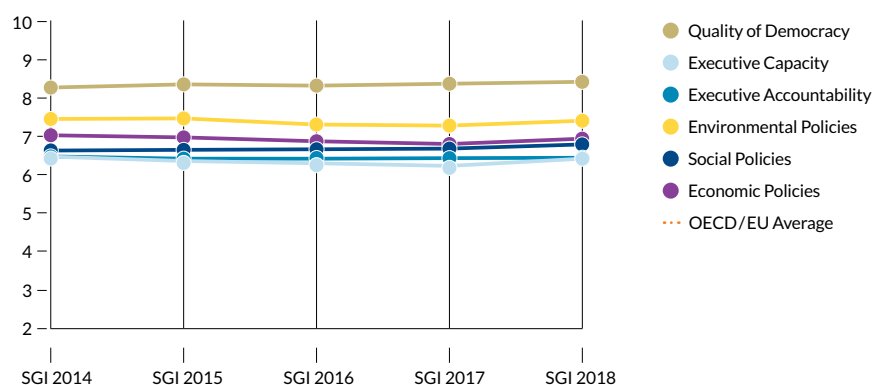
Country profile SGI 2018

Estonia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

In many respects, Estonia has proven successful in building a sustainable democracy. Among the 41 countries in the SGI, Estonia ranks 8th in policy performance and democracy and 18th in governance. As a result of a change in the government coalition in November 2016, the period currently under study (November 2016 – November 2017) includes major adjustments in several policy areas impacting social inclusion. After 12 years of government coalitions dominated by the neoliberal Reform Party, a center-left government led by the Center Party has been installed. This new government has prioritized policies aiming to secure the financial sustainability of the welfare system and increase social inclusion.

The economy has recovered from the recession, a fact evidenced by the high employment level (matched by low unemployment) and an annual economic growth rate of about 4%. Ongoing reforms aim to extend employment by facilitating the labor market participation of dis-

abled persons and workers with low or outdated skills. However, increasing labor shortages and high taxes on labor continue to thwart productivity and, more generally, economic growth. Debates around reducing employers' tax burdens are, for the first time, being embedded into larger political debates on social insurance system reform.

Estonia's welfare system is based on the Bismarckian principle of social insurance funds, which faces mounting debt due to population aging. The government proposes to transfer more tax revenues to social insurance in order to cover health expenditures for pensioners and employees with atypical contracts. Reducing the long waiting lists for specialized medical care is another priority of planned reforms.

One major accomplishment of government has been an income tax reform. Proportionality has been preserved, but a regressive tax exemption will be introduced in 2018. This will have a far-reaching impact on the labor market and welfare of households as the additional income

gained by low earners will decrease income inequality, which has been comparatively high. Further antipoverty measures implemented in 2017 include an increase in child benefits for large families and an additional allowance for single-person elderly households.

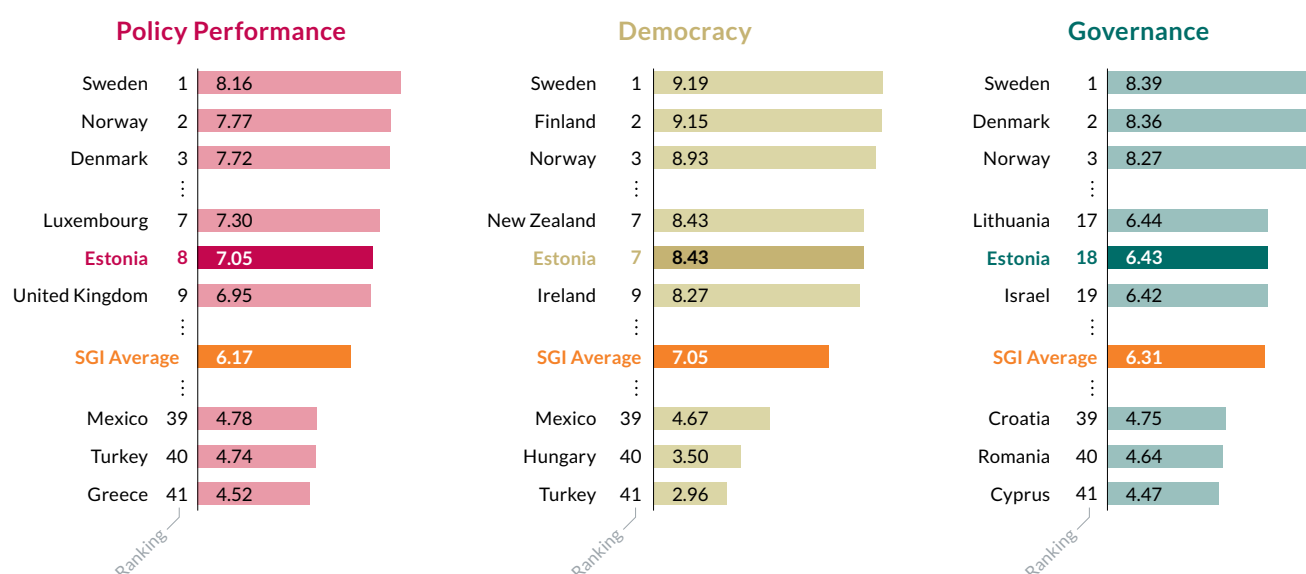
In governance, there has been little progress in terms of policy innovation, quality management and pursuing holistic approaches. Nonetheless, the negative trends of previous years, including a preoccupation with fine tuning and incrementalism, lack of transparency, and poor public communication have been halted. Even more importantly, a prolonged reform of local government has finally accomplished the prescribed municipal mergers, with the first local elections in the new municipalities held in October 2017. In these elections, voting rights were extended to 16- and 17-year-olds. However, the turnout (just 53 %) was among the lowest in Estonia's history, a reflection of the challenging municipality mergers.

Democracy is well established and secure in Estonia. The party financing system is continuously improving, largely thanks to persistent media attention and public interest. Corruption among high-level public officials, however, remains somewhat of a challenge and must be redressed through additional regulation as well as public awareness campaigns. Also, social

progress on gender equality and LGBT rights has remained limited.

Key Challenges

Estonia is recognized internationally as maintaining a balanced budget and low government debt. The tax system is straightforward and transparent and the overall tax burden positions around the OECD average. The sitting government has offered several proposals to diversify revenues and increase the vertical equity of the tax system. While the 2017 income tax reform aligns to these targets, recently introduced regressive tax exemptions also impact higher income groups and may alter employment patterns and labor contracts. Consequently, the budgetary and social outcomes of this tax reform must be vigilantly monitored and, where necessary, misuses and negative spillovers addressed. Likewise, the government plan to detach public pensions from previous earnings requires meticulous consideration to ensure that employees' incentives remain optimal. The recent sharp increase in the excise tax demonstrated that, in a small open economy, tax hikes can reduce, rather than increase, revenues. Thus, a systemic and comprehensive approach to tax system reform remains crucial.



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Beyond recalibrating the tax system, Estonia must move from policy deliberations to tangible action with regard to building a knowledge-based economy. Current innovation policy focuses on leading enterprises, remaining largely detached from the rest of the economy. Policymakers must expand research, development, and innovation (RDI) measures to include small- and medium-sized enterprises and traditional sectors of the economy (e.g., oil shale), enabling RDI to contribute to structural reforms. Furthermore, RDI within universities must be adequately financed and better linked to the country's economic and social priorities.

The institutional framework for governance is well established and stable. Consequently, policymakers may focus on developing executive capacity by firmly following democratic principles of checks and balances and public accountability. However, the executive branch tends to overproduce strategies (a failure of coordination) and analyses, with the latter too often not considered in decision-making. To overcome this fragmentation and excessive reporting, the government should consider four strategies. First, it should merge the numerous small-scale strategies into the national 30-year strategy (i.e., Sustainable Estonia 21). Second, improved coordination between ministries as well as between the Prime Minister's Office (PMO) and line ministries is required. Third, citizens' and advocacy groups should be given a much broader role in policy evaluation, including in the appraisal of regulatory impact assessment results. Fourth, instead of commissioning exhaustive explanatory analytical reports, the government should promote open data and encourage secondary analysis. Although Estonia is regarded as a forerunner in e-governance, the pace of innovation has slowed; reforms are often chaotic or fail completely (e.g., the Social Protection Information System). To improve this situation, a ministry with a clear and broad responsibility for advancing e-governance is required.

Contemporary governance requires appropriate capacities both locally and internationally. Estonia has made impressive gains in the latter (evidenced by the Estonian EU Presidency in the second half of 2017) but not in the former. The process of municipal mergers, finalized in the fall of 2017, must be complemented by a

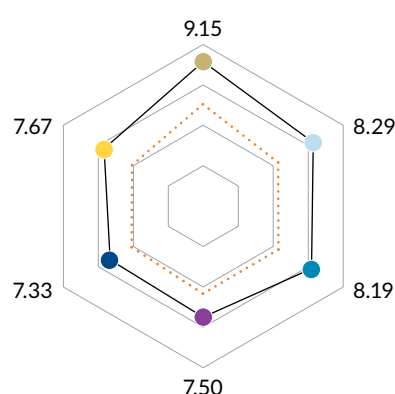
clarification of the tasks of local government as well as guarantees of adequate funding and fostering of citizen involvement in local governance. The improvement of citizens' quality of life must be prioritized over economizing.

- Anu Toots
- Allan Sikk
- Detlef Jahn

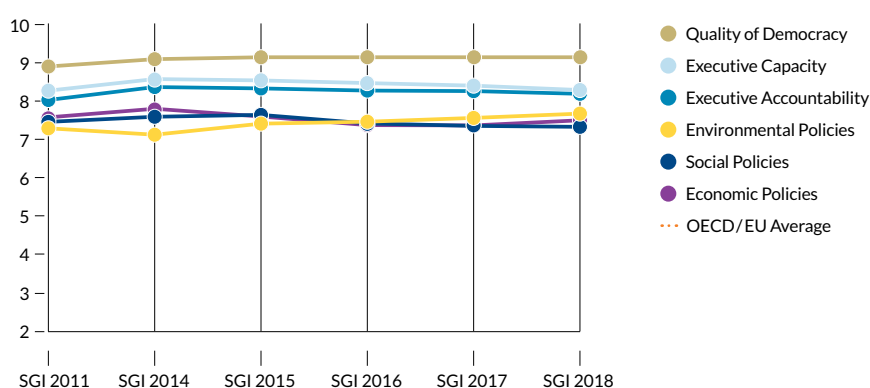
Country profile SGI 2018

Finland

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Finland's mature system of governance allows stakeholders to identify problems, formulate solutions and advance social well-being, earning the Nordic country top marks in international rankings. Freedom House has repeatedly awarded Finland the highest ranking worldwide on political liberties and civil rights. Since 2008, the country has also on several occasions topped Reporters Without Borders' World Press Freedom Index; in the 2017 ranking, Finland places 3rd, after Norway and Sweden. After a 2008 scandal concerning party and electoral campaign financing, Finland dropped from the top position in global anti-corruption rankings. In 2017, the country ranks 3rd on Transparency International's Corruption Perceptions Index. Legislation requiring the disclosure of donations to candidates and parties has been introduced. Modest electoral system reforms introduced in 2012 have improved the proportionality of the system. Additionally, a participatory mechanism intro-

duced in 2012 now enables citizens to propose legislative reforms online.

While Finland's economy in past years has numbered among the most stable in Europe, its recent standing has been less favorable. The economy has been in a recession for several years, public debt is increasing and the labor market continues to shrink. Recent developments suggest a turnaround for the better. Optimistic forecasts notwithstanding, unemployment, particularly among youth, is alarmingly high.

Public attitudes toward immigrants have hardened in recent years. The main political parties have hesitated to challenge this shift in part because of growing support in recent years for the populist and anti-immigration Finns Party (formerly referred to in English as the True Finns party). However, public support for the party has radically diminished under the current government. Attitudes toward the Swedish-speaking minority have also hardened, despite Finland's official bilingualism and constitutional protections. The present vivid and largely uncontrolled

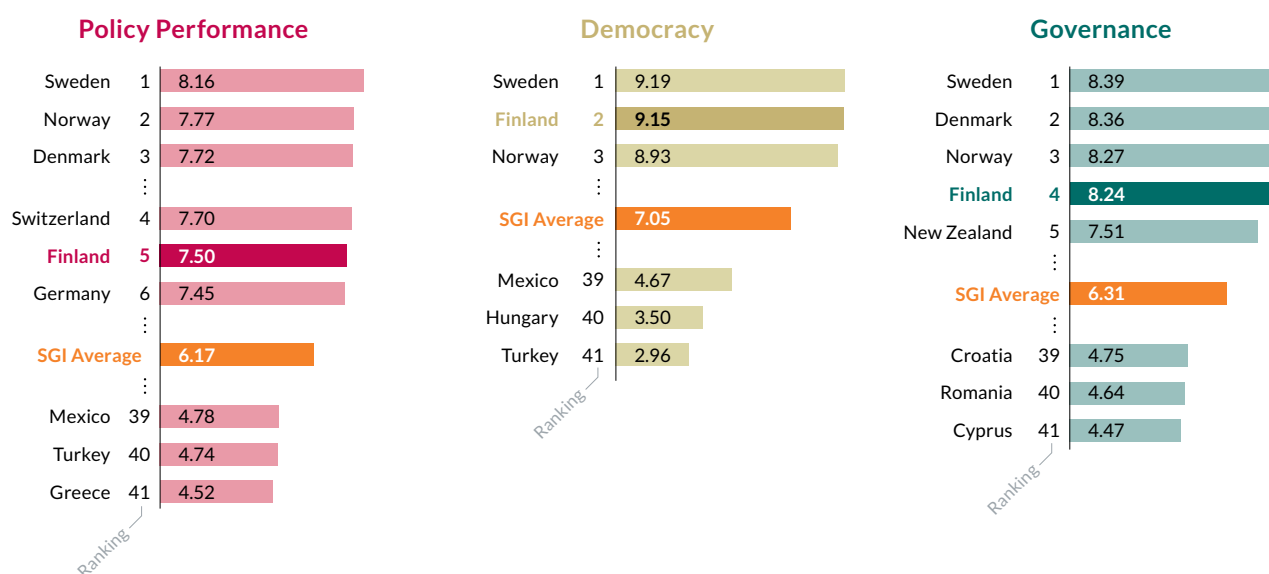
inflow of refugees and asylum-seekers into Europe has helped to generate a deeper understanding of the need to adopt a more generous and responsible immigration policy.

Prime Minister Jyrki Katainen's government (2011 to 2014) featured a broad coalition of six parties. Following the withdrawal of two parties from the governing coalition and cabinet reshuffles in 2014, a new government under Prime Minister Alexander Stubb took charge until parliamentary elections in spring 2015. Following these elections, a three-party (Centre Party, National Coalition Party and Finns Party) government under Prime Minister Juha Sipilä was installed in late May 2015, commanding 124 of the 200 seats in parliament. In summer 2017, a split within the Finns Party became evident; a more moderate group of MPs formed Blue Reform, commanding five ministerial chairs while representing only about two percent of the electorate.

Developments under Sipilä have been far less than encouraging. As tensions across government departments have persisted, the leadership has appeared rudderless. Most notably, the government and labor market organizations have been battling over the direction of economic policy. A recent reform designed to introduce business practices into higher education has largely failed. Meanwhile, the central government's attempts to restructure local govern-

ment, in part by amalgamating local government services, has met with resistance within local administrations and among the public, ultimately leading to a compromise solution with no clear prospect of success. Also, beleaguered by disputes over environmental principles and ongoing problems with mining sites, Finland's environmental management and policy framework is less effective than expected.

Beyond reforms targeting a reorganization of regional government, health care, and social services, no other large-scale institutional reforms enhancing governance and decision-making have been undertaken during the assessment period. A earnings-related pension reform addressing the financial sustainability of statutory pension provision came into force in January 2017. The government has retained much of its system of program management and strengthened its strategic-planning procedures. The lack of additional large-scale reforms does not necessarily evince a failing of government but may rather underscore the quality and comprehensiveness of the existing system. The economic and governance challenges facing Finland today are surmountable, though many of these challenges are rooted in problems beyond the government's control. The effects of European and global economic and political crises present challenges to the economy and have under-



Source: Sustainable Governance Indicators.

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mined public sympathy for EU values and the EU's political agenda. Still, recent security developments, most notably numerous obtrusive displays of Russian military and political power, have generated a palpable rise in pro-EU and pro-NATO attitudes among the public.

Key Challenges

Although Finland's political system has long represented a model polity, current trends regarding democracy are less encouraging. Overall, public faith and trust in Finland's democratic institutions have weakened, evidenced by relatively low electoral turnouts and declining membership in political parties. Survey data indicates that public trust in central political institutions such as parliament and government can certainly be improved. These lower levels of participation and institutional trust result in part from the instability of recent governments. This instability has been due to the necessity of coalition governments (made up of several political parties) to achieve a working parliamentary majority. The broad and unstable nature of such governments undermines government accountability and transparency as well as limits the public's ability to fully understand and engage with the processes of policymaking. Expectations that the three-party composition of the present Sipilä government would result in a more efficient and transparent governance style have not been met. Instead, tension and a lack of direction characterize everyday politics within the cabinet; even more so in the wake of the summer 2017 split within one of the government parties (i.e., the populist Finns Party). Innovative measures and political engineering will be required to reverse the erosion of democratic participation. Revitalizing representative democracy in Finland will require the input of new participatory institutions (e.g., binding referendums). Some progress has been made in this respect. A relatively new mechanism, the so-called citizens' initiative, obliges parliament to debate any petition that receives at least 50,000 signatures. As of the time of writing, several initiatives have undergone or are awaiting parliamentary consideration. Notwithstanding, while this mechanism marks a step in the right direction, the citizens'

initiatives are non-binding; parliament retains the right to reject any initiative.

National security, internal as well as external, and foreign policy present substantial challenges for Finland. Given Russia's political and military intervention in Ukraine as well as the deteriorating relationship between Russia and EU member states, concerns about Finland's proximity to Russia have increased pressure on the government to form alliances with international partners. Political and public attitudes toward EU and NATO membership, which were increasingly critical before the recent security crises, are now more favorable. Current constitutional arrangements divide responsibility for foreign affairs (excluding those related to the EU) between the president and government. The indistinct basis for this duality as well as the active foreign policy leadership assumed by President Sauli Niinistö creates uncertainty about doctrine and policy both abroad and domestically.

The long-term increase in the longevity and the stagnating fertility rates of Finland's population create a strong demand for migrant workers. This economic demand, however, conflicts with negative public attitudes toward immigration, represented and exacerbated in particular by the Finns Party. As evident in recent polls, however, the fractured party is now losing ground and will likely face defeat in upcoming elections. Nonetheless, the party's previous capacity to rapidly garner support has left the major parties hesitant to pursue policy initiatives that would significantly increase immigration. Still, at the time of writing, the massive inflow of refugees and asylum-seekers to Europe and, to a lesser extent, to Finland, appears to have had a moderating effect on public opinion.

The government's executive capacity remains strong. The programmatic framework works reasonably well and forms the basis for strategic planning and implementation. Strategic governance is also promoted by effective interministerial coordination, the government office's ability to independently monitor and evaluate policies, and the evident oversight capacities of cabinet committees and working groups. Interest associations and civil society groups are widely consulted when legislation is drafted. Notwithstanding, the executive capacity of local governments is undermined by inadequate funding. Reforms

intended to amalgamate and restructure local government administrations have had mixed success. Importantly, plans to restructure administrative boundaries have not sufficiently taken into account the impact this will have on the constitutionally protected rights of Finland's Swedish-speaking population. Generally, there appears to be a lack of appreciation for the contextual nature of the public-policy challenges that now confront Finland. There is no one-

size-fits-all policy solution; rather, any successful solution must draw upon combinations of policies rooted in a division of responsibilities between local and central governments.

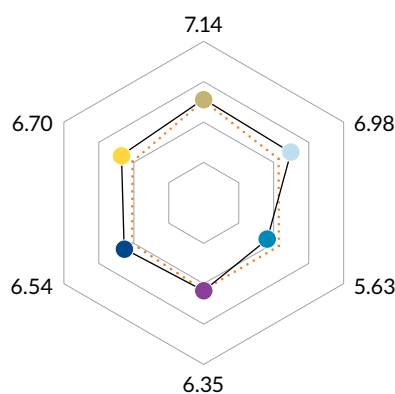
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→ Dag Anckar, Kati Kuitto,
Christoph Oberst, Detlef Jahn

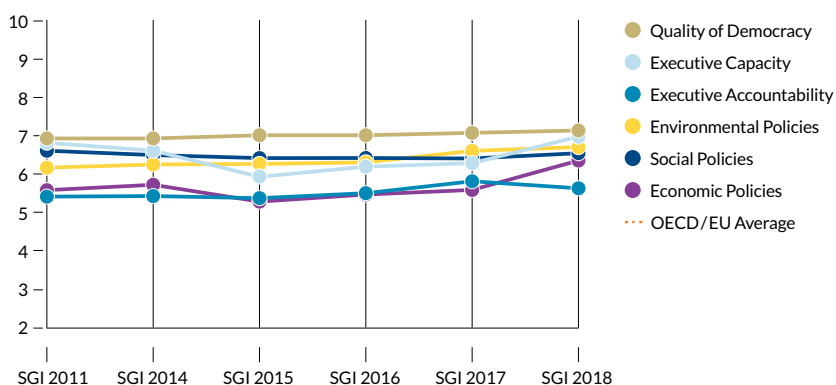
Country profile SGI 2018

France

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

France enjoys solid institutions of governance – the most stable, consensual and efficient period over the past 200 years, marked only occasionally by dubious constitutional experiments. Yet, the country has struggled to effectively address the challenges associated with Europeanization and globalization. The institu-

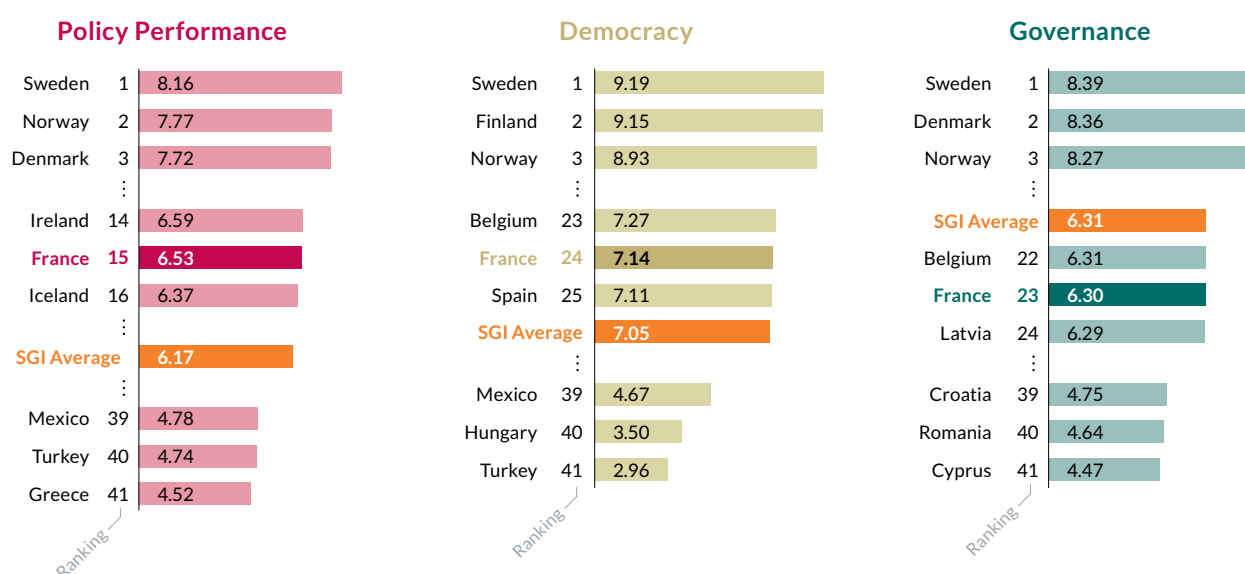
tional system has been weakened by the rise of populist parties: primarily the National Front but also the radical left led by Mélenchon, which advocates a strange mixture of statist economic proposals and libertarian political choices. Both populist manifestations express a deep distrust between segments of the population and the political class. In the wake of President Trump's election in the United States and of the

Brexit referendum in the United Kingdom, there were fears that Marine Le Pen might be the winner of a polarized presidential election in France, which has raised serious doubts about the country's capacity for systemic reforms.

Coming to power in 2012, President Hollande initially attempted to reverse his predecessor's reforms, but further economic collapse soon led to a U-turn, and the adoption of supply-side reforms and more budgetary discipline. Deep division within the Socialist Party and the government combined with the president's confused communication style and lack of clear commitment to policies discredited the government. As a result, the potential political benefits of these limited but important reforms (i.e., labor market reforms, business tax cuts, liberalization measures and budgetary consolidation) have been marred. Overall, the policy changes were steps in the right direction, but insufficient to meet future challenges. The characteristic gap between real (if limited) change and immobile concepts, and between liberal reforms and the traditional statist interventionist discourse persisted under President Hollande. As a result, the Socialist Party was deeply divided between social-democrat reformists and leftist radicals.

The division was so deep and the popularity of President Hollande so low that Hollande renounced his candidacy for the 2017 presiden-

tial election, leaving the Socialist Party divided and directionless. The open primaries organized in January 2017 left the floor to the most radical elements of the party, contributing to the elimination of the reformist candidate (the former prime minister, Valls) and to the selection of a leftist candidate (Benoît Hamon). Hamon's leadership proved to be deprived of charisma and unable to reunify the Socialist Party. On the right side of the political spectrum, the landslide victory of François Fillon, who presented a strongly conservative program, and the very high turnout at the open primary organized by the Républicains and the centrists in November 2016 (4.4 million voters) seemed to indicate the certainty of Fillon's victory. However, paying for a political scandal related to the hiring of his wife and children with public money, Fillon only came third in the first round of the presidential election and was eliminated, leaving the floor to two different outsiders and challengers to the traditional parties of government. On the one hand, Marine Le Pen, the anti-immigration, anti-globalization, anti-EU, populist candidate; on the other, the improbable winner of the first round, Emmanuel Macron, who was both challenging the traditional political left/right cleavage, and suggesting a new cleavage between progressive, liberal pro-Europeans and autarkic, reactionary nationalists. It was difficult



Source: Sustainable Governance Indicators.

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to conceive of more antagonistic proposals for France's future political and policy choices.

The final choice was clear but at the same time pointed to the fragmentation of public opinion (populist votes, abstention). However, the strength of the new president lies in his reform program, which he presented to voters during the electoral campaign. Once elected and with a strong parliamentary majority, the new president has a mandate for reforming the country. Since he has taken office, the new president has shown his clear commitment to his pro-EU, liberal-reform agenda. He benefits from a strong parliamentary majority and a deeply divided, crisis-shaken opposition (the traditional socialist and conservative parties are fragmented, the National Front is in deep disarray and split, and the radical left led by Mélenchon is isolated). The division within and the weakness of the unions have undermined resistance to Macron's labor-market reforms, and his pro-European and pro-business policies proceed undisturbed for the time being.

This successful start is supported by the improvement of the European and global economic outlook as well as by the first effects of some reforms adopted during the Hollande presidency. Contrary to what could be feared at the end of 2016 when the future of the country looked rather bleak (unemployment, debt, terrorism, populist challenges), a new optimism supports the new majority. Many problems have still to be faced but there is the political will and the capacity to tackle them.

Key Challenges

France is at a crossroads. The collapse of the traditional party system following the 2017 presidential election and the political earthquake triggered by Macron's election open radically new perspectives. The challenges now are not so much "what to do?" but rather "will the president and his majority be capable of fulfilling the promises they have made?"

Macron has insisted that the European Union should be more efficient, integrated and protective, but that France should first do its "homework." He knows that only a strong and successful French reform agenda will give him

the credibility to convince his EU partners of his vision. Macron enjoys a strong majority in the National Assembly and the institutions of the Fifth Republic offer effective instruments for achieving deep reform. The problems lie elsewhere: how to convince a reluctant and volatile public that the new government will make the right policy choices? Given the absence of a strong political opposition, social protest will be the main obstacle that the new government will likely face over the coming years.

France has to tackle four major challenges.

The first one is political. The entire party system has to be reconstructed after the 2017 political earthquake. While this destructive phase has permitted Macron to sweep away the old political forces to the advantage of his new movement, it has also contributed to the weakening of the traditional mediatory institutions which will have to be rebuilt. This is also true for the president's movement, *La République en Marche*, which will have to transform itself into a party capable of fulfilling a mediatory role. The time horizon is short. The renewal of political forces has to be achieved before the next presidential election in 2022.

The second challenge is financial, budgetary and economic. The diagnosis is well-known: public deficits and debt must be drastically reduced, fiscal pressure lowered, and unemployment addressed with drastic policy changes. The task is daunting. However, two factors might help. The first one is linked to the overall economic improvement in the European Union and worldwide. This will help the government to respect EU rules on budget deficits, which in recent years France has repeatedly broken, and hopefully stabilize public debt. It will also absorb some of the unavoidable economic and social costs of reform. The other factor is Macron's commitment to an ambitious reform agenda. For the time being, the government has proceeded with speed and energy, leaving little space for opposition. The key issue will be the government's capacity to pursue its policy choices in the years to come. The disconnection between the (short-term) political agenda and the (medium- to long-term) economic agenda is a crucial component of the equation. Indeed, there are not many more savings to be expected if structural reforms are not adopted and imple-

mented. Education, professional training and industrial reconstruction are some of the many sectors that need to be restructured in order to achieve more substantial benefits.

The third challenge is related to the overall structure of the bureaucracy and public sector. Both are comparatively inflated and inefficient. The approach to tackling unemployment by increasing public sector employment (in particular at the local level) has failed, and has considerably lowered the effectiveness and efficiency of public service provision. Similarly, the introduction of a more competitive framework for some public sectors (such as transportation) has repeatedly been postponed. Trimming redundant or inefficient administrations, revising policies that benefit vested interests, and simplifying the complex multi-layered territorial system (“millefeuille”) will be necessary reforms. However, such reforms will likely produce protest and discontent in the short-term, while only proving beneficial much later.

A fourth major challenge concerns the intertwined issues of security, immigration and integration. The traditional French model, based on an open policy toward immigrants acquiring French nationality and on the principle of equality of all citizens regardless of ethnic origins or religion, has lost its integrative power over the last 30 years. The former key instruments of the integration process (education, work, religion, political parties and trade unions) are no longer effective, while the recent terrorist attacks have further weakened integration processes. This challenge requires multifaceted policy solutions in areas including security, urban development, and education and job training, with a primary focus on employment opportunities for the most marginalized citizens. What is at stake is the country’s political and social cohesion, and common national values and rules. Unfortunately, the present situation is characterized by an identity crisis, an ethnic divide, the exclusion of migrants and political frustrations which have, in part, benefited extremist political candidates and parties.

France needs courageous policies that include clear (even if unpopular) choices, frankness when explaining the challenges, more social dialog, and a more streamlined and

coordinated style of governance. The good news is that the newly elected president is fully and explicitly committed to this reform agenda.

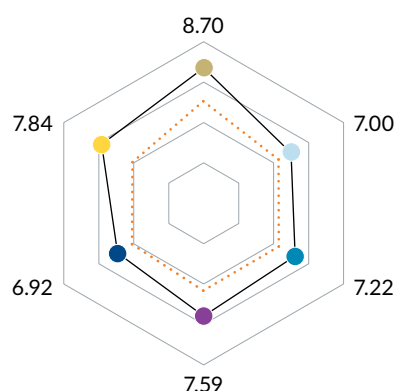
- Yves Mény
- Henrik Uterwedde
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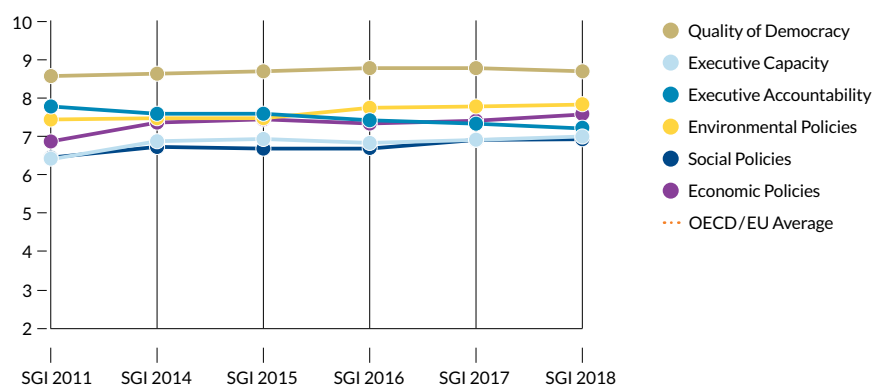
Country profile SGI 2018

Germany

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

This year's report points toward the somewhat ambiguous performance of German policymaking. On the one hand, the economy, labor market, welfare system and public finances are doing extremely well, and excel by international comparison. Even with respect to the topic of refugee immigration and integration, the situation seems to have been brought under control, at least according to some positive feedback from international organizations on the integration measures that Germany has initiated. On the other hand, there is a growing sense of complacency on the part of German politicians and voters. Because of the excellent current governance and social security conditions the immediate pressure for reform has receded over recent years. For the time being, lower reform ambitions and the larger generosity to satisfy short-term political demands have not produced measurable economic or financial damage. However, it is crucial for the long-run perspective that the incoming gov-

ernment adopts a more long-term approach to overall policymaking.

An important event within the review period was the federal election in September 2017. The election changed the German party system. Not only did six parties enter parliament but also the main parties lost significantly, namely the bourgeois Christian Democratic Union (CDU) and its Bavarian sister Christian Social Union, (CSU), and the Social Democratic Party (SPD). The CDU/CSU dropped from 41.5 % in the 2013 elections to 32.9 %, while the SPD declined from 25.7 % to 20.5 %. Consequently, both the CDU/CSU and SPD lost their dominant position within the German party system. The 2017 election was the SPD's worst result and the CDU/CSU's second worst result in the post-war period. All other parties gained votes, albeit for some the gains were marginal. The Greens won 8.9 %, a gain of 0.55 percentage points, while the Left Party won 9.2 %, a gain of 0.6 percentage points. The Free Democrats (FDP) re-entered parliament with 10.7 %, a gain of 5.9 percentage points. In ad-

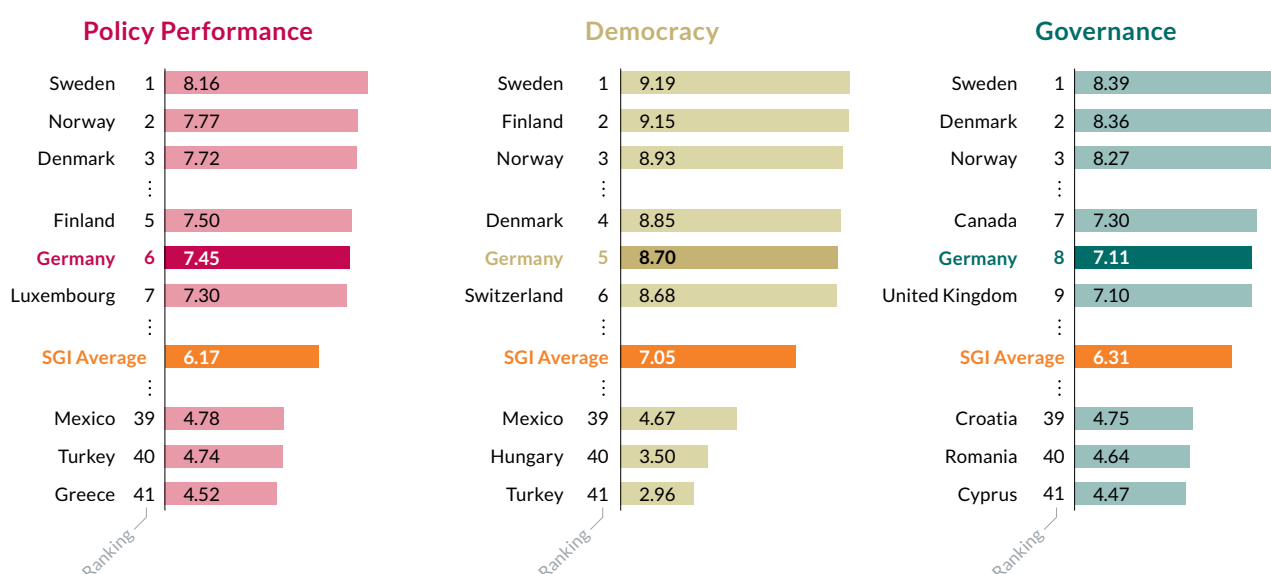
dition, the Alternative for Germany (AfD) won 12.6 % of the vote, considerably higher than the 5 % threshold, and entered the federal parliament for the first time. The Bundestag now hosts a strong right-populist party that includes some right-extremist positions. In the eastern part of Germany, the two main parties lost more votes compared to the western part, and the smaller parties on the left and right of the party spectrum won more votes pointing to a continuing political division within the country.

At the time of writing, the composition of the new government remains uncertain. Whichever parties form the new government, the election results indicate a somewhat shrinking consensus on fundamental policies in Germany. Though this is not yet as dramatic as in other European countries in terms of populists' voting shares.

Regarding policy performance, the 2017 situation was characterized by a very favorable picture in terms of key indicators ranging from high economic growth (above 2 %), falling unemployment rates and a surprisingly high public budget surplus. With this tailwind, Germany could also keep or even increase its engagement for the provision of national or global public goods in the field of R&D, education or development aid. On social and distributive issues, the situation remains controversial with the usual left-right disputes on the extent and tendencies

of social exclusion. However, the current employment boom has further reduced long-term unemployment and reduced the level of irregular employment. On the challenge of refugee integration, observers from international organizations still diagnose problems, such as insufficient coordination of relevant stakeholders. Though they also acknowledge that Germany has reacted quickly and created an environment that is conducive for the successful labor market integration of refugees. Highly salient incidents like Islamic terrorism, xenophobic attacks by right-wing radicals or the G20 Hamburg summit riots by left-wing extremists have undermined popular perceptions concerning public safety even though the objective crime data does not indicate a dramatic increase in criminal incidents.

Germany continues to do very well in terms of the quality of democracy. Of course, German democracy is affected by international trends like the continuing decline in market share for high-quality print media, which safeguard public access to information. But these trends are much less pronounced in Germany compared to other countries. The public broadcasting system continues to reach a decent proportion of the population, and provide largely high-quality and independent coverage of political developments. Though this has recently been questioned in some instances. The rule of law and the independence



Source: Sustainable Governance Indicators.

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of the judiciary is strongly backed both by political actors' and voters' respect for these institutions.

The indicators for governance capacities continue to show a less convincing positioning compared to the two other SGI pillars. Overall, the governmental system's steering capabilities are constrained by a lack of strategic planning, which is exemplified by the relatively weak role of strategic policy units. Moreover, coordination processes in multiparty governments are often dominated by informal institutions like the coalition committees where "party politicization" undermines strategic planning and often leads to a lack of consistent communication. Expert evaluations and impact analyses play an important role, and are regularly executed with good methodological standards and impartiality. However, there is considerable scope for improvement to develop strategic policy conclusions from deeper insights.

Summing up, this year's report confirms Germany's current successful governance performance. However, it raises concerns that political myopia and the lack of strategic foresight might undermine the German growth story over the next decade.

Key Challenges

Key challenges for the next government are manifold. To begin with, the short-term challenge will be to create a new and stable coalition government, able to generate a coherent governmental program that guides politics and policies over the next years.

For this next German government, it is of crucial importance that it does not lose sight of the medium- and long-term tasks that Germany faces. It may appear paradoxical, but this risk has risen with the country's highly successful economic and financial performance over recent years. Exceptional circumstances like the record low levels of government interest rates in combination with strong economic growth and the employment boom have considerably softened short-term budget constraints. The consequences of which were clearly visible in the last election campaign and will also impact the ongoing negotiations for a new coalition government. Politicians of all parties assume that they can extrapolate the current highly favorable eco-

nomic and financial situation by increasing government and social security spending, while lowering taxes and introducing a wave of new regulations. This policy approach is hardly viable over the longer run, among other things, because of the effects of an aging population on economic growth, and increased pressure on health care and pension spending. Therefore, a responsible and realistic policy approach with a long-term perspective must develop appropriate answers regarding the following policy fields.

Pension policy: The system continues to benefit from a favorable relationship between the active population (still comprising the baby boomer generation) and pensioners. In the coming years, with the retirement of the baby boomers and as a consequence of increasing life expectancy, the dependency ratio will quickly rise. Political parties have remained largely silent on the issue of how to react and keep the system (and contribution rates) stable. The only consensus seems to relate to benefit increases for parents, workers with particularly long-working histories and measures for fighting poverty in retirement. Expert recommendations for a further increase in the statutory pension age have regularly been rejected by Germany's main political parties.

Health and old-age care system: The social security systems for health and old-age care are characterized by even larger pressures on spending. Demographic change, and increasing societal expectations regarding the quality of services and medical progress have meant that demand for higher spending is almost unlimited. Over recent years, governments could impress voters by regularly increasing benefit levels as the employment boom provided the necessary finances. In the coming years and decades, with the shrinking active population, the imbalance between spending demand and available finances will increase dramatically. Current political programs are completely silent on how to contain this pressure.

Tax policy: With respect to the tax policy debate, German politics seems to be characterized by a neglect of constraining factors related to increasing international competition. With the far-reaching Trump tax reform, a new wave of global corporate tax competition may have commenced. In Europe, the United Kingdom

(to compensate for the consequences of Brexit) and France (as Macron wants to push French competitiveness) plan to make their systems more competitive. Without a reaction, Germany will find itself with the highest business tax burden of any major industrial country.

European reforms: Another major challenge for Germany relates to the European reform debate. Europe is urgently waiting for the next German government to develop a constructive strategy for how to reform Europe and the euro zone in order to increase resilience to crises and promote citizen trust in the union. Germany has to find the right balance between defending its self-interests (e.g., preventing a strategy of fiscal exploitation with massive transfers from northern to southern and eastern Europe) and constructive solidarity.

Refugee policies: Another major challenge involves refugee and immigration policy. After a dramatic 2015, refugee numbers have decreased considerably. However, this policy field still poses highly complicated questions concerning how to foster integration and steer immigration. The refugee issue has split society. The rise of several right-wing protest movements and the success of an anti-migration party, the AfD, indicates that part of the population is deeply distrustful of Germany's political, economic and media elites. While the right-wing anti-immigration positions still constitute only a minority, they are particularly present in the eastern part of the country, pointing to a divide that persists more than 25 years after unification. The next government must build on the last grand coalition's effort to promote a successful integration policy and develop – together with Germany's EU partners – workable strategies to keep migration flows at manageable levels (i.e., levels that do not overstretch popular support or undermine financial sustainability).

Climate policy: The radical exit from nuclear power in combination with Germany's ambition to be a front-runner in climate policies poses complicated policy trade-offs. One of the contentious issues is the timeframe for closing down coal-fired power plants.

Germany is economically and financially in a very good situation. The country recovered more quickly than many other countries from the global financial crisis. Economic growth rates

have been exceptionally high in recent years and the short-run outlook for 2018 remains bullish. However, far-reaching policy mistakes that endanger the long-run sustainability of economies are typically made in good times.

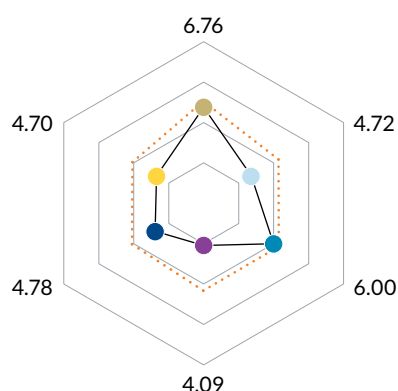
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- Friedbert W. Rüb
- Friedrich Heinemann
- Reimut Zohlhöfer

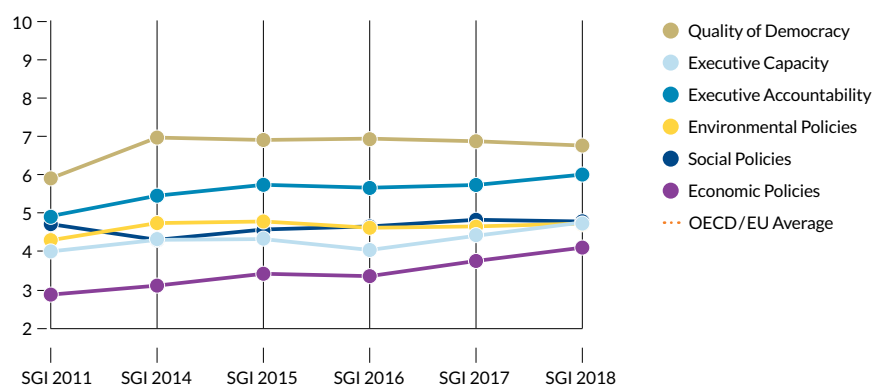
Country profile SGI 2018

Greece

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

During the period under review, Greece's political and economic environment grew less volatile, while domestic and foreign observers recorded signs of timid economic growth. In relation to 2015–2016, the government appeared far more willing to introduce and, to a lesser extent, implement reforms, and welcome foreign investment.

These developments were encouraged by a positive international milieu. Business confidence in Europe, as measured by Eurostat, is at its highest point for over a decade.

However, Greece continues to be the only European country that has yet to reach the stage of economic recovery. Nevertheless, there are some reasons for optimism. In spring 2017, the government concluded a €1.2 billion deal with a consortium led by the German company Fraport, which involved 14 of the country's regional airports. This is the biggest privatization venture so far under Greece's international bailouts. Following the conclusion of the deal, in July

2017, Greece successfully sold €3 billion in five-year bonds at a relatively low interest-rate of 4.6%. The bond issue was so oversubscribed that the country could have borrowed €6.5 billion, more than twice the desired amount.

Negotiations between the coalition government, consisting of the radical-left party (Syriza) and the far-right party Independent Greeks (ANEL), on the one hand, and the country's lenders, on the other hand, continued. The second review of the adjustment program was completed – with considerable delay – in June 2017 paving the way for the disbursement of the third tranche of financial assistance (€8.5 billion) that was used to cover Greece's current financing needs and arrears clearing.

The country's economy is expected to grow in 2017 by 1.7% after stagnation in 2016 (–0.2%). Capital controls, imposed on the banks in July 2015 when the government announced a referendum, were not lifted in the period under review and are still in place. The Greek banking system still faces risks, as non-performing loans are a

major constraint. Yet, between 2016 and 2017, the government continued to privatize the transport sector and sell-off state-owned property. At the same time, it continued to delay the implementation of agreements it had signed with private investors concerning the exploitation of gold mines in northern Greece and urban development of the east coast of Athens.

The OECD projects GDP growth to rise to 2.3 % in 2018 and then moderate to 2 % in 2019. So, Greece's economy is projected to grow again, and the recovery is expected to strengthen as investment rebounds and private consumption rises. The labor market is also recovering though high unemployment remains a problem.

The Syriza-ANEL government allocated funding for social assistance and began the implementation of a new social safety net, the Social Income of Solidarity. However, the government raised taxes and social security contributions to an unprecedented degree, which will hit the middle strata and professionals particularly hard, while it made little progress in fighting tax evasion. Economists argue that these measures have negatively influenced investment and job creation.

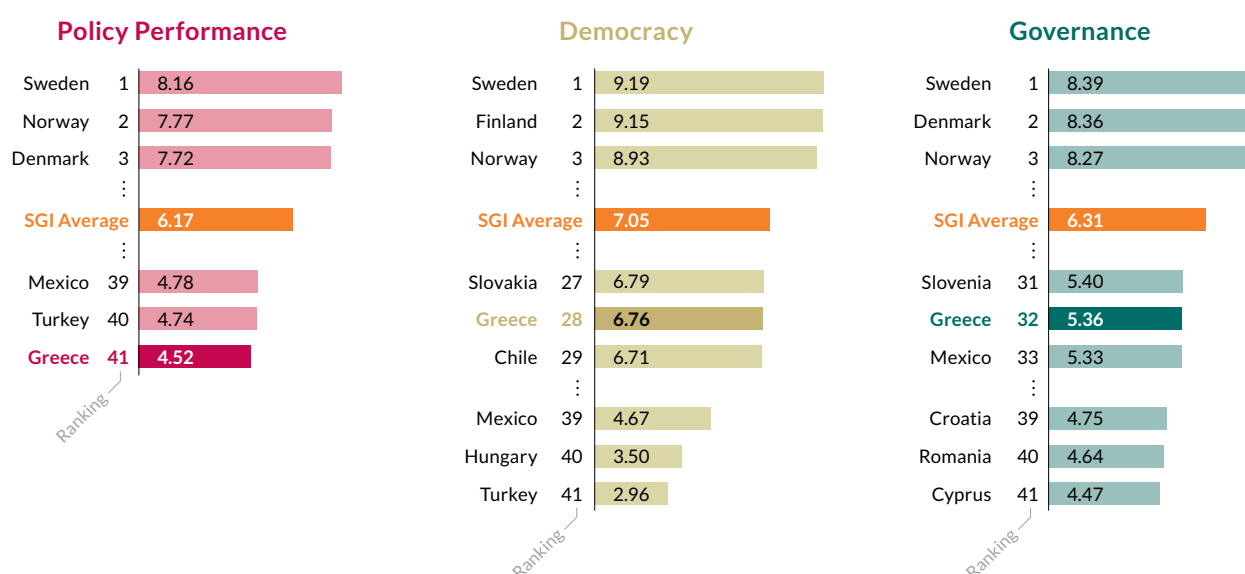
Finally, in the period under review, the government did not give up on its drive to control the media and influence the judicial system. Meanwhile, the weak state administration hampered

further reform efforts. Such efforts, however, are necessary if Greece wants to change its model of production, currently based on domestic consumption and the provision of services to tourists.

Key Challenges

Late in the summer of 2017, after long delays, Greece was able to conclude the Second Review of the Third Economic Adjustment Program. Over the next 12 months, Greece must first complete the Third Review of the same program. The government must implement a number of reforms that will enable Greece to exit the seven-year long close monitoring of the economy. Notably, in August 2018, when the current Third Economic Adjustment Program officially ends, Greece is expected to seek further financing by drawing funds on international markets. However, the IMF, having approved in principle a largely symbolic cash injection for the country, has repeated its long-standing warning that Greece's debt remains unsustainable.

Thus, the prospects of the Greek economy remain uncertain, as loans on international markets incur higher interest rates than the rates granted to Greece by its lenders. Meanwhile, the growth of the Greek economy is meager, while large foreign private investments are not



Source: Sustainable Governance Indicators.

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forthcoming, as the Syriza-ANEL coalition, being ideologically hostile to foreign capital, has given mixed signals to foreign entrepreneurs. Domestic investment was discouraged as the government suddenly and dramatically raised taxes and social security contributions. Thus, a better balance between taxation and business incentives must be attained.

In view of the above, the most important challenge for Greece will be to avoid a new sudden economic crisis, resulting from further government indecisiveness, a banking crisis or a sudden call for a snap elections (a decision which rests exclusively in the hands of the prime minister).

There are many open questions waiting to be addressed before the next general election (which, barring a sudden decision by the prime minister, are expected to take place in mid-2019). Open questions include restoring stability in education, public order and the administration of justice. In other words, sectors in which the Syriza-ANEL coalition government has experimented with rolling back reforms which had been affected before the government was formed (i.e., before January 2015). Since 2015, frequent education reforms have been announced, the government has been unable to impose law and order in the center of several major cities (e.g., Athens and Thessaloniki), and the administration of the judicial system has further declined (very slow and disputable functioning of courts).

However, the two major challenges that lie ahead are the health of the banking system and the future of pensions. Non-performing loans continue to be a major impediment for the financing of the economy and their shrinking will become a major issue in the forthcoming months with a political cost that the current or the next government will need to bear. The Bank of Greece plans to start stress tests for the country's four systemic banks in late February 2018. Under the Third Bailout, pension payments, which had been cut by 40 % since the start of the crisis, will be cut by a further 18 % from 2019. This will be a necessary measure but also a major political challenge for any government.

Unfortunately, while nominally interested in alleviating the suffering of victims of the economic crisis, the Syriza-ANEL government has resorted to traditional, pre-crisis patronage practices. The government has recruited party

supporters to the public sector usually on temporary contracts, as it has been unable to finance large-scale hiring. It has also offered the poorer strata one-off social welfare transfers. In the traditional patronage manner, cash transfers were selectively channeled to favored interest groups, such as employees of state-owned enterprises and pensioners. It was only in early 2017 that the government at last established a social safety net for the poor. This unbalanced mix of patronage politics and social policy transfers needs to be re-assessed.

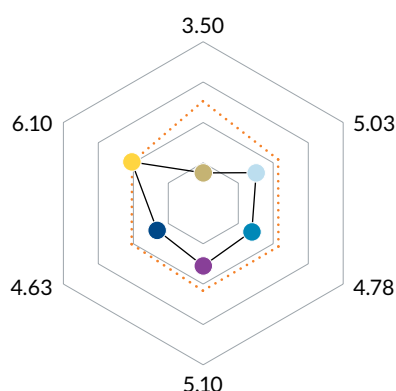
Over the next 12 months, policy challenges and debates will center on issues of economic growth, policy stability and redistribution.

- Dimitri A. Sotiropoulos
- Asteris Huliaras
- Roy Karadag

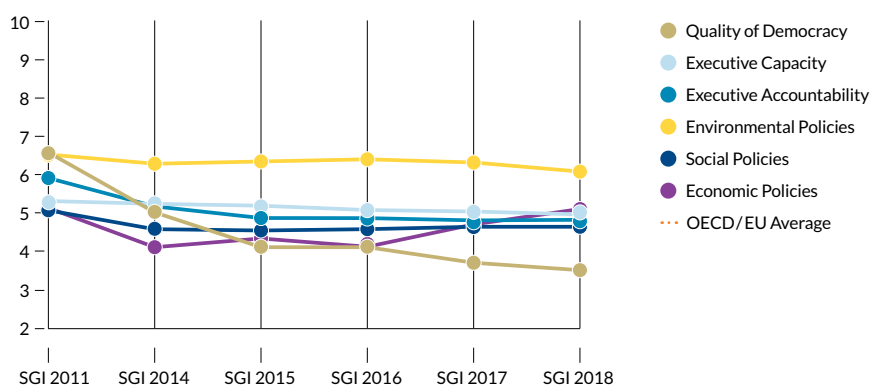
Country profile SGI 2018

Hungary

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Hungary has been governed by Viktor Orbán and his Fidesz party since 2010. In the April 2014 parliamentary elections, the government succeeded in maintaining its two-thirds majority – despite receiving 600,000 fewer votes than in 2010 – which allowed Orbán to be elected prime minister for the third time. Following a number of lost by-elections, the government lost its two-thirds majority in February 2015. In the period under review, the third Orbán government continued its dismantling of checks and balances and its “refeudalization” of the economy and society. With the April 2018 parliamentary elections approaching, the government’s agenda has increasingly been shaped by electoral considerations.

Throughout the period under review, the Orbán government has continued to hollow out the institutions of democracy. It has demonstrated little trust in the soft power of its huge propaganda industry and has stepped up efforts

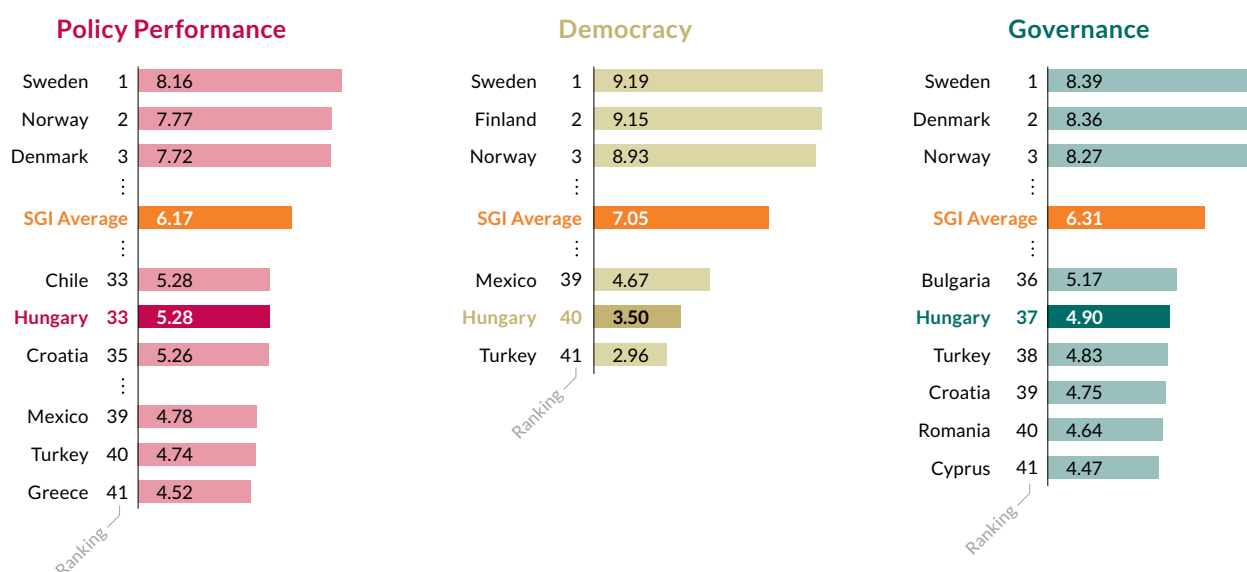
to weaken the opposition while undermining the remaining checks and balances. It has limited the opposition’s access to the public by restricting opposition parties’ use of billboards, which had played an important role in the 2010 and 2014 election campaigns. It has further tightened its control over the media, as the last four remaining regional dailies were bought by oligarchs close to Fidesz in July 2017; it has massively campaigned against independent, foreign-funded NGOs and introduced a new law that makes their work more difficult; and it has sought to close the Central European University (CEU), which is not only the country’s most prestigious institute of higher education but is also a stronghold of independent thinking. The assault on NGOs and the CEU has been part of a massive campaign, marked by anti-Semitism, against the Hungarian-American millionaire-philanthropist George Soros. As a centerpiece of Fidesz’s election campaign, these efforts have been closely linked to Fidesz’s ongoing anti-refugee and EU rhetoric.

Hungary's political system, economy and society have been linked by pervasive corruption and a special variant of crony capitalism. Hungarian society has increasingly taken on the features of a proto-feudal system in which the supporters of the regime benefit from corruption and nepotism. Economic policy has been characterized by an increasing "re-nationalization" of the economy and a "re-feudalization" of public procurement. In the war among the oligarchs, Lajos Simicska and Zoltán Speder have lost to Lőrinc Mészáros, István Garancsi and István Tóborcz (Orbán's son-in-law). The Orbán government's decisions are largely meant to provide investments and business opportunities for this network. As a result, the recovery of the Hungarian economy since 2013 has been strongly based on the influx of resources from European funds and on investment in stones rather than brains. Given the fact that the education and R&I systems have been subject to chronic under-financing, political control and dubious organizational reform and that the shortage of qualified labor is growing, Hungary's medium-term economic perspectives look bleak.

In the period under review, the Orbán government adopted a number of institutional reforms. To underline its reform commitment, it created a new Competitiveness Council and announced the creation of a cabinet committee

on family affairs. In October 2017, in a campaign-driven move, it also appointed two new ministers, János Süli for the Paks-2 new nuclear station and Lajos Kósa for the Modern Cities Program, thereby continuing the government's proclivity to create top-level positions for its allies. While Orbán back in 2010 emphasized the need for small government, the third Orbán government in fall of 2017 consisted of 178 ministers, state secretaries and deputy state secretaries, twice the number of the Bajnai government in 2010. At the same time, policymaking has continued to suffer from over-centralization, hasty decisions and the renunciation of public consultation and external advice.

Due to the fact that the Hungarian institutions meant to counterbalance the power of the government – such as the Constitutional Court, the media and the president of Hungary – have failed to fulfill their mandates, the EU is the last remaining veto player. Indeed, as the EU has repeatedly made a point of highlighting corruption, administrative shortcomings and illegal practices in the Hungarian government, Brussels is unsurprisingly increasingly attacked as an enemy in the eyes of the Orbán government. On October 23, 2017, an important national holiday, Orbán held a campaign speech in which he began by drawing a parallel between the former "homo sovieticus" and the "homo brusselicus"



Source: Sustainable Governance Indicators.

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as a historical burden of Hungary and closed by stating that “true Hungarians” would vote for Fidesz. In its confrontation with the EU, Fidesz has focused primarily on two ongoing infringement processes in political matters and the European Court of Justice’s refusal of Hungary’s attempt to sue the EU on the issue of refugee allocation to demonstrate its commitment to an alleged fight for freedom. These campaigns, together with several other anti-EU measures have deepened the conflict between the Hungarian government and the European Commission and the broad majority of EU members states. Even within the European Peoples Party, the patience with Orbán has worn thin.

Key Challenges

Although the parliamentary elections of April 2018 fell outside the period under review, it is worth noting that Viktor Orbán’s victory in the election marked an unexpected landslide. With 134 seats in the 199-seat parliament, Fidesz has regained the two-thirds majority it had lost in February 2015, thereby demoralizing the opposition even further. The strong position of the fourth Orbán government means that democracy in Hungary will continue to erode, pervasive corruption will undermine both democracy and economic growth, societal polarization will continue, the rift between liberal Budapest and the more traditional countryside will grow, qualified young people will continue to emigrate in high numbers and that the conflicts within the EU, not only over the issue of migration, will increase.

On the surface, Fidesz’ strong showing is largely based on the party’s tough position on refugees. When trying to explain the electoral success of Viktor Orbán and his party, however, one has to dig deeper and address broader fears in Hungarian society. In the World Happiness Report 2017, Hungary ranked only 75th out of 155 countries. This habitus is not new. Pessimism and a great extent of “dystopia,” a negative future image, have always been a formative power of Hungarian political culture. Many citizens have been exhausted by the ups and downs of the last decades; others fear that any changes might put the recent increases in wages and wealth at risk; some have lost their

general orientation in a quickly changing world. Add Fidesz’s media dominance and the lack of a convincing opposition candidate, and these fears have made it relatively easy for Fidesz to play the claviature of xenophobia.

Still, a Globsec survey in late 2017 found that the overwhelming majority of Hungarians supports liberal democracy (79 %) and favor staying in the EU (71 %). The democratic opposition tried to capitalize on this sentiment by formulating the issue at stake in the parliamentary elections as “Europe vs. Orbán,” though without success. The key challenge of the future is to bring this support to the forefront and to diminish the influence of right-wing populism in the country. In this process, the government will not be of help, but rather the target.

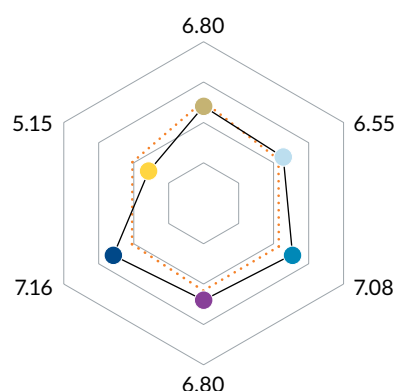
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- Attila Ágh
- Jürgen Dieringer
- Frank Bönker

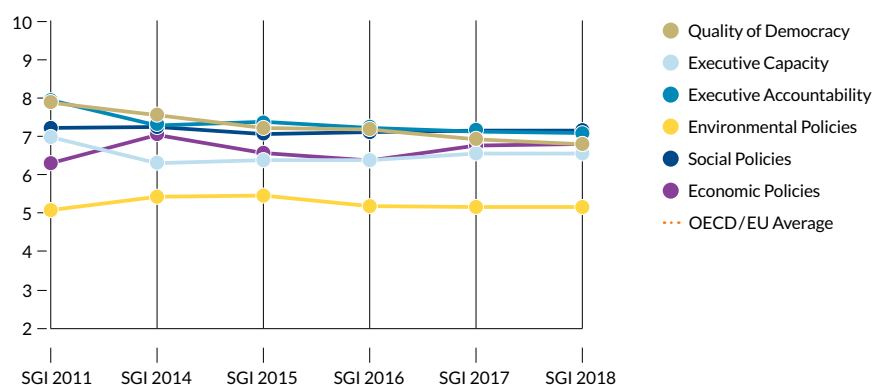
Country profile SGI 2018

Iceland

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

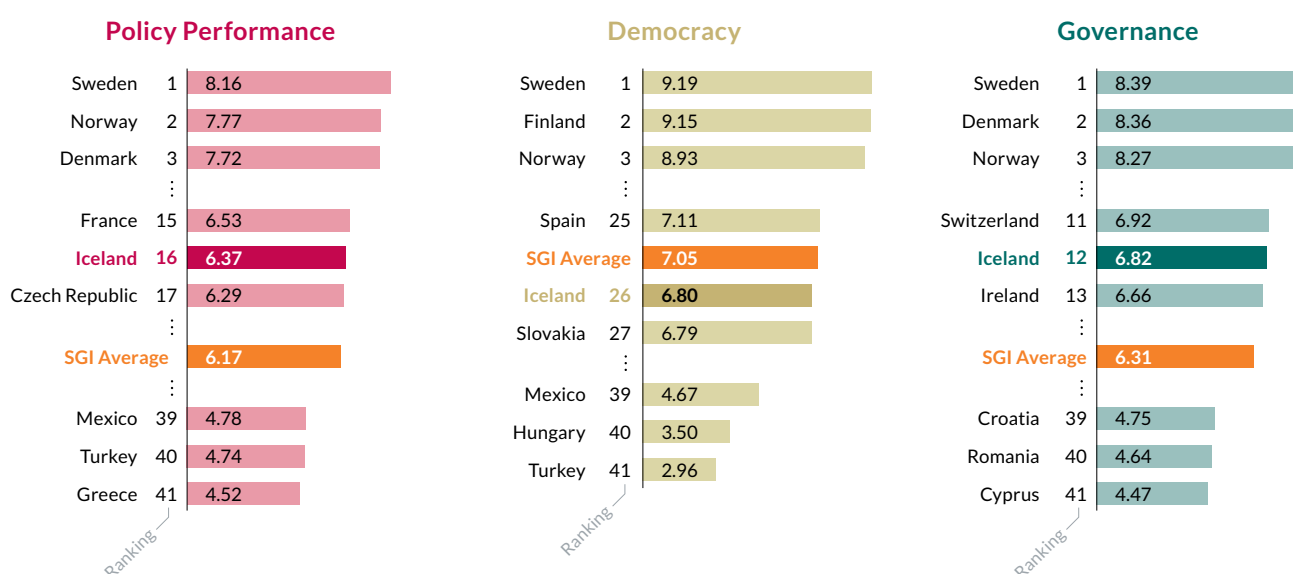
In January 2017, ten weeks after the October 2016 parliamentary elections, a three-party coalition government was formed. The most successful party in the elections, the Independence Party (21 seats), led a coalition with Regeneration (seven seats) and Bright Future (four seats). This meant that the government coalition held only 32 out of 63 parliamentary seats, a bare minimum for a parliamentary majority. Since Regeneration was more or less a liberal break-out from the Independence Party and Bright Future defined themselves as a centrist liberal party, this coalition government can be regarded as a right-wing government. This coalition was formed following a long government crisis with several false starts and failed attempts to build a new coalition government. After only eight months in power, this coalition collapsed when Bright Future announced that they were ending their coalition with the Independence Party. In a two-sentence statement, posted on the of-

ficial Facebook page of Bright Future, the party explained: "The leadership of Bright Future has decided to end cooperation with the government of (Prime Minister) Bjarni Benediktsson. The reason for the split is a serious breach of trust within the government." Here, they were referring to news, which had broken earlier that evening, that the prime minister's father had provided a recommendation letter of "restored honor" for a man convicted of having raped his stepdaughter almost daily for 12 years. Benediktsson, despite having been informed about this by the minister of justice in July 2017, kept this matter to himself until a parliamentary committee compelled the ministry to release this information to the press. A new election was announced on 28 October 2017 since no new coalition cabinet was on the cards. Parliament was dissolved and the second parliamentary election in one year took place. The election campaign had hardly started when the former prime minister, Sigmundur D. Gunnlaugsson, who had resigned in spring 2016 in the wake of the Panama

Papers scandal, broke away from the Progressive Party. In October 2017, he established a new political party, the Center Party (Miðflokkurinn). Various Progressive Party members left and joined the new party. This was the first time in Iceland's history that both traditional parties, the Independence Party and the Progressive Party, were split at election time.

A significant infringement of media freedom took place in October 2017, two weeks before the elections, when the Reykjavík Sheriff's Department issued a gag order on the newspaper Stundin. The order prohibited Stundin from covering leaked documents that outlined dubious financial transactions involving the prime minister, Bjarni Benediktsson, the chairman of the Independence Party, during the 2008 financial crash. The gag order and the questions raised by the coverage of Stundin reignited a debate about the corrosive effects of money in Icelandic politics, unequal justice and the value of a free press. OSCE expressed concern about the gag order which bars Stundin and its partners at investigative journalism outfit Reykjavík Media from further reporting on the leaked documents, including emails, from the windup committee of Glitnir bank. Recent judicial verdicts in cases concerning freedoms of expression seem to make it unlikely that the gag order will be upheld by the Reykjavík District Court in early 2018 or by the Supreme Court. Yet, time will tell.

In the 28 October 2017 parliamentary election, the government coalition lost dramatically, losing 12 of its 32 seats and winding up with only 20 out of 63 parliamentary seats. The Independence Party lost five seats, Regeneration lost three seats and Bright Future was wiped out winning only 1.2 % of votes. The Centre Party and Flokkur Fólksins (the People's Party) won seats in parliament for the first time. The Centre Party won 11 % of the vote and seven seats, and the People's Party won 7 % of the vote and four seats. The Social Democrats recovered somewhat from their heavy loss in 2016, going from 5.7 % of the vote to 12.1 % and from three seats to seven. The Progressive Party managed to keep their loss of support down to less than 1 percentage point and kept their eight seats from 2016, even if many party members, and one sitting member of parliament and former minister followed Gunnlaugsson to the new Centre Party. The Left-Green Movement went from 15.9 % to 16.9 % and remained the second largest party. Finally, the Pirate Party suffered a significant loss, falling from 14.5 % in 2016 to 9.2 % of the vote, losing four of their 10 seats. So, the political landscape changed significantly between 2016 and 2017. For the first time, eight parties won seats in parliament. The largest party in parliament, the Independence Party with 25 % of the votes and 16 seats, has never been so small – the party's sec-



Source: Sustainable Governance Indicators.

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ond worst election result ever, second only to the 2009 election held immediately after the financial crash. There was neither a clear left or right swing in the elections. The right, the Independence Party and Regeneration, went from a total of 28 seats to 20 and the two left-wing parties went from 13 to 18 seats. Centrist parties gained ground, so the coalition question is almost as unclear as in 2016. However, the outgoing opposition parties, the Left-Green Movement, Progressive Party, Social Democrats and Pirate Party, obtained the smallest possible majority of 32 seats. At the time of writing, in early November 2017, they have started formal negotiations on building a government coalition, led by the chairman of the Left-Green Movement, Katrín Jakobsdóttir.

Another significant development during 2017 was the successful and almost complete removal of the capital controls imposed under IMF supervision as an emergency measure following the financial crash of 2008. Having first been delayed and then implemented in stages, the relaxation of controls was not accompanied by a depreciation of the króna or by a sudden outflow of capital. Even so, Iceland remains vulnerable to future swings in capital flows and the exchange rate of the króna, the world's smallest free-floating sovereign currency.

Key Challenges

Iceland's next government, which is yet to be formed following the elections in October 2017, will face several key challenges.

Labor market prospects are unclear. Many agreements from 2015 to 2016 will expire between 2017 and 2019, including 39 in the second half of 2017, 84 in 2018 and 142 in 2019. The majority will expire between December 2018 and March 2019. The outcome of these labor market agreements will be important for future agreements. The SALEK agreement between employers' associations and trade unions aimed to introduce a Nordic-style framework for negotiating wages and settle recent labor market disputes, the latter of which had led to widespread strikes and threats of inflation. But state employees and teachers have never signed the agreement. Consequently, roughly 70 % of the

labor market has agreed to join the SALEK agreement. The likelihood that the remaining 30 % will agree to join is low.

A further challenge will involve strengthening the health care system, which has been under severe financial strain since the 2008 financial crash. Before the 2016 election and again in 2017, every political party promised to pay more attention to restoring health care provision to its earlier standing.

Another major challenge concerns the dramatic rise in tourism in Iceland in the post-collapse period, especially following the volcanic eruption of Eyjafjallajökull in 2010. Between 2010 and 2016, the total number of tourists visiting Iceland rose by 370 % from 0.5 million to 1.8 million. This has had a dramatic impact on the national economy as tourism has become the most important earner of foreign exchange, surpassing the fisheries and aluminum industries' combined foreign exchange earnings. Iceland needs more and better infrastructure, including roads and airports, and public services, such as police and health care, to accommodate the huge increase in tourism. Furthermore, an analysis is needed of the expected environmental effects of this increase. There are indications that the influx of tourists will continue in part because oil prices and air fares will likely remain low over the next few years.

Yet another challenge concerns the future of the banking system, which failed so spectacularly in 2008. Governments since the financial crash have not outlined a strategy for the future ownership and organization of Iceland's banking system, including the division between domestic and foreign, and between public and private ownership. Furthermore, there are no discernible plans for introducing foreign competition into Iceland's protected retail banking system, a unique phenomenon in Europe. The problem is not confined to the banks because oligopolistic market structures are a hallmark of Iceland's economy. With several major industries dominated by three or four local firms (e.g., oil, insurance and construction), Iceland needs more foreign competition.

Last but not least, the unresolved question of the new constitution hangs over Iceland like the sword of Democles. In a democratic state, parliament cannot under any circumstances

permit itself to disregard the unequivocal results of a constitutional referendum. After the constitutional referendum called by parliament in 2012, in which voters gave their strong support to a constitutional bill drafted by the nationally elected Constitutional Council, parliament has failed to move toward ratification, undermining Iceland's democracy. The reason for this political failure is, first and foremost, the unwillingness of the Independence Party to accept the new constitution's declaration that "Iceland's natural resources which are not in private owner-

ship are the common and perpetual property of the nation," a provision supported by 83 % of the voters in the 2012 referendum. The result of the parliamentary elections in October 2017 did not offer a clear path forward. What happens next depends on what kind of coalition emerges and how long it will last.

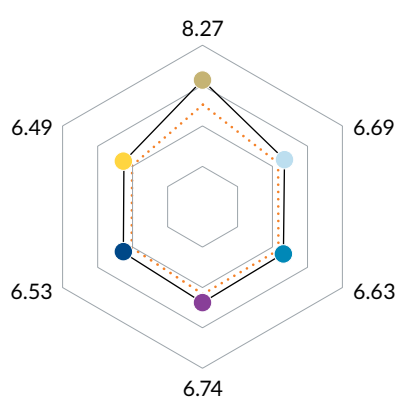
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→ Gretar Þór Eyþórsson, Thorvaldur Gylfason, Detlef Jahn

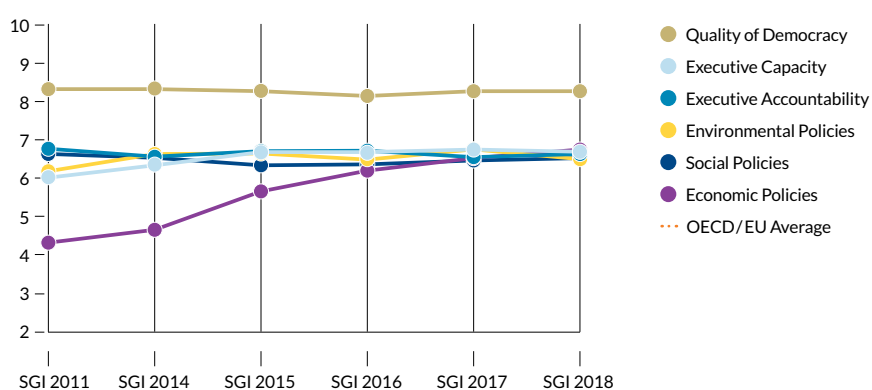
Country profile SGI 2018

Ireland

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The year 2017 was marked by a major change in the political leadership of Ireland. In June 2017, both the Taoiseach (prime minister), Enda Kenny, and the Minister for Finance, Michael Noonan, resigned. Kenny was replaced by Leo

Varadakar and Noonan's successor became Paschal Donohoe. Despite this change in leadership, the Confidence and Supply agreement between the Fine Gael party and the main opposition party, Fianna Fáil, negotiated after the 2016 General Election, remained in place. This empowered Donohoe, who assumed the dual roles

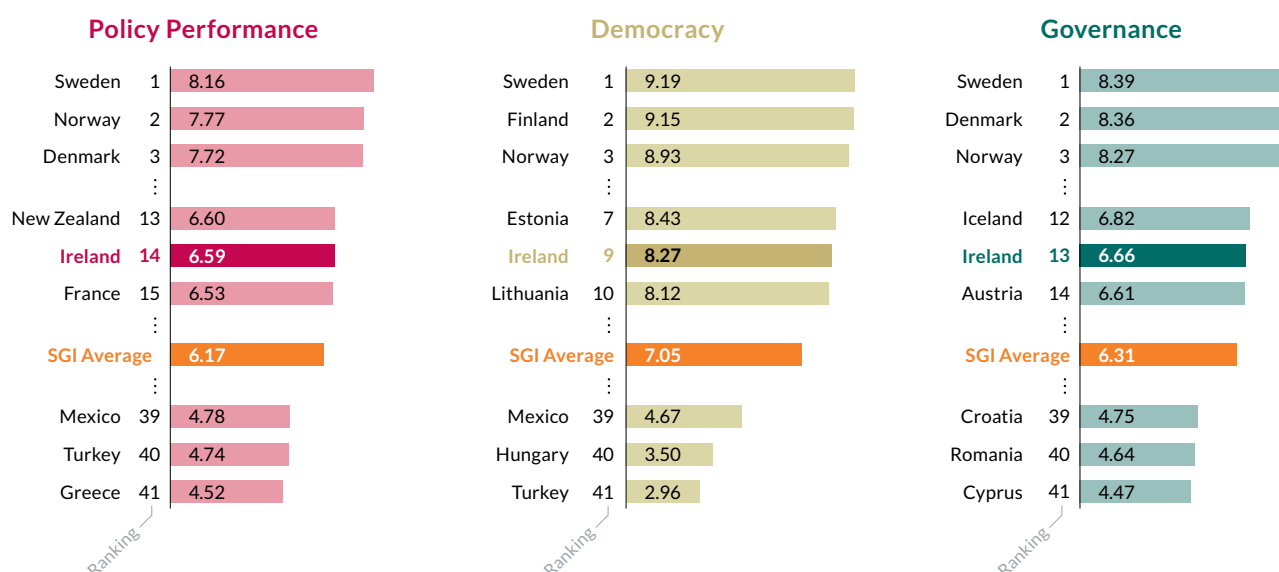
of Minister for Finance and Minister for Public Expenditure and Reform, to introduce the 2018 Budget on 10 October 2017.

In 2017, the Irish economy once again recorded very strong economic performance. The major indicators – GDP, consumption expenditure, investment expenditure, exports and employment – were strongly positive. GDP grew by over 5 % in 2017, similar to the 5.1 % growth rate of 2016. Employment greatly benefited from this strong expansionary economic phase with unemployment falling from 7.9 % in 2016 to 6.2 % in 2017. Unemployment, which stood at 15 % in 2012, has fallen and is expected to fall further to 5.4 % in 2018. The main drivers of this impressive economic performance are consumption and investment expenditure. These factors are a stark contrast to the 2015 “leprechaun” growth statistics, which were artificially inflated by alterations to statistical reporting procedures as well as the on-shoring effects of multinational corporations transferring intangible assets to Ireland and the increase in aircraft leasing by companies in the International Financial Services Center. Uncharacteristically, this recent economic growth has taken place within an inflation free environment. Over the last three years, the Harmonized Index of Consumer Prices (HICP) moved from zero inflation (2015) to negative inflation (–0.2 %) in 2016 and to just 0.3 %

in 2017. In 2017, Ireland had the lowest inflation in the EU. Part of the catalyst for the recently very positive non-inflationary environment has been the weakness of pound sterling (GBP) caused by the challenges associated with Brexit. The appreciation in the euro relative to pound sterling has enabled goods price inflation to remain persistently negative in Ireland, helping counterbalance higher prices for services.

Consistent with the underlying growth of the economy there has been considerable improvement in Ireland’s overall debt position and, consequently, the country’s international credit ratings. During the Irish economic crisis, government debt reached a high 120 % of GDP in 2012. In 2016, it had fallen to 75 % of GDP against a euro zone average of 89.2 %. This improvement continued in 2017 with the debt-to-GDP ratio falling to 66 %.

In the case of Ireland, it may be more accurate to use a more relevant denominator for debt, namely the Modified Gross National Income (GNI*). GNI* more accurately reflects the income standards of Irish residents than GDP. It differs from standard GNI in that it excludes, inter alia, the depreciation of foreign-owned, but Irish resident capital assets (chiefly intellectual property and aircraft leasing assets) and the undistributed profits of firms that have re-domiciled in Ireland. The debt/GNI* ratio was 160 % in 2012. It fell to 102 % in 2016, indicating that



Source: Sustainable Governance Indicators.

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there has been a considerable improvement in the Irish debt burden. Nevertheless, the burden of debt faced by domestic residents remains high when the activities of the multinationals are removed from the national income statistics.

Overall, Ireland's improved economic performance is attributable to sound policy decisions and favorable external conditions, including strong growth in the U.S. economy, a return to growth in the euro zone, the persistence of historically low interest rates, and a strong inflow of foreign direct investment.

Key Challenges

Against the background of impressive macro-economic performance, the Republic of Ireland continues to face the Scylla of Britain's withdrawal from the EU and the Charybdis of potential reforms to the corporate tax code in both the United States and EU.

Ireland is the only EU country to share a land border with the UK. The dangers posed by a hard Brexit are twofold. At the political level, a hard Brexit would lead to the re-imposition of a land border that had de facto disappeared under the EU in recent decades. The reintroduction of this land border could significantly undermine a peace process still in progress. Economically, the implications of a hard Brexit are equally serious as the UK accounts for a significant share of Ireland's external trade. The bare trade statistics (14% of Irish exports go to the UK) appear to suggest that Ireland's dependence on the UK has been greatly reduced in recent years. However, this decline is largely the result of strong growth in high tech and pharmaceutical exports from Ireland to countries other than the UK. The UK still accounts for over 40% of Ireland's agricultural exports, with more than 50% of beef and pork, and 84% of poultry exports destined for the UK.

The eventual scale of this economic challenge will depend on how multinational corporations currently based in Ireland respond to the reduction in the U.S. corporate tax rate. Though multinational corporations (MNCs) employ only 200,000 out of a total workforce of 2 million in Ireland, their activities have a significant influence on the overall performance of the economy. These MNCs have sizable interlinkages with

the services sector, particularly with law and accounting firms. The construction industry has also benefited from the increased demand for new factories, offices and housing. Ireland's low 12.5 % corporate tax rate has been a key factor in attracting MNCs to Ireland. However, the recent reduction in the U.S. corporate tax rate from 35 % to 21 % appears to reduce the incentive for multinational companies to base in Ireland. It may therefore reduce the flow of new U.S. multinational investment into Ireland, though there are many other factors such as geographic proximity to other EU countries, the multiplicity of double taxation arrangements between Ireland and other countries, the availability of a young English speaking labor force, and Ireland's membership in the euro zone that will continue to encourage MNCs to come to Ireland.

At the EU level, Ireland must react to increasing pressure for greater transparency regarding the tax agreements between MNCs and its national tax authorities. On 30 August 2016, the EU's Competition Commission found that Apple had unfairly benefited from selective treatment by Ireland's tax revenue commissioners in 1991 and 2007. This case has been appealed by both Apple and the Irish government. If both Apple and the Irish government lose their appeals, the Irish government will face the embarrassment of having to accept \$ 13 billion of unpaid taxes from Apple. Should this scenario arise and the Irish government accepts these unpaid taxes, it will face a flurry of actions from other EU countries who will contend that the revenues from these taxes should be transferred to them.

These diverse challenges must now be addressed by a minority government. On 6 May 2016, Taoiseach Enda Kenny formed the first minority government since 1997. This Fine Gael-led minority government replaced the Fine Gael-Labour Party coalition government that had taken office in March 2011. Public debate around the 2011 general election had focused on the four crises that had enveloped the economy between 2008 and 2011, namely the property market crash, banking collapse, fiscal downturn, and financial crisis. In the 2011 general election, a dissatisfied electorate had voted against Fianna Fáil and its coalition partners, and in favor of Fine Gael and the Labour Party. Together Fine Gael and the Labour Party won 113 out of 166 (68 %)

parliamentary seats, the largest majority of any Irish government.

During the 2016 general election, the Fine Gael-Labour Party coalition, having campaigned under the slogan “let’s keep the recovery going,” lost a combined 57 seats. Fine Gael lost 27 seats, while the Labour Party lost 30 seats. Fianna Fáil, the bête noire of the electorate in the 2011 general election, regained 25 seats and Sinn Féin, an Irish republican party, increased its number of seats to 23. The election also marked the further rise in the number of independents (23 seats) and marginal parties, including the Anti-Austerity Alliance–People Before Profit (6 seats), the Social Democrats (3 seats), and the Greens

(2 seats). The 2016 general election was characterized by a high level of party system fragmentation with historically low levels of support for the three largest parties. The combined proportion of votes won by Fine Gael, Fianna Fáil and the Labour Party dropped to 56 % from a long-term average of 84 %. The current minority government operates on a knife edge; there is the possibility that another general election will be called over the coming year.

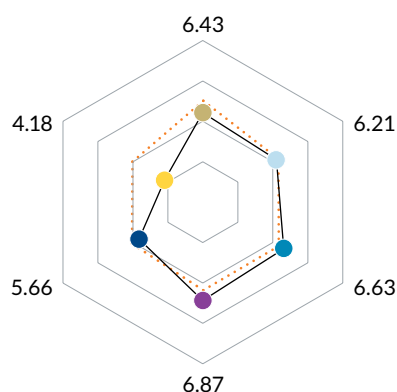
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→ Antoin E. Murphy, Paul L. Mitchell,
Nils C. Bandelow

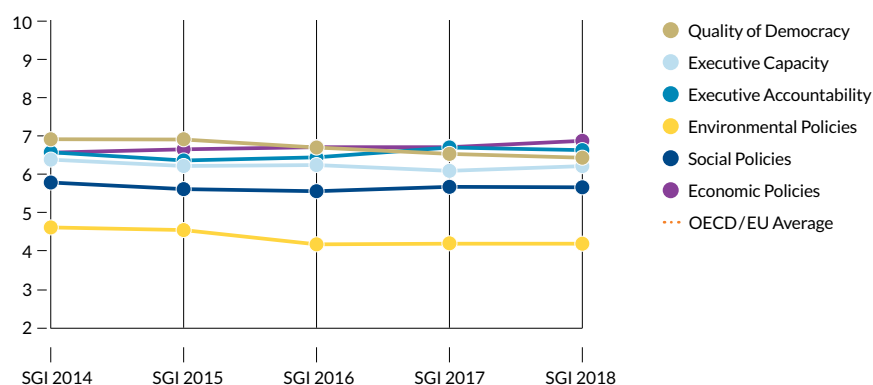
Country profile SGI 2018

Israel

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

The quality of Israeli democracy appeared to decline over the course of the review period. Given recent

developments, 45 % of Israeli citizens – with this group skewed toward left-wing Jewish voters and Arab Israelis – believe that Israel’s democratic system is in serious danger. Many

decisions made by the current government have been seen as undermining the democratic rules of the game. Among the Knesset's most controversial recent legislative measures have been a law requiring NGOs to disclose foreign funding sources and the Settlement Regularization Law, which addresses land privately owned by Palestinians.

Additionally, several top Israeli political officials, including Prime Minister Benjamin Netanyahu, have been involved in corruption cases. Despite Israel's improvement in Transparency International's 2016 Corruption Perceptions Index, a majority of the general public believes that Israel is a corrupt country. According to the 2017 Israeli Democracy Index, Israeli citizens show a considerable degree of distrust in Israel's leadership and institutions. The level of trust in the government, the Knesset and political parties was very low, with 30 % of Israeli citizens trusting the government, 26 % trusting the Knesset and only 15 % trusting political parties.

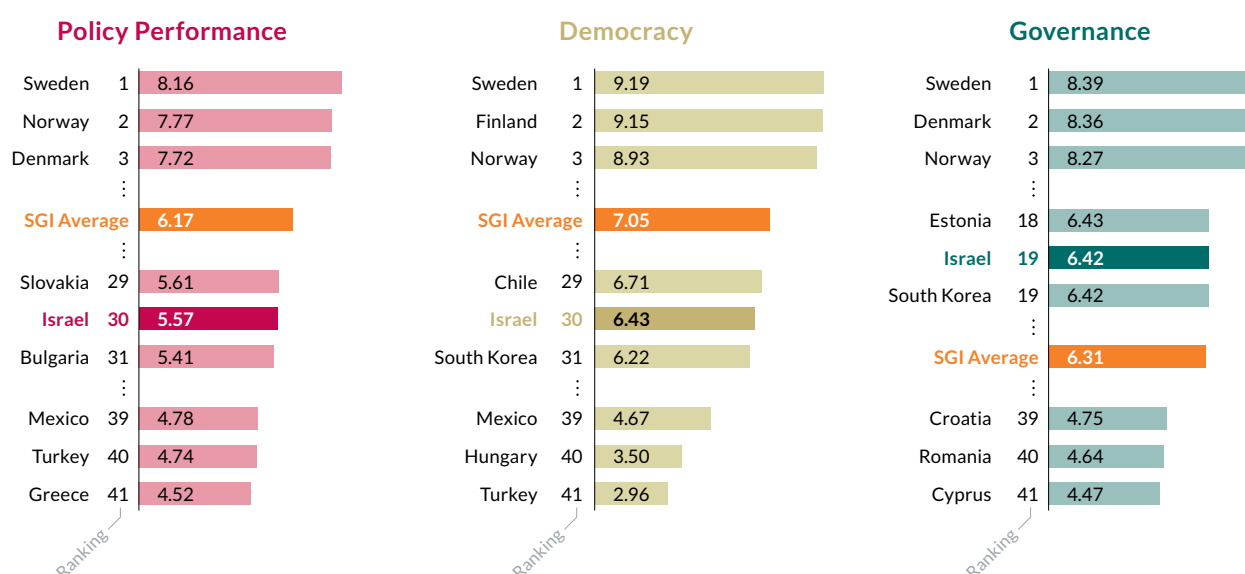
Economic policies in recent years have not changed dramatically. Israel has continued to show strength in key economic indicators such as GDP growth, the employment rate and the inflation rate, although the rising cost of living, high poverty rates and inequality remain key issues for many Israeli citizens.

With regard to social policies, the number of employed people increased in 2017; however,

the number of poor people and poor working families remains high. A more detailed observation indicates that the number of poor families declined, while the overall number of poor people increased. Poverty rates remain high especially among the elderly, Ultra-orthodox and Arab citizens. The government has made some efforts to address this issue, for example, by increasing the minimum wage in the Minimum Wage law, following an agreement between the Histadrut Labor Federation and business leaders.

In the area of environmental policy, Israel has demonstrated significant progress, for instance by ratifying the Paris climate agreement and making investments in emissions reductions. However, environmental organizations have accused the government of inactivity in investigating several recent ecological disasters, including a massive influx of acidic water that polluted Ashalim Creek in 2017.

With regard to executive capacity, the Israeli government has continued make efforts to reduce the regulatory burden. However, despite a 2014 decision to implement a new regulatory impact assessment (RIA) model, RIA reports are rarely published – indeed, in 2017, only seven reports were published. The policy-implementation rate has improved to more than 70 %, after several years of low implementation rates.



Source: Sustainable Governance Indicators.

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Key Challenges

Overall, Israel performs well in some spheres, but poorly in others. In the period under review, public trust in Israel's democratic institutions has weakened. Although the declining level of trust in political institutions is not unique to Israel, the current government's recent attempts to weaken the gatekeepers of Israeli democracy, especially the media, the Supreme Court and the police, are seen as a real democratic danger. In this context, virtually every action and entity in the public sphere is viewed through a political lens. In light of these developments, the current Israeli government should act more responsibly and with greater respect for fundamental democratic practices, strengthening the gatekeepers of Israeli democracy rather than undermining their activities and status.

The second main challenge is related to the high level of poverty in Israel. For several years, Israel has had the highest poverty rates in the OECD. According to the National Insurance Institute, approximately 1.8 million Israelis were living in poverty in 2016. Disadvantaged groups such as Israeli Arabs, elderly persons and Haredi (ultra-Orthodox) populations experience higher-than-average poverty rates. In line with OECD poverty-reduction recommendations, Israel should increase education funding for Haredi and Israeli Arab schools and increase the basic pension rate without creating work disincentives.

A third, serious challenge is the rising cost of living, including rising housing-market prices. Finance Minister Moshe Kahlon promised to combat cost increases during the 2015 election campaign, and as minister he has tried to make a mark through reductions in home prices, food costs and bank fees. However, while some of these plans have moved in a positive direction, others can be regarded primarily as electioneering tactics. Long-term, genuinely strategic plans should instead be made. Lowering home prices is also important to the financial system, as credit for construction and residences comprises more than half of all non-financial-sector private sector loans.

Fourth, the Israeli government should strengthen its weakened Civil Service, and work to improve staffers' capacities. As of December 2017, Israel had had no permanent Civil Service

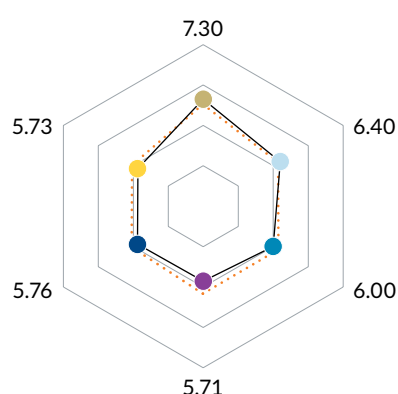
commissioner for six months, though this figure is the most senior official in the government administration, and plays a crucial role in managing the 80,000 government employees. Other top officials have also left the Civil Service in recent years. Separately, the government approved a new jobs law, allowing ministry directors-general to appoint their deputies without tender. The Israeli government should be actively encouraged to strengthen the Civil Service's human resources, rather than undermining administrative professionalization.

- David Levi-Faur
- Sabine Hofmann
- Roy Karadag

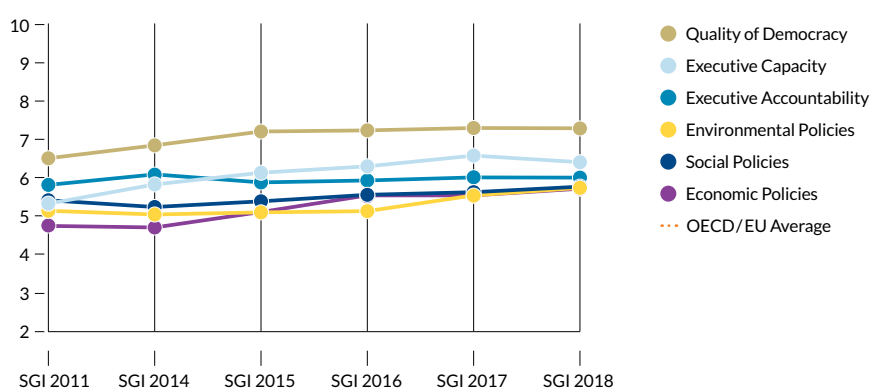
Country profile SGI 2018

Italy

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

In recent years, Italy has experienced one of its most serious economic crises, which has negatively affected industry, employment and government budgets. National and international confidence in the economy have been seriously damaged and are yet to fully recover. Increased immigration with refugees arriving from Africa, and a major earthquake in 2016 have added new challenges. Recent governments have faced a difficult dilemma of pursuing fiscal stabilization or promoting economic recovery. The Monti government's strong austerity measures, which included deep public expenditure cuts and a substantial reform of the pension system, were followed by the Renzi government's more expansionary policies. Yet, the current Gentiloni cabinet has tried to achieve a delicate balance between fiscal sustainability (and respect for EU rules) and promoting economic development. Gentiloni has adopted a more cooperative style with the

European Commission on budgetary policies, in contrast to Renzi's more aggressive approach.

A few months before the upcoming national elections (to be held in the spring of 2018), the political landscape is characterized by three political poles: the center-left Democratic Party (Partito Democratico), the anti-establishment Five Star Movement (Movimento Cinque Stelle), and a fragmented center-right coalition in which Berlusconi (Forza Italia) and Salvini (Lega) are competing for the leadership. As the new electoral system is largely proportional, the probability of any of these three political poles winning a majority in both chambers of parliament is low. Forming a coalition able to command a majority in the next parliament will be far from easy. At present, the Five Star Movement has said it would reject any coalition with the other parties. Meanwhile, internal dissensions within and between the center-right and center-left will make the formation of a grand coalition difficult. Political uncertainty is once again on the rise.

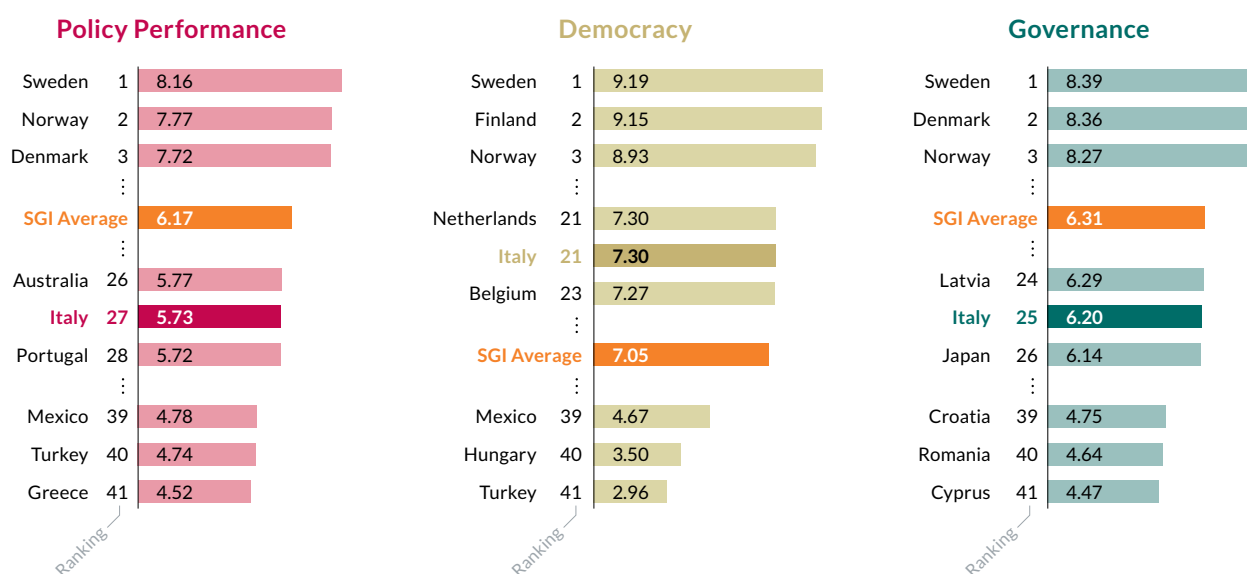
The strong personalization of leadership that prevailed under the Renzi government produced mixed effects. On the one hand, it enabled the government to embrace an ambitious reform agenda, which included constitutional, labor market, tax and public administration reforms. On the other hand, it placed the prime minister at the center of every political battle. The defeat of the Renzi government in the constitutional reform referendum persuaded the new prime minister, Gentiloni, to adopt a more collegial style.

The Gentiloni government has fundamentally maintained the economic priorities of the previous government, namely promoting economic growth and addressing high unemployment. This has meant continuing a mildly expansionary approach to fiscal policy, although the current government has also paid close attention to fiscal sustainability. This approach is justifiable in the short term in view of the difficult economic conditions. Yet, the high level of public debt, which leaves the economy vulnerable to external financial shocks, will require a more aggressive policy of fiscal consolidation in the near future. A bolder approach to the spending review process should be adopted with the twin purpose of cutting waste and enhancing the efficiency of state bureaucracy.

The government has also had to deal with a serious regional banking crisis. With the European Commission's agreement, the government invested heavily in stabilizing the regional banking sector. This response has made a positive contribution to the economic climate and ensured the availability of loans within the economy. The government should continue to promote the rationalization of the banking system to make it more efficient and robust.

The reform of public administration initiated under the Renzi government has been continued by the current government. However, not enough progress has been made. The quality and efficiency of public administration is still far from satisfactory. Civil service recruitment at all levels needs quicker and more selective. At the same time, a rigorous performance evaluation process must be fully implemented for senior civil servants. The efficiency and speed of judicial procedures must also be significantly improved and the evaluation of the quality of judicial work must be stricter.

Corruption continues to be a key factor undermining the quality of public administration. It distorts public service provision and economic activity and inhibits modernization. The government has made important progress in addressing this problem but must continue its efforts.



Source: Sustainable Governance Indicators.

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The relationship between central government and local authorities has not found a satisfactory equilibrium. A clearer division of responsibilities is required, while sufficient funds must be made available to local authorities to fulfill their functions and mechanisms of accountability must be improved.

Since the end of 2014, the economy has slowly begun to recover, but remains below pre-crisis levels. Further economic modernization and liberalization is required, while recent labor, social and industrial reforms are only just beginning to affect economic growth.

The recent economic and financial crises have exposed failings in family and social policies. Italy has an aging population and very low birthrate, which current policies are failing to address. Fiscal support for families with children is still too low. Similarly, measures to improve gender equality in the work place, and reconcile work and family life are weak. Poverty also needs to be a much more important priority.

A significant proportion of the political elite and public now believe that Italy must adopt a more active role within the European Union. To achieve this, an assertive leadership is necessary, but the government must also gain greater credibility in the European Union by fully respecting commitments made by previous governments. It must also avoid courting public skepticism regarding supranational integration. The respective development of these tendencies will be key to shaping Italy's role in the European Union.

Key Challenges

Italy suffered severely from a long period of economic and financial crises. However, Italy's recent economic recovery can build on strong family bonds, high household savings rates, the resilience of small businesses, several strong manufacturing sectors and the quality of some public institutions, including the Presidency of the Republic and the central bank (Banca d'Italia). At the same, the economic and financial crises have exposed serious weaknesses across the public and private sectors, which must be addressed to ensure economic sustainability.

State institutions need significant reform. After the failure of the 2016 referendum on the excessively broad constitutional reform and the strong personalization around the former prime minister, Matteo Renzi, the need to improve crucial mechanisms of governance remains. The recently approved electoral reform will further fragment parliament. To counterbalance this effect, the next government coalition (following the 2018 elections) should concentrate on defining a well-selected and clearly agreed government program. The government should also carefully define mechanisms for resolving internal conflicts. The parliament should improve its procedural rules to discourage the further fragmentation of parliamentary groups and make decision-making more efficient.

Special attention should be given to improving the organization of the Prime Minister's Office (PMO). The PMO should become a more effective tool for steering and coordinating the decision-making process of the cabinet. The continuing accumulation of heterogeneous functions in this office should be discouraged, as it exacerbates the lack of coordination between ministries. The lack of coordination has meant that ordinary policies are inefficiently implemented and poorly resourced, and extraordinary policies are well endowed and often free from normal rules. Non-strategic functions should be transferred from the PMO to other government bodies, so that the PMO can focus on important policy-making issues. More opportunities for independent experts and open consultations to improve the quality of policymaking should be encouraged. Greater emphasis should be given to strategic and innovative policymaking approaches, rather than the traditional, conservative approaches.

The relationship between central and local governments has yet to find a satisfactory equilibrium. Central government has largely failed to control local and regional government spending. Yet, central government has simultaneously reduced the range of independent revenue sources available to local governments. This has increased local government dependency, while encouraging irresponsible behavior. The legislative role of regions, in the past excessively extended, must be more focused on regional issues. A more sustainable balance between local government autonomy and responsibility must be found.

Further democratization and fresh leadership, complemented by tighter regulation of party organizations, is required to rebuild public trust in the established political parties. New legal rules should be adopted to promote internal democracy within political parties. In addition, a transition in political culture away from excessive personalization and competitive rhetoric toward pragmatism and internationalism is needed.

Public administration requires a fundamental restructuring, clearly defined central and local government powers, and substantial reform of recruitment procedures, particularly for senior civil servants. Careful performance evaluation processes for all levels of public administration and greater accountability for senior civil servants should be a priority. The judiciary should be actively encouraged to accept reforms that increase its professional quality and ability to ensure timely justice. A less politicized judiciary should be enforced.

Economic policymaking needs to promote a more dynamic and growth-oriented economy. This will require further economic liberalization, and the curtailment of monopolistic and oligopolistic power. In addition, business regulation should be simplified to enable traditional and emergent businesses to co-exist. Meanwhile, fiscal expansion, designed to ease pressure on production and employment, must be balanced against fiscal sustainability. Small businesses need more support in accessing credit, and should be encouraged to grow and diversify. Government, business associations and trade unions should share the responsibility for achieving these goals, which will require an economic culture of cooperation and pragmatism.

As immigrants form an increasingly large proportion of the workforce, the management of immigration, and the effective integration and protection of immigrants' rights must receive greater attention. Proposed legislation addressing the issue of access to citizenship for immigrants should define a realistic path toward citizenship for immigrants to facilitate integration.

Better cooperation between public authorities and private organizations is necessary for the improved management of natural resources and cultural heritage. Natural resources and cultural heritage are important to improving people's

quality of life, economic growth, the tourism industry, a sustainable agricultural sector and foreign investment.

The education system should be a higher priority, despite the austerity agenda. More flexibility and openness in the education system is necessary for the system to respond to changing societal needs. After years of severe budget cuts, universities and research centers need to be given the resources to recruit young people and qualified foreigners. A higher skilled workforce complemented by a knowledge-based, innovative economy would increase economic competitiveness.

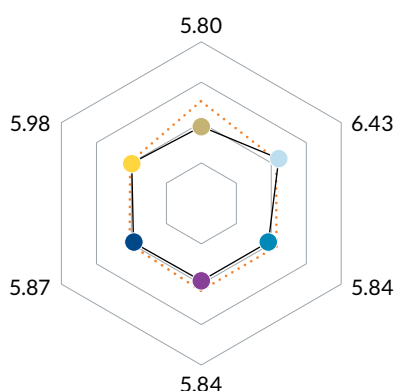
Italy should participate more actively in EU and international spaces. While already leading some EU operations, Italy should look to build closer and more cooperative relationships with neighboring countries, identifying common agendas rather than focusing on narrow national interests. This would allow Italy to more effectively exploit its geopolitical potential.

- Maurizio Cotta
- Roman Maruhn
- César Colino

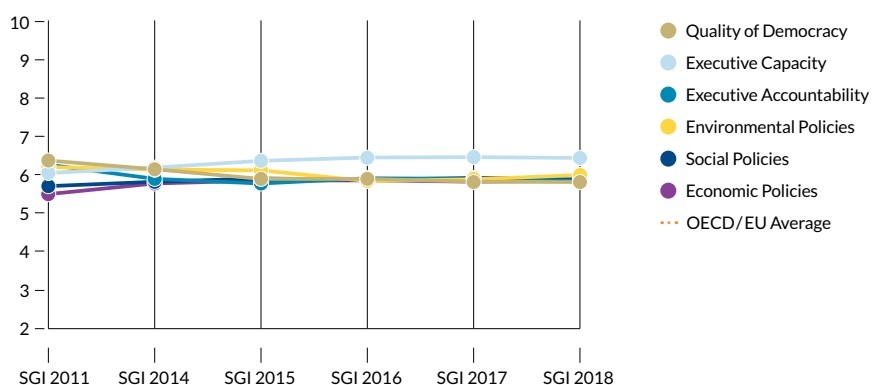
Country profile SGI 2018

Japan

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

After years of short-lived cabinets, the 2012 general election led to a stable coalition between the Liberal Democratic Party (LDP) and the Komeito that has lasted since, creating a space for decisive political action in Japan rarely seen in recent decades. The Lower House snap election in October 2017 confirmed the governing coalition, which following the election held two-thirds majorities in both chambers. Despite the election results, however, Prime Minister Shinzo Abe remains unpopular among many voters. While this is in part because of his goal to change the constitution, other factors include the delays in implementing his socioeconomic reform agenda and his administration's inability either to achieve a robust economic upturn or effectively address the issues of precarious employment and unequal income distribution. These still-unsolved problems continue to lead to old-age poverty and unstable jobs for large numbers of people, especially among the young generation.

During its first years in power, the Abe cabinet focused on a major economic-stimulus program ("Abenomics" and its "Three Arrows") that included an aggressive course of monetary easing and additional deficit spending. While the short-term effects of this unprecedented policy gamble were positive, consumption and investment levels have remained anemic, leading to a weak but prolonged recovery. This has led to a positive inflation rate, but without producing a definitive upswing. Long-term prospects for improvement still depend on serious structural reforms, the so-called third arrow of Abenomics; however, these reforms have yet to emerge, despite some progress related to better conditions for working women, for example.

Since 2015, a second policy round consisting of three new "arrows" – this time referring to a strong economy, better child care and improved social security – has further deflected attention from institutional reforms. Apart from social-policy measures reacting to the emergence of serious distributional concerns, the focus on a

“strong economy,” which has involved an emphasis on productivity, small enterprises, regional economies and selected industries, has tended to evoke conventional concepts of industrial policy, which are of dubious value in today’s global economic environment. Moreover, the stimulus power of the unconventional monetary easing seems to have reached its limits, and is no longer able to trigger the desired sustained upturn of expectations and economic activity.

Time is running out in Japan to initiate a strong economic upturn. In parallel, the potential for destabilizing junctures is growing, with trust in institutions remaining very low, and the population among the most pessimistic in the OECD world.

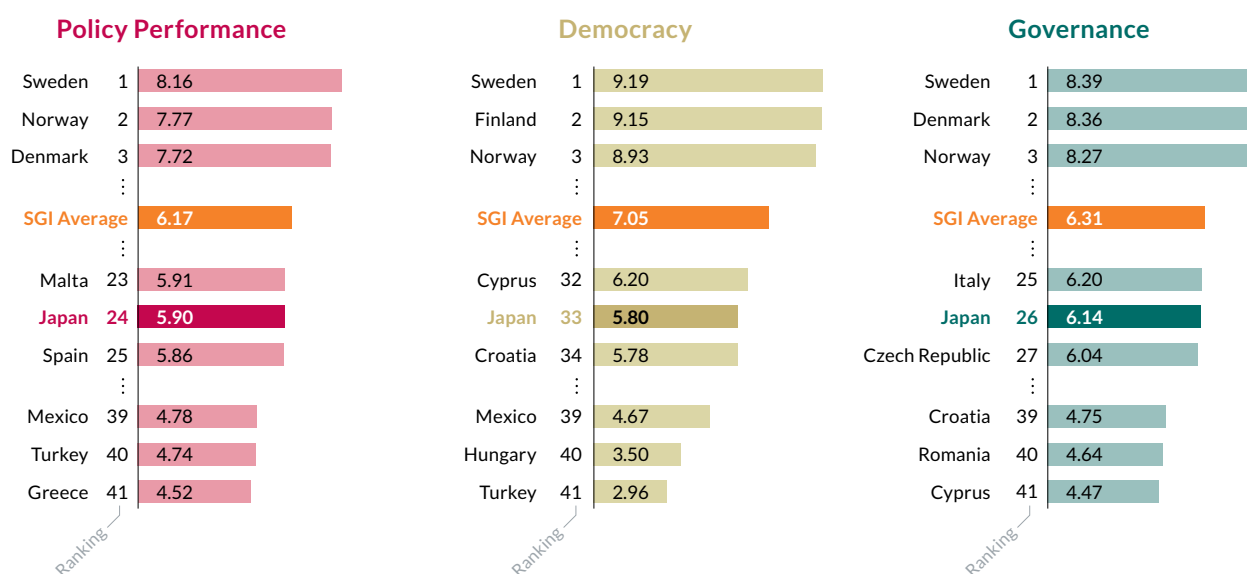
With regard to international policy, U.S. President Trump’s decision not to ratify the Trans-Pacific Partnership (TPP) and the escalation in U.S.–North Korean tensions have created a difficult situation for Japan. Tensions with China and South Korea have been reduced to some extent, and Japan seems more willing to accept Chinese leadership on some regional issues, for instance in matters related to the Asian Infrastructure Investment Bank.

Constitutional reform, the government’s second major stated policy priority, has been met with considerable resistance. Nevertheless, the government successfully introduced new

security legislation in 2015 despite considerable opposition, providing the basis for a more proactive security strategy. With the necessary supermajorities in parliament in place, Abe seems determined to push ahead with his plans to achieve a revision by 2020, despite the widespread unpopularity of this move.

With respect to the quality of democracy, the courts and the major media remain of only limited effectiveness in terms of providing checks on the government. However, high-level courts have become somewhat more restless. Additionally, social-media criticism has grown and civil society organizations have become more active following the catastrophes of 3/11 and the controversy over the introduction of the security laws, but to date this has had only very limited impact on public policy. The recent passage of the state secrets law and attempts to sideline progressive voices within the established media are worrying, and concerns about press freedom and civil liberties have been mounting. Japan is now at the bottom of G-7 in terms of press-freedom ratings. The parliamentary opposition effectively lacks the ability to launch initiatives vis-à-vis the government. The governing coalition’s supermajorities in parliament severely impede the opposition’s capacity to exercise effective oversight.

The LDP-led government has quite successfully sought to steer from the center, for in-



Source: Sustainable Governance Indicators.

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stance by strengthening the Cabinet Office and its secretariat, and centralizing discussion fora for cross-cutting strategic issues. However, tensions between the core executive and line ministries (and their constituencies) remain, and have contributed to delayed reforms in several policy areas.

Key Challenges

Japan provides a high standard of living and safe living conditions for more than 120 million people. Despite major problems such as a rapidly aging population and an inadequate integration of women into its workforce, it has remained one of the leading economies in the world, and its rate of per capita economic growth is in line with that in the United States or the European Union. Notably, however, disposable incomes have risen little in recent years, and real consumption per capita has been flat. In a country that was once hailed as the epitome of equitable growth, a new precariat has emerged, with 40 % of the labor force working in nonregular positions.

If stability is to be achieved, the Abenomics program's short-term expansionary measures must be followed by serious structural reforms. Vital policy objectives include the significant reduction of protectionist agricultural provisions, the creation of a more liberal labor-market regime, the provision of effective support for well-educated women, the establishment of a more liberal immigration policy with corresponding integration policies, the development of a convincing energy policy in line with the 2015 Paris Agreement, and the introduction of better-targeted social-policy reforms.

Some progress has been made, for instance in the area of free-trade promotion, but more has to be achieved, and swiftly. For example, labor-policy reform bills were delayed during the review period because of the snap elections in 2017, while even the draft measures appeared to place insufficient priority on distributional outcomes.

The resistance to restarting nuclear reactors among the public, regional governments and even the court system should lead the government to rethink its strategy and seek a more acceptable energy policy that conforms with the 2015 Paris Agreement goals.

The window in which genuine progress can be made is closing, as macroeconomic stimulus has its limits. The administration has pushed the central bank further toward activist policy, promised to increase government expenditures, and earmarked expected consumption-tax increases for further public spending instead of debt reduction, all moves that increase the danger that the public finances will be pushed into unsustainability.

In the field of foreign and security policy, it will be very tricky for the LDP to balance its assertive reformulation of security laws and possible further moves toward constitutional change with these policies' potential negative effects on (regional) foreign relations. The limited popular support for this policy direction will only further exacerbate these hurdles. While Japan has enjoyed a good start with the current U.S. president, and while the dangers of even more protectionism globally seem somewhat reduced, this does not diminish concerns about other challenges such as the specter of a nuclear arms race in the region and increasing tensions with a resurgent China.

The ruling coalition's comfortable super-majorities in both chambers of parliament provide the government with both opportunity and challenges. They seem to give the government the necessary leverage to push through reforms, but also strengthen the position of parliamentary vested interests that oppose a disruption of the comfortable status quo.

It will be risky for the government to pursue its two major priorities, economic and constitutional reform, at the same time, since the recent past indicates that the coalition's remaining political capital may not suffice to accomplish both. Without a return to a strong economy, constitutional change will not create a more self-assured Japanese state. Thus, socioeconomic reform should take precedence. In this regard, the government will need to strengthen alliances with interest groups that support the reform movement. This may include Japan's globally-oriented business sector, which has little interest in seeing its home market further weakened.

Courts, the media (including social media) and civil society movements should seek to improve their capacities to monitor and oversee the government. The government should not view media criticism as an obstacle to the fulfillment

of its ambitions, but as a corrective in an open and democratic society that works to improve the fit between government plans and popular aspirations and concerns.

As of this date, the parliament does not provide effective governmental checks and balances. Parliamentarians need to make better use of their resources to develop alternative legislative initiatives.

Full report available at
www.sgi-network.org

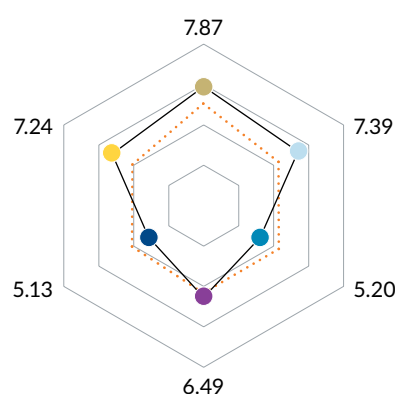
The difficult search for country-level solutions should be combined with policy experiments at other levels. The post-2014 introduction of new special economic zones is a welcome step, but this strategy should be both bolder and broader.

→ Werner Pascha, Patrick Köllner, Aurel Croissant

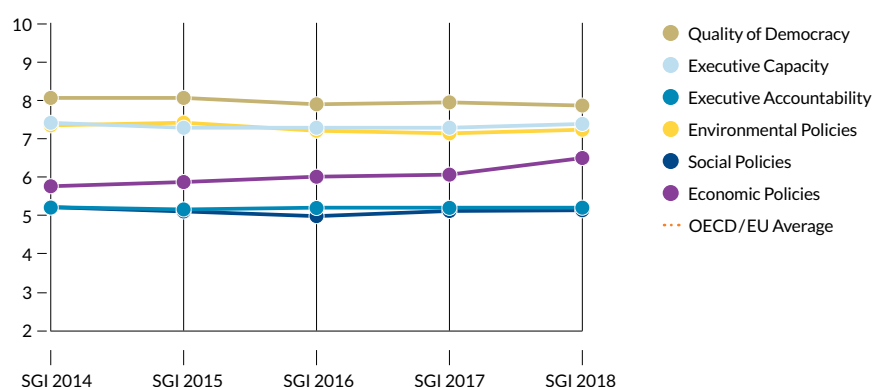
Country profile SGI 2018

Latvia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Latvia's economy has rebounded; GDP growth in 2017 once again placed it among the fastest growing economies in Europe. This has created fiscal space to shift focus to policy challenges neglected in the past, including social inequalities and income disparities as well as poor health and education outcomes. A recent reform package has shifted the tax system toward a progressive income tax,

reducing the tax burden on low-wage earners. Ambitious education reforms have been announced, but their successful implementation remains far from guaranteed given the vocal opposition from teachers and local government authorities. A much needed supplementary allocation to the health care budget has been passed for 2018. Overdue reforms of the health care system remain fraught with controversy as current drafts appear to prioritize tax collection over access to health care.

The increasingly unpredictable international climate poses a continuing threat to domestic security. Latvia will meet its NATO defense spending goal of 2 % of GDP in 2018. Contradictory pro-EU and pro-Russian narratives have been exacerbated by a lack of independent local media and tensions within Latvia's bilingual population. The slow post-factum unveiling of Russian interference in European and United States elections raises questions of how Latvia will mitigate potential interference in its own elections in 2018.

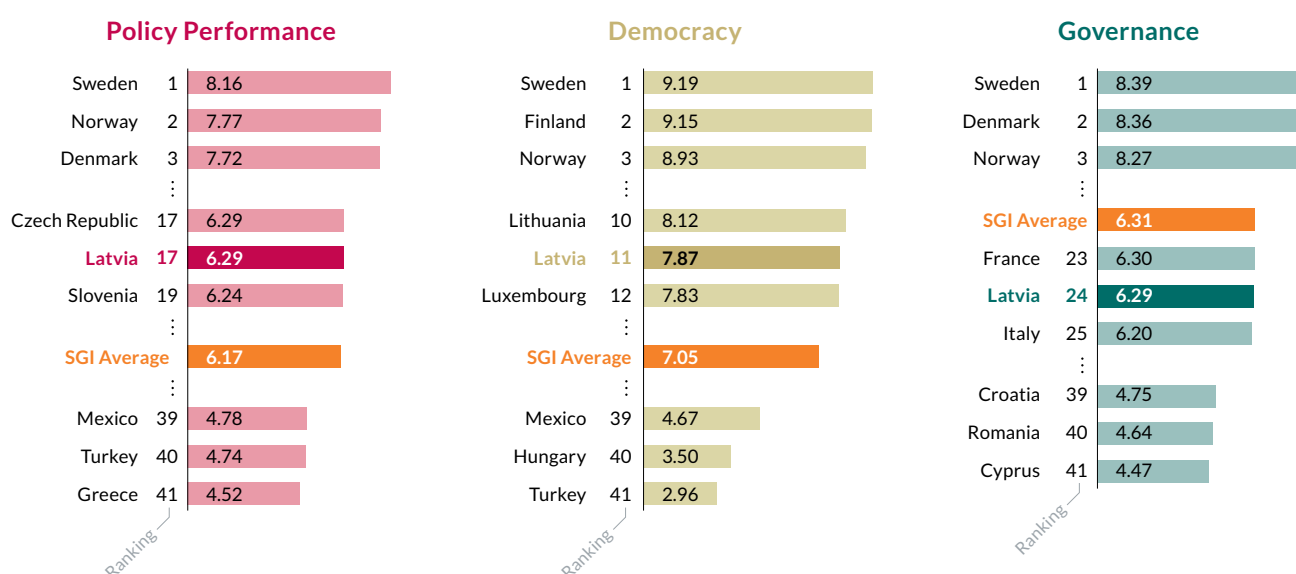
Latvia joined the OECD in 2016. Reforms advocated by the OECD are being implemented, including on improving the management of state-owned enterprises, ensuring political non-interference, and separating the state's management and regulatory functions. While frameworks for the management of state-owned enterprises and for insolvency procedures have been improved, implementation remains a challenge. The Foreign Investors Council has identified issues undermining the foreign investment climate, including a lack of legal certainty in court decisions and tax policy and demographic challenges to Latvia's long-term immigration policy.

The government has significant strategic capacities. The Cross-Sectoral Coordination Centre (PKC) offers regular, quality assessments that feed into the day-to-day decision-making processes of government. However, the PKC has

failed to establish its authority among the numerous voices in government decision-making, with the result that PKC analyses are often overlooked in favor of political expediency. Latvia's governance system is increasingly open to evidence-based policymaking and external advice. While underfunded, the participation of academic experts and NGOs in policy development is increasingly the norm.

The parliament (Saeima) faces serious challenges in exercising executive oversight. In 2017, parliament established a parliamentary research unit. Its initial mandate, however, is quite narrow; it will provide several research products per year, defined and agreed upon via a collaborative process conducted during the preceding year. The limited scope of this mandate will prevent the research unit from having an impact on day-to-day legislative decision-making.

Though Latvia has a stable democratic framework that protects civil rights, political liberties, and democratic institutions, most citizens do not trust the government and are reluctant to participate politically. Only 15 % of respondents to a recent public opinion poll agreed that they could influence decision-making, while a negligible percentage stated that they engage directly in party politics. The government faces challenges in building trust, limiting the performance of the democratic system. Several reforms are necessary to improve governance, including protecting the



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

independence of public broadcasting and rebuilding a solid anti-corruption institution.

Key Challenges

The government has proven to be capable of focused and determined policy development. The growing economy presents opportunities to realign tax burdens and focus on long-term drivers of economic performance and growth, such as education and innovation. It also permits a focus on long-neglected policy challenges, such as reducing social inequalities. Encouraging steps have been taken. The government must now follow through on measures shifting the tax burden away from low-wage earners, improving health care access and quality, and reforming education. The needs in these challenges are enormous, but must be balanced with fiscal prudence.

If social inequality remains unaddressed, public trust will continue to slip, risking a further rise in emigration. The mismatch of skills in the Latvian labor market has created high unemployment coupled with a qualified labor shortage. Negative demographic trends will exacerbate this situation in the future. The government should focus on policies that mitigate labor shortages, such as remigration incentives and immigration policies specifically targeted to fill particular highly skilled labor needs.

The government should continue to address barriers to economic development, such as the slow court system, inadequate insolvency procedures and corruption. Policies adopted in preparation for OECD membership should be followed through to successful implementation. With the 2017 change in leadership at the Corruption Prevention and Combating Bureau (KNAB), there is now the opportunity for a long overdue repositioning and overhaul of the institution.

Given international tensions stemming from Russia's activities, Latvia must fulfil its NATO defense commitments as well as mitigate the economic effects of the sanctions imposed on Russia by the European Union. The approved budget allocation to meet Latvia's NATO defense spending commitments starting in 2018 is a welcome development. However, resilience in the face of a hybrid war requires other types of spending. Strengthening the independence,

quality and reach of public broadcasting will be key to addressing the contradictory pro-EU, pro-Russian media narratives that are circulating. The government should take advantage of the fiscal space generated by a growing economy to consolidate the financial independence of public broadcasting by providing resources that are not subject to annual budget shifts. With adequate funding, these reforms could free public broadcasting from relying on advertising revenue. Recent election interference by Russia in the United States and Europe raises the specter of similar interference in Latvia, where information warfare is common. The government must equip itself to mitigate the threat that this presents for the 2018 national elections.

The establishment of a parliamentary research unit in 2017 is a welcome step toward improving the parliament's capacity for executive oversight. Unfortunately, the initial mandate for the research unit will have limited impact on day-to-day legislative decision-making. The research unit should be given a broader mandate, one that enables it to bring evidence-based analysis into the work of parliamentary committees.

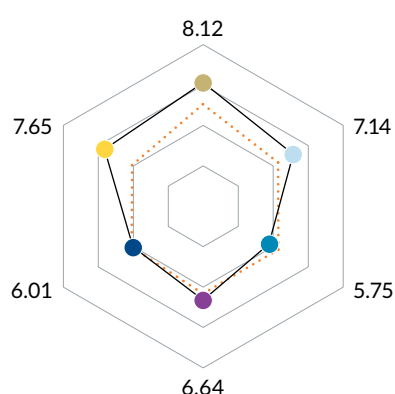
Government decision-making processes are well managed, transparent and allow for stakeholder input. The practice of fast-tracking policy proposals undermines this process; further efforts should be made to reduce the use of fast-tracking. The Cross-Sectoral Coordination Centre (PKC) is well placed to support strategic planning in the new medium-term budget framework and to keep the government focused on long-term goals. However, the PKC must focus on building its informal authority within the decision-making process so that its analyses can counteract the pull toward political expediency.

The government should continue to create space for constructive civic engagement by building on innovative public engagement platforms already launched and channeling financial support to NGOs that engage in the policy process. While the government has offered significant support to some social partners, most NGOs remain dependent on rapidly declining foreign funding as local funding has not filled the shortfall.

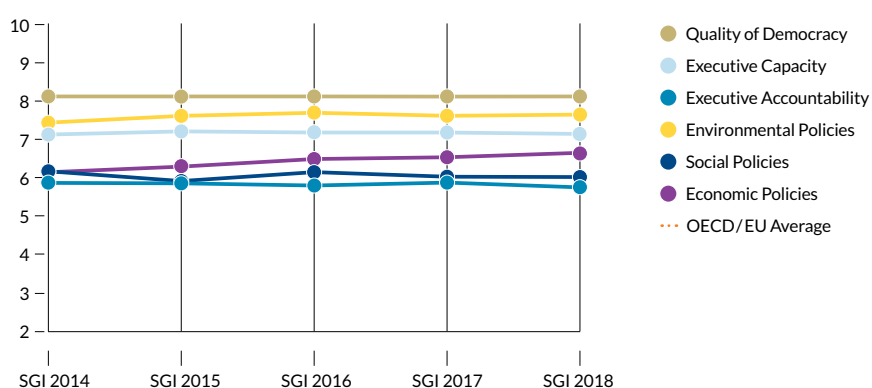
Country profile SGI 2018

Lithuania

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Formal democracy is well developed in Lithuania. Participation rights, electoral competition and the rule of law are generally respected by the Lithuanian authorities. However, substantive democracy suffers from several weaknesses. Despite some recent improvements, party financing is not sufficiently monitored or audited, and campaign-financing legislation is not subject to adequate enforcement. In addition, discrimination continues to be evident, sometimes significantly so. Most importantly, corruption is not sufficiently contained in Lithuania. Anti-corruption legislation is well developed, but the public sector continues to offer opportunities for abuses of power and the enforcement of anti-corruption laws remains insufficient.

Lithuanian policymakers have sought to establish and maintain social, economic and environmental conditions that promote citizens' well-being. However, the country's policy performance remains mixed, with social-policy

results lagging behind those of economic and environmental policies. Some observers attribute this to EU transition and integration processes, which have primarily focused on political, economic and administrative issues. The country's formal governance arrangements are well designed. However, these arrangements do not always function to their full potential. There are significant gaps in policy implementation and the use of impact-assessment processes for important policy decisions, while societal consultation remains underdeveloped. Across most sustainable governance criteria, little has changed during the review period.

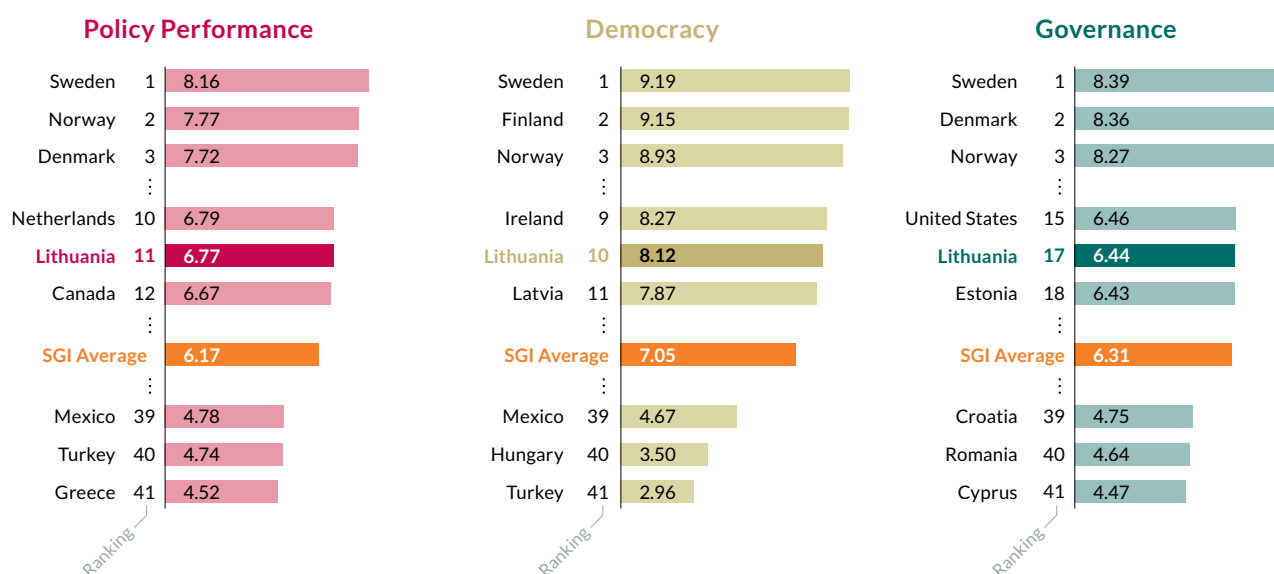
The establishment of a new coalition government was the most significant development during the review period. The Lithuanian Farmers and Greens Union won 56 out of 141 seats, and became the largest parliamentary party, although many of its faction members are not party members. The union is jointly led by Ramūnas Karbauskis, an industrial farmer and large landowner, and Saulius Skvernelis, a for-

mer police chief and interior minister in the 2012 to 2016 government. In December 2016, the Lithuanian Farmers and Greens Union, and the Social Democratic Party of Lithuania formed a coalition government with a parliamentary majority of 73 out of 141 parliamentary seats. However, in autumn 2017, the coalition became a minority government following the break-up of the Social Democratic Party of Lithuania.

During the election campaign the Lithuanian Farmers and Greens pledged to form a technocratic government. Consequently, only one out of 14 initial government ministers was a member of the union, while two ministers were members of the Social Democratic Party of Lithuania and 11 ministers were officially independent. Saulius Skvernelis led the Lithuanian Farmers and Greens Union during the election campaign, but without formally joining the party. Skvernelis subsequently became the new prime minister. Despite this arrangement, a few elected politicians from the Lithuanian Farmers and Greens Union have announced government policy pledges, which include introducing a state monopoly on alcohol sales, establishing a state-owned bank and transferring social-security contributions from second-pillar private pension funds to the state social security fund. However, the new government program, approved in December 2016, failed to substanti-

ate several of these pledges. In its first year, the main policy decisions adopted by the new government included reform of the state-owned forestry companies, largely motivated and legitimized by the need to implement OECD recommendations required to join the organization, and the revised Labor Code. Considerable attention was also allocated to measures to reduce the availability of alcohol. However, many other reforms that were included in the government program (e.g., higher education, public administration, tax and pension reforms) are still in the preparatory stages of development, while reform of the forestry companies is likely to experience substantial resistance during the process of implementation. It should be noted that other state-owned enterprises like Lithuanian Railways, which have long been suspected of non-transparent practices, have also been reformed. The introduction of these reforms can be attributed to the skilled leadership of Rokas Masiulis, minister of transport and formerly minister of energy in the previous government, the prime minister and the president, and the ability of government to undertake reforms without the need for parliamentary approval.

In terms of economic development, the economy continued to perform positively through 2015 and 2016. After the shock of the 2008 financial and economic crises, the economy



Source: Sustainable Governance Indicators.

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returned to growth in 2010 following fiscal consolidation, a recovery in the global economy and increasing domestic demand. Lithuania has since numbered among the fastest-growing economies in the European Union with real GDP growth around 3 %, despite the negative effects of sanctions imposed by Russia on exports from the European Union. Though the economic growth rate dropped to 1.7 % in 2015 due to a drop in exports to Russia, economic activity picked up in 2016 reaching 2.3 % growth and is projected to increase to 3.8 % in 2017. However, inflation has become a major public concern.

In 2016, labor market outcomes improved due to economic growth and a declining working-age population. Unemployment decreased from 10.7 % in 2014 to 8.1 % in 2016 and is projected to decline further. The two main issues affecting the labor market are the mismatch between the supply of and demand for skilled labor, and the decreasing pool of labor due to emigration and declining numbers of graduates entering the labor market. However, despite these changes, unemployment rates remain high among low-skilled workers and the number of people at risk of social exclusion remains high. The share of the population at risk of poverty or social exclusion declined from 30.8 % in 2013 to 27.3 % in 2014, but increased to 29.3 % in 2015. Moreover, the country continues to compare relatively poorly in terms of life expectancy at birth. A low birthrate, emigration to richer EU member states and relatively low immigration continue to present significant demographic challenges. These demographic challenges are likely to negatively affect economic growth and the pension system, and increase pressure to restructure the education, health care and public administration systems. In 2016, the parliament approved a new “social model,” which provides for the liberalization of labor market relations and the development of a more sustainable state social-insurance system. Implementation of the new social model began in mid-2017 after the new government revised the initial proposal to better balance labor market flexibility and employee protections.

Under the 2012 to 2016 and current governments, there was significant continuity in the country’s governance arrangements, although meetings of the State Progress Council and the Sunset Commission were discontinued in 2016.

Overall, executive capacity and accountability have remained largely similar. Lithuania continued its preparations for joining the OECD, which has been the main motivating factor behind reforms to state-owned enterprises and regulatory policies. Another related positive development is the depoliticization of executive civil service appointments and the professionalization of management in state-owned enterprises. However, power and authority remain centralized. Citizens and other external stakeholders rarely engage in the processes of government. Despite numerous electoral pledges to undertake cost-benefit analyses, most major reforms are not accompanied by substantive impact assessments and stakeholder consultations. In particular, the initiatives of members of parliament continue to be poorly prepared and lack proper impact assessments.

Key Challenges

Following the recent party leadership election, the Social Democratic Party of Lithuania voted to leave the ruling coalition. However, most members of the party’s parliamentary group decided to stay in the coalition. One minister delegated by the Social Democratic Party resigned from the cabinet, while two other ministers decided to continue their work in the government. Although the Lithuanian Farmers and Greens Union is expected to continue cooperating with eight former Social Democratic Party members of parliament, the current government is balanced on the verge of a minority government. To remain in power, the government will require political backing from other parliamentary groups, which will complicate the implementation of the government program, especially the adoption of structural reforms. However, the adoption of the 2018 budget indicates that the current minority government arrangement is able to gather enough parliamentary support for major political decisions. This might change if some political actors decide to shift their position with a view to the forthcoming presidential elections in 2019, but it is possible that this situation could continue until the next scheduled parliamentary elections in 2020.

To address key policy priorities (e.g., education, innovation, taxation and pension reforms), consensus between the government, president

and parliament is needed. The commitment to increase defense spending to 2 % of GDP by 2018 demonstrates that consensus can be achieved in the context of geopolitical tensions. In addition, policy implementation and institutional reform must be given sufficient attention. The successful development of a new liquified natural gas terminal in Klaipėda, an electricity network linking Lithuania, Poland and Sweden, and the adoption of the euro in 2015 demonstrate the country's capacity to complete major political projects. During the spring 2017 parliamentary session, the Skvernelis government was able to push through several important reforms (including the adoption of a new labor code, optimization of the network of state universities, merger of state-owned forestry companies and amendments to the Alcohol Control Law). However, it is not clear if the current government will be able to sustain this reform momentum due to its diminished parliamentary majority following the split within the Social Democratic Party.

Key challenges to long-term economic competitiveness include negative demographic developments, labor-market deficiencies, persistently high emigration rates, rising levels of poverty and social exclusion, inadequate physical infrastructure (particularly in the energy system), relatively high income tax rates, a large shadow economy, low energy efficiency (especially in buildings), low R&D spending, and weak innovation. To address these challenges, the new government should continue reforming the labor market, higher education sector, social-inclusion policy and energy sector. Furthermore, as a small and open economy dependent on exports, Lithuania is particularly sensitive to external shocks. To reduce the economy's exposure to external shocks, the government must improve the national regulatory environment and increase business flexibility to reorient market activities. The performance of the country's schools and higher education institutions should be improved through structural reforms, a greater focus on results and institutional capacity-building. For instance, poorly performing universities should be merged or closed, and the government's limited resources distributed to the best performing universities to invest in R&D and improve the quality of study programs. The restructuring of the health care

sector should also be continued. Given the declining population, the size of the country's public administration needs to be reduced (in terms of the number of public administration institutions and staff employed) and made more efficient.

Although Lithuania's public finances are solid, fiscal challenges are set to become more difficult in the medium term due to the declining population and increasing dependency ratios. The complex causes of structural unemployment, persistent emigration, rising poverty and social exclusion should be urgently addressed. A mix of government interventions is needed to mitigate these social problems, including general improvements to the business environment, effective active labor-market measures, an increase in the flexibility of labor-market regulation, improvements in education and training, cash-based social assistance, and other social services targeted at vulnerable groups. The government's new "social model," which contains proposals to liberalize labor relations and improve the sustainability of the social-insurance system, entered into force in mid-2017.

The European Union's 2014 to 2020 financial-assistance program for Lithuania is expected to total about €13 billion. The key goal of the program is to promote economic competitiveness in Lithuania. However, funding should target economic sectors with high potential growth, while being careful not to distort markets or fund corruption. Better policy implementation in line with strategic priorities set out in, for example, Lithuania 2030 and the Partnership Agreement with the European Commission (i.e., Europe 2020 strategy) would improve the effectiveness and sustainability of policy developments, and quality of governance. In addition, the Lithuanian authorities should improve the result-orientation of EU funds while maintaining a high rate of financial absorption.

Democracy and governance arrangements could be improved by strengthening some legislation (e.g., media-ownership transparency), while enforcing other legislation more strictly (e.g., anti-discrimination rules). Collaboration between central government, local governments and civil society actors could be improved by encouraging citizen participation, making wider use of existing impact assessment processes and stricter adherence to the principle of proportionality.

Corruption in the health care sector, parliament, court system, police and local authorities must be tackled by enforcing anti-corruption regulations more effectively. The professionalism of the civil service must be maintained, while integrating modern policymaking practices (e.g., strategic oversight, evidence-based policymaking and inter-institutional coordina-

tion), improving policy delivery, and ensuring that senior appointments in the civil service and state-owned companies are not politicized.

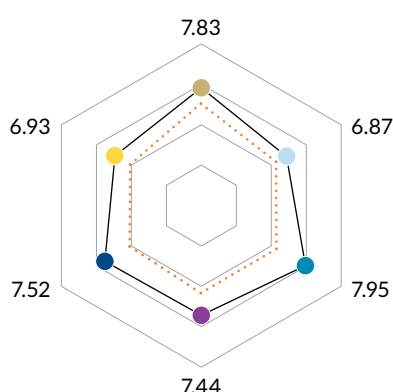
Full report available at www.sgi-network.org

→ Vitalis Nakrošis, Ramūnas Vilpišauskas, Detlef Jahn

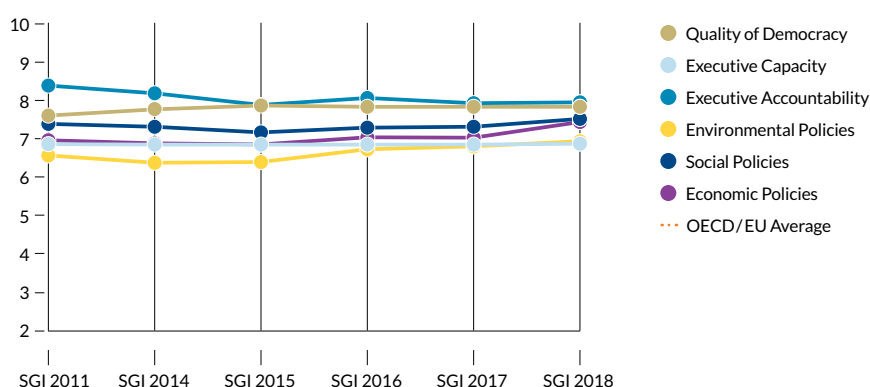
Country profile SGI 2018

Luxembourg

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Luxembourg is a founding member of the United Nations (1945), NATO (1949), the European Coal and Steel Community (1950), the European Economic Community (1957) and OECD (1960). It is also one of the three capitals of the EU, along with Brussels and Strasbourg. It hosts several EU institutions, including the Secretariat of the European Parliament, the European Court of Justice, EUROSTAT, the European Investment

Bank and the European Stability Mechanism as well as several European Commission services. Approximately 12,000 EU officials work in Luxembourg and key EU ministerial meetings are regularly hosted in the Grand Duchy. Luxembourg also hosts the new European Public Prosecutor's Office (EPPO).

Luxembourg's economy is booming and profiting from an expanding EU and global economy. The attraction of new industries and businesses, public investments, and rising

domestic demand are fueling economic growth. Luxembourg City is one of three EU capitals and a key international financial center. The country offers extraordinary business conditions with an attractive tax environment, high private and public investments, strong GDP growth, high living standard, an outstanding social security system, low unemployment, and consistently low central government debt. The country's public administration is highly efficient and the overall economic outlook remains stable.

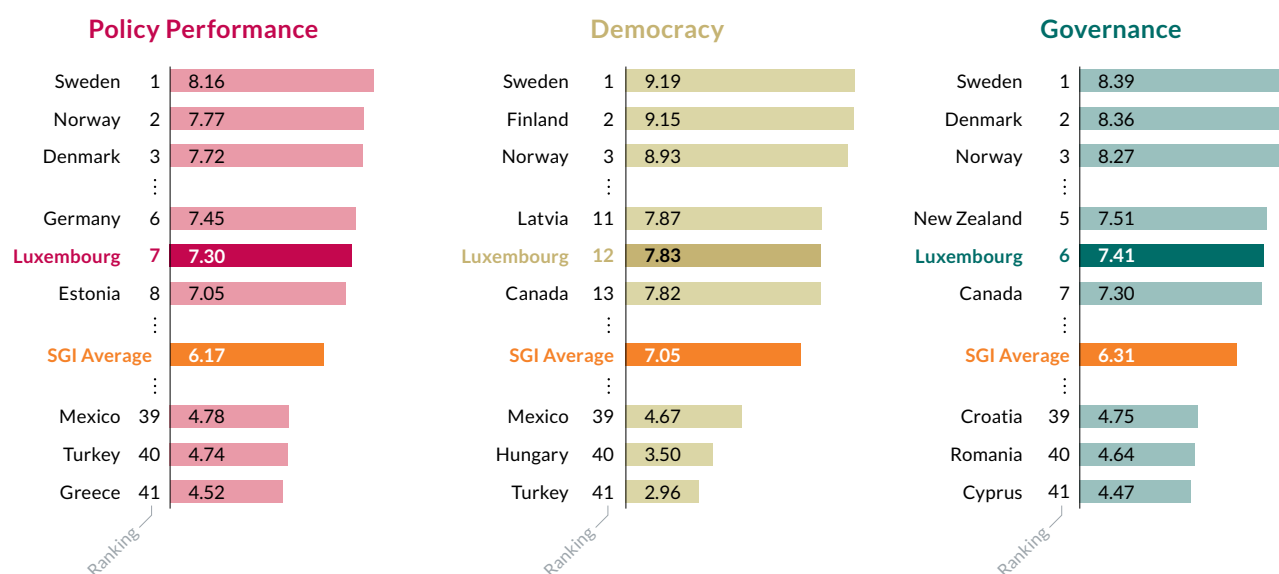
Luxembourg has experienced strong economic growth and fiscal stability. This has provided public authorities the means to develop and maintain an outstanding welfare system over the last two decades, even as neighboring countries have reduced public welfare provision. Luxembourg's welfare system includes generous insurance coverage, benefit schemes and public services. For example, health care provision has recently been expanded and the level of retirement benefits exceeds Scandinavian standards.

After a 3.4 % GDP increase in 2017, the economy is projected to further strengthen to almost 4.4 % in 2018. Consumer confidence, higher wages (+4 % in 2017), and high domestic consumption and investment contributed to this major growth. Furthermore, in 2017 the unemployment rate decreased to 6 % and tax arrears are compensating for reduced VAT revenue from

e-commerce. The economic growth of recent years has reduced the national debt to below the 2012 level. Luxembourg had the second lowest gross national debt in Europe (behind Estonia) at 20.8 % in 2016, though it is projected to rise to 22.8 % in 2020. In addition, public investments are presumed to increase by about 10 % in 2018.

The demographic development of the country differs from most other EU member states due to persistently high migration rates. Since 2012, Luxembourg has had an exceptionally high annual population growth rate by EU standards (2.29 % in 2016). Another key driver of this dynamic population development is the average age of 39.2, again low by EU standards, although higher than in Ireland and Cyprus. Overall, the population is increasing, aging and becoming more heterogeneous. In July 2017, about 27 % of the workforce were Luxembourg nationals, while 42.6 % were so-called cross-border commuters. This situation guarantees Luxembourg high flexibility and short-term fluctuations in the labor market. For the cross-border labor market, commuters from within the Greater Region are crucial. A shortage of highly qualified personnel (e.g., in ICT) has a fundamental impact on the further sustainable development of the financial, service, research and health sectors.

In the last years, Luxembourg was forced to accept that some tax policies were untenable



Source: Sustainable Governance Indicators.

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ble and that alternative sources of revenue need to be developed. Recent legislation, which came into force in 2017, requires financial institutions based in Luxembourg to provide information to U.S. authorities; this will likely have a dampening effect on the country's financial sector. Notwithstanding, competitive individual and corporate tax rates and low indirect labor costs will continue to make Luxembourg an attractive base for international companies.

Luxembourg has generous, but cost-intensive social and health care systems, which even exceed the level of coverage provided in Scandinavian countries. The welfare state has gradually expanded. Despite strong economic growth and low public debt, maintaining fiscal sustainability is increasingly important. Due to the economy's small size and openness to global markets, Luxembourg is particularly vulnerable to geopolitical instabilities. To ameliorate these risks, the government has increased public investment in the economy to stimulate domestic markets, attract additional private investment and promote innovation.

The government must identify framework conditions to promote innovations and synergies between public and private research, with more spin-offs and start-ups, including research and knowledge transfer. In this respect, Luxembourg must increase the number of researchers (2,647 in 2015) and undertake necessary expenditures on competitive research and development (R&D), including more public-private partnerships to foster innovation.

Key Challenges

Economic diversification is the key challenge confronting Luxembourg. Addressing this challenge will necessitate exploiting innovative niche markets, promoting the digitization of the financial sector and adopting a new approach to publicizing Luxembourg as an international economic hub. With respect to the financial sector, the government should focus on developing ICT synergies and exploring new financial technology products and services.

The Luxembourg Leaks and Panama Papers scandals demonstrated the vulnerabilities of focusing economic activity excessively on the fi-

ancial sector. It will take time for recent efforts in tax transparency to restore Luxembourg's tarnished reputation as a tax haven.

In 2016, Luxembourg invested 1.24 % of its GDP in R&D, less than the EU average and less than the government's own target of more than 2.03 % of GDP. The Luxembourg Cluster Initiative, led by the national research agency Luxinnovation, has identified seven economic sectors that will be essential for sustainable economic development. These sectors include health care and biotechnology, ICT, material technology, space technology, logistics, maritime activities, and emerging alternative investment funds (e.g., private-equity funds). There is broad consensus that to further drive economic growth, public investment in R&D must significantly increase and economic competitiveness must be improved.

Public investments and, in turn, the national debt are on the rise. The latter increased from 22 % of GDP in 2015 to 23.5 % in 2017 and is projected to reach an all-time high € 1 billion in deficit in 2018. Despite the country's strong GDP growth, general government debt will significantly increase. Even though the current level of national debt is far below the EU average, further government expenditure must be monitored closely and rising interest rates taken into account.

Luxembourg's welfare system is one of the most substantial and comprehensive systems in the EU. While neighboring countries have reduced welfare provisions in recent years, Luxembourg has expanded its system over the past 30 years. Both the OECD and European Commission have warned that Luxembourg will need to reduce its generous welfare provision if the system is to remain sustainable, particularly its extensive support for early retirement, disability benefits and the health care sector.

Recent population growth has been driven by a modest decrease in the birth rate, a falling death rate and increasing life expectancy. Luxembourg has also experienced a high rate of migration, with around 80% of its population growth resulting from migration. Since October 2017, more than 600,000 people are living in the Grand Duchy. After an all-time high of more than 11,000 new citizens in 2015, migration decreased slightly since 2016.

Forecasts indicate that Luxembourg's population will increase to 1 million by 2060. Strong population growth will stabilize the social security system, especially the public pension system, but will also increase intergenerational and intercultural tensions. Luxembourg's traditional corporatist philosophy has become increasingly universal and the country has been able to avoid enacting severe austerity policies. Nonetheless, minor changes to the pension system and general employment rules need to be adopted.

Population growth is a challenge particularly for the booming centers of Nordstadt, Luxembourg City and Esch/Beval. These cities will have to solve issues related to traffic congestion and the densification of living space, while ensuring a continued high standard of living for residents. The densification of living space is increasing the pressure on the limited number of rental properties and high real-estate prices. Major public investments are expected in the coming years, particularly in the areas of infrastructure, environment and housing.

The country's most pressing environmental-policy challenges include improving water quality, avoiding water pollution through pesticide and fertilizer use and constructing wastewater treatment plants. Eutrophication is a serious problem and many water sources are at risk.

The education system poses another persistent challenge for Luxembourg. Its official trilingual nature presents difficulties to both nationals and foreigners. Moreover, the country's PISA scores are lower than the OECD average. Over the past 15 years, several school reforms have sought to facilitate the integration of migrant children within this trilingual system by reducing the emphasis on language competency in the determination of school grades. Reforming the education system will be a key determinant in ensuring long-term economic competitiveness. As a result, the government is currently implementing secondary school reforms. To speed up business creation processes and facilitate business innovation, formal education and vocational training, combined with lifelong learning, must encourage entrepreneurship (especially in technical fields) by improving key competencies through non-formal and informal learning processes.

There remains room for improvement. The 4G cellular network still fails to cover 20 %

of the country. In addition, untapped potential in digital technology must be mainstreamed in all business sectors and startups need more venture capital.

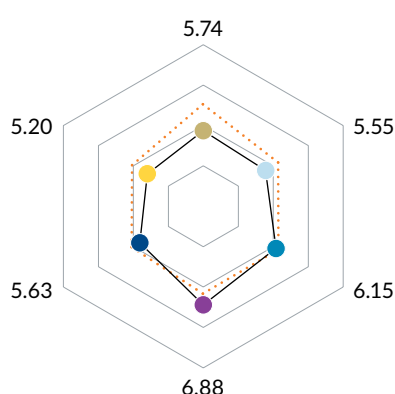
Overall, Luxembourg enjoys a comparatively stable political system, high trade logistics performance, excellent broadband coverage, a very competitive tax system, reasonable living costs (excluding housing costs), new financial technologies, innovative communication technologies and tremendous job growth. Alongside continuing policy weaknesses (e.g., education), these capacities must be mainstreamed towards technology-driven sustainable development.

→ Klaus Schneider
→ Wolfgang Lorig
→ Nils C. Bandelow

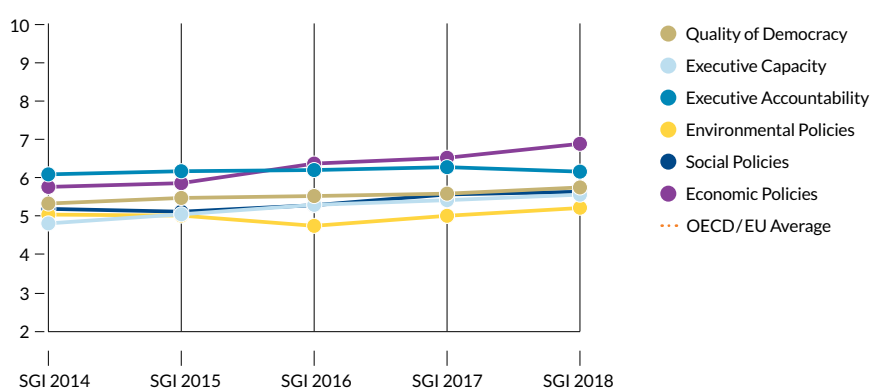
Country profile SGI 2018

Malta

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Malta's 2004 accession to the European Union (EU) acted as a catalyst for social, economic and political transformation. The EU's liberal ethos propelled the 2011 introduction of divorce to one of the last bastions of catholic zealotry. Since 2013, the Maltese government has fueled this liberal current. Malta has considerably relaxed its censorship laws and extended rights to people with diverse gender identities and sexual orientations, including civil marriage. Recent legislation on domestic violence and reproductive rights have given practical expression to women's right. The right to employment for disabled persons has also been codified, with employers penalized with fines for ignoring equality of opportunity laws. Since accession, Malta has extended maternity benefits and provided free child-care centers, enhanced pension rights and increased assistance for the elderly, upgraded health services, and embarked on a € 50 million social housing project.

The government is implementing recommendations on migrant integration by introducing reception centers, allowing migrants to register for work and setting up an integration program.

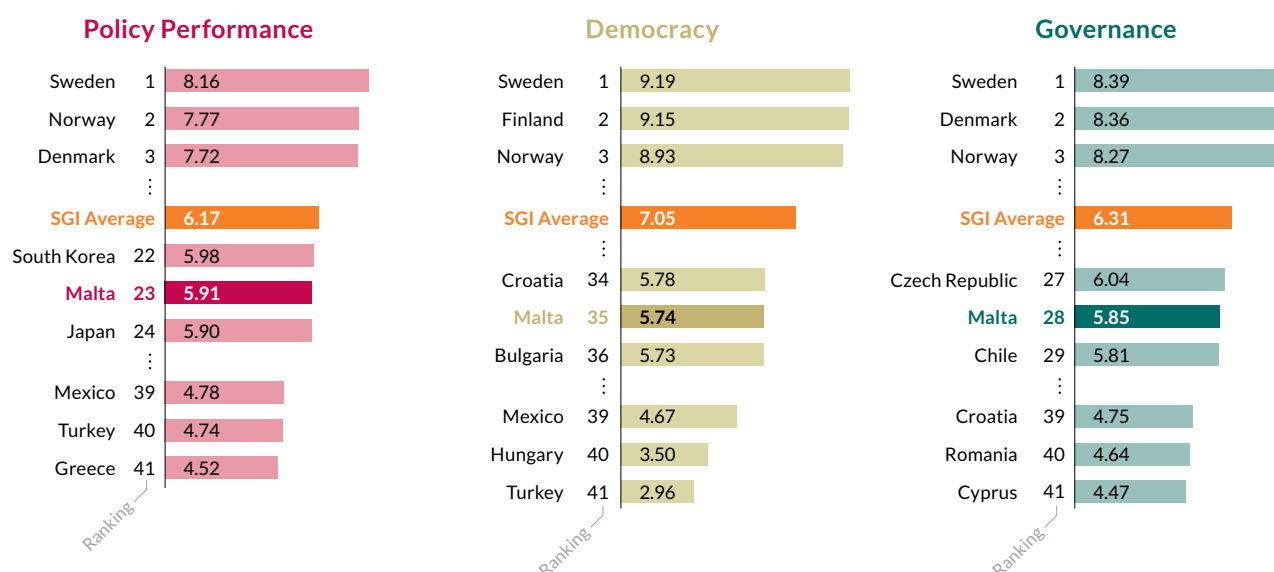
In terms of good governance, new measures have been introduced to enhance accountability and transparency. Demands under the Freedom of Information Act have multiplied and the ombuds office has been granted new areas of competence. These measures have effectively ensured greater scrutiny of the government. For its part, the National Audit Office has become more proactive. Legislation intended to regulate and improve the transparency of political party funding has been enacted. Ministers and members of parliament accused of breaching existing codes of ethics will become accountable to a Public Standards Office. One of the first acts of the current government was to remove statutes of limitations in cases of alleged corruption by politicians and senior officials. Also, legislation to increase efficiency within the judicial system has been introduced.

Malta's economy continues to thrive, recording growth rates of up to 6 % annually – among the highest in the EU – and obtaining generally positive ratings from credit agencies. The result is an economy that has shifted from a significant public deficit to a first time surplus; the debt-to-GDP ratio has been meaningfully reduced. Malta is experiencing an unprecedented upsurge in tourism, surpassing the two million inbound trips milestone in 2017. Despite implementing a hefty reduction in tariffs, the government also turned around the fortunes of the country's sole energy provider, Enemalta, by attracting foreign investment and prompting greater efficiency within the corporation. Enemalta has transitioned to a gas-fired power station and increased the use of solar energy technologies.

Socioeconomic and political developments have transformed the Maltese landscape. Rising economic wealth is impacting population and class structures as imported labor and refugee flows create a more diverse population. This has driven the expansion both of the middle class and a new underclass with little social capital. The four freedoms (i.e., free movement of goods, capital, services, and labor), open borders, and globalization have facilitated interactions between the domestic and international economy, bringing in big business. In concert, inevitably corollary practices of patronage and

clientelism have also become internationalized. Widespread clientelism and corrupt practices are not a new phenomenon, but access to greater resources make them more lucrative. Construction, the industry that traditionally drives the Maltese economy, has long been a nexus of corrupt practices; the economic boom and soaring population, however, have increased the demand for real estate, exacerbating the problem. The splitting of the Malta Environment and Planning Authority (MEPA) into two authorities has not helped, instead attracting enormous criticism. Angered environmental groups are concerned that this will threaten what remains of Malta's "green lungs." A drive to render key service providers (e.g., in energy and health care) sustainable has facilitated a government program of privatization. While many stakeholders have been consulted, this process of privatization has been criticized for its lack of public consultation, transparency and accountability. The recent sale of several government hospitals to an international private health care provider is undergoing parliamentary scrutiny. Evidence of mismanagement in the tendering process along with decision-makers sidestepping formal procedures is fueling this reexamination.

Illustrations of this political corruption include the current investigation of a minister and the prime minister's chief of staff for receiving



Source: Sustainable Governance Indicators.

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kickbacks from government business (revealed in the Panama Papers) as well as the car bomb murder of Maltese journalist Daphne Caruana Galizia, who had been working on a number of leads involving alleged government corruption. These events led to a European Parliament fact-finding mission in January 2018. Domestically, there is a growing intolerance of corruption; political maturity and economic wellbeing have increased the demand for democratic oversight. EU membership has meant multi-level governance – a power shift weakening the national executive, but strengthening oversight mechanisms and civil society.

In 2017, we also witnessed what may be the beginning of the party system fragmenting. Two MPs left the party of government, were reelected on the opposition party ticket and now sit in parliament under the newly constituted Democratic Party. For the first time in thirty years, three parties sit in parliament. Conflict in the main opposition party between liberal and conservative factions may lead to the fracture of the party and a new configuration of the party system. Despite the party of government maintaining a sizable majority of seats in parliament, the recent disarray in the party system has witnessed a rise in private members' bills and increased the tendency for MPs to ignore the party whip when voting on controversial issues.

Following allegations, strenuously denied, that the prime minister's wife held a secret overseas bank account, the governing party called early national elections in 2017. The prime minister's party was returned to power with the largest majority since independence. The results indicated public confidence in the government's economic and social policies as well as liberal ethos. Notwithstanding, demands from the president, judiciary, ombudsman and opposition for the government to honor its pledge to begin a process of constitutional reform continue unabated. Such a reform would give birth to a second republic and could facilitate the drive for good governance.

Key Challenges

In 2016, several good governance reforms were introduced; this process, however, was cut short

by the early elections in 2017. The electoral campaign provided an opportunity for all political parties to promote further reforms, including an overhaul of the constitution. Talk on the need for institutional reform is widespread, but there is no consensus on how to go about it. The present electoral system does not include a minimum national threshold for a party to send members to parliament. This has enabled the two major political parties to utilize patronage and clientelism to retain their grip on power. Consequently, there is little faith that they will weaken their own political position by reforming the electoral system. Reform through a civil society compact is regarded as unwieldy. A third option is a council of state composed of key stakeholders representing elites. To date, no process has been decided upon. Nevertheless, a public debate on the necessary changes has been ongoing. A piecemeal process to reform may prove to be the way forward. The public debate may generate consensus and provide principles which can be taken up by the government and opposition and implemented through parliament.

Whatever process is adopted, there is agreement that the point of departure should be the shoring up of the separation of powers. Such a reform could counter the prevalent political model where a single party government retains a majority in parliament. Parliament has been strengthened by the introduction of the ombuds office and yearly increase of parliamentary committees as well as the empowering of the speaker's office to draw up reform plans and oversee parliament's budget. Nonetheless, Malta's part-time MPs continue to demonstrate a lack of expertise on many policy issues. MPs generally prioritize their private careers over parliamentary business, lowering their contribution to government and the public's opinion of them. Especially over the last twenty years, this has given rise to a dangerous blurring of lines between many MPs' private interests and public service. Overall, parliament contributes very little to policymaking in Malta. MPs should be transitioned to full time. Electoral reforms and the introduction of a minimum threshold are sorely needed to facilitate the entry into parliament of political parties representing minority interests. The two-party system has not encouraged a bipartisan approach. Instead, the winner-takes-

all approach has bred a destructive politics of division and mutual distrust. A shift from a two-party to a multi-party system may erode this us-against-them polarization.

The government has adopted some recommendations from the Bonello report it commissioned to address shortcomings in the judiciary. These have increased the efficiency of the judiciary. The recent creation of a judicial appointments committee is the first step toward increasing the independence of the judiciary. However, present reforms do not go far enough. A new process is needed for the selection of the chief justice. The role of the Attorney General has also come under scrutiny. The position's dual role as legal counselor to the government and public prosecutor is no longer suitable and should be wielded separately. Also, the introduction of courses for lawyers pursuing the judicial track is long overdue and the nomination of court experts needs to be formalized.

With regard to the executive and its civil service, the appointment of the Commissioner for Standards in Public Life, an office approved by parliament in 2016, remains urgently needed. Additionally, the ombuds office should be afforded the same powers as the audit office and given the remit to annually review the efficiency of government ministries and departments. When not implemented by the government, the recommendations of the ombuds office should be placed before parliament for further discussion. The long-standing practice of employing political appointees in the public service must be reviewed as it undermines transparency and accountability. The parliamentary appointments committee, recently established to assist in the selection of ambassadors and commission heads, will strengthen consensual politics, but the procedure needs to be further developed. The recommendation that a council of state, composed of key stakeholders, should be involved in the selection of heads of authorities, commissions and boards should be studied. Auditing the work of the executive and its civil service in procedures such as tendering could be further facilitated by an amelioration of the freedom of information act. There is also a need to establish an independent ethics committee to oversee the various ethics codes that regulate public servants. The Permanent Commis-

sion Against Corruption must be better staffed, meet more frequently and ensure that all cases are satisfactorily concluded. The opposition party's delay tactics in nominating members to the commission does not bode well. While accusations of corruption have been a common method of attacking the government of the day since 1921, it is also evident that accusations made by opposition parties are rarely investigated, suggesting that there is no real commitment to fight corruption.

Recent reforms that decoupled the planning and environmental authorities must be reassessed to ensure both authorities fully participate in decisions related to development planning and the protection of Malta's natural habitats.

Measures to address the integration of migrants have been drawn up and must now be implemented. In an island country the size of Malta, integration is a sine qua non for future stability.

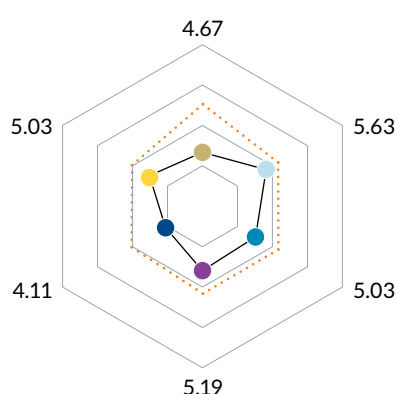
Finally, Malta's police force must be afforded the necessary competences and resources to fulfill their duty to secure the EU's most southern border. Malta's economy is now heavily enmeshed in the international economy and, in consequence, is confronted with levels of international crime unprecedented for the small island country.

- Godfrey A. Pirotta
- Isabelle Calleja
- César Colino

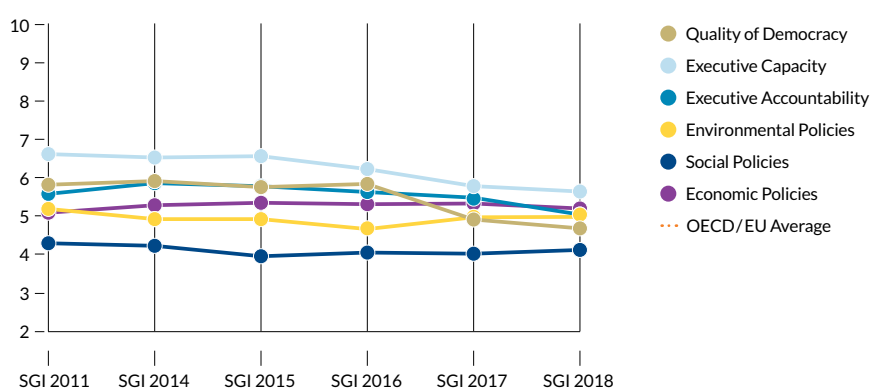
Country profile SGI 2018

Mexico

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Considering Mexico's experience with military and corporatist autocratic rule, the country has made significant progress over the last two decades with regard to electoral competition and its overall regulatory environment, including market-oriented reforms. Economic and political elites, as well as an increasing share of the middle-class, are technically qualified and have knowledge on how best to organize the political, economic and social frameworks of their society. Mexican policymakers at both the national and regional levels are well trained, internationally experienced and often equipped with high-level qualifications from Western universities. Mexico's tertiary education system is increasingly competitive internationally as are several major firms, including an increasing number in the manufacturing sector.

At the same time, Mexico suffers from structural problems that are uncommon among most other OECD countries. These challenges mainly

relate to an extremely unequal distribution of social benefits and services among the population, such as security and social opportunities. The resulting cleavages between geographic regions, rural and urban areas and social classes are among the most pressing barriers to further societal progress. In addition, uneven state capacity, both geographically and across policy sectors, often undermines the effective and coherent implementation of policies.

Against this background, Mexico faced a series of major challenges in 2017. First, the security situation further deteriorated, and the number of intentional homicides increased to the highest level ever recorded. In many instances, government action, which has often taken the form of increased militarization, has not only failed to be effective, but it has also made matters arguably worse. The most direct collateral damage of this violence has been to social capital, press freedom and secure property rights. Overall, Mexico is facing a status of state failure in parts of its territory.

Second, the ambitious reform process, which the administration of President Peña Nieto launched at the beginning of its term, has stalled during its final years in office. While major reforms in key sectors such as education, energy, telecommunications and anti-corruption were approved, the adoption of secondary legislation required for implementation has fallen behind. As approval ratings for President Peña Nieto have dropped to unprecedented lows, it seems unlikely that the current government will be able to get the reform process back on track in the time remaining before the federal elections of 2018. Throughout 2017, a series of high-level corruption scandals, some of them directly involving close presidential allies, contributed to growing social discontent, so that the government's political capital is extremely limited.

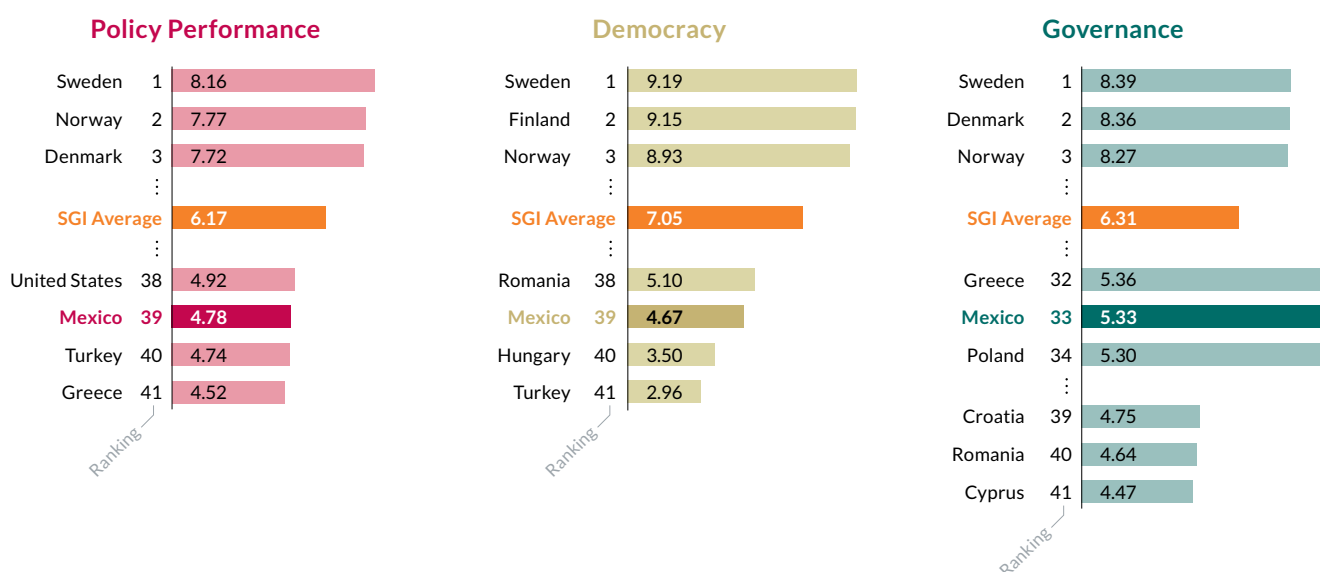
Third, Mexico has faced an increasingly adverse political and economic environment internationally. This has included lower oil prices, weak international trade growth and a deteriorating relationship with its Northern neighbor. Trump's administration has continued its antagonistic rhetoric toward Mexico, and the renegotiation of North American Free Trade Agreement (NAFTA) creates uncertainty for the country's economic outlook. As of 2016, 81 % of Mexican exports went to the United States. Ending NAFTA

would mean trading under the World Trade Organization's tariffs, which would heavily hit the competitiveness of Mexican products in the U.S. market. Trump's threat of withdrawing from NAFTA has severely depreciated the Mexican peso, partially explaining inflation levels above the central bank's target. At this point, more than ever, it is urgent for Mexico to diversify its exports market and increase the number of policy tools available for the government to buffer the impact of international economic shocks.

Finally, 2017 proved difficult for Mexicans as the country was hit by a number of natural disasters including three major earthquakes and two tropical storms. However, these crises revealed, as in 1985, the potential of Mexican citizens to organize and help each other, even in the absence of effective political leadership. A strong civil society, like the one Mexico has proven to have, is a necessary condition to face and overcome the challenges faced by the country.

Key Challenges

Within the last generation, Mexico has made much progress with regard to competitive politics and macroeconomic stability. These major achievements were accompanied by an increase in educational attainment among economic and



Source: Sustainable Governance Indicators.

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political elites as well as segments of the middle and lower classes. However, the benefits of economic and social modernization have been unevenly distributed: high disparities between regions and social groups remain. In this context, the pace of economic development has been too slow in recent years. In addition, Mexico has experienced a serious deterioration in domestic security due to a failure in the rule of law, including systemic violence and corruption. The current government's success in addressing these challenges has been mixed at best.

Early in its tenure, President Peña Nieto's government had considerable success in collaborating with other parties in Congress to introduce major reforms in the energy, education and telecommunications sectors that had long been on the political agenda. Moreover, the administration declared its commitment to improving transparency and combating corruption. As the term of the Nieto administration draws to a close ahead of the 2018 general elections, the results of this ambitious reform project are fairly sobering. On the one hand, major reform proposals hit significant roadblocks during the implementation phase, and the adoption of required secondary legislation has stalled. On the other hand, the government has poorly handled major societal crises, such as the forced disappearance and likely murder of 43 students and escalating violence. Its feckless response to several high-level corruption scandals has called into question the government's commitment to transparency and accountability. While the beginning of Peña Nieto's term in 2012 had been hailed as "Mexico's moment," widespread disillusionment with political elites and uncertainty about the country's future now predominate.

Domestic as well as international developments are important for Mexico's outlook for 2018 and beyond. Domestically, Mexicans will head to the polls on 1 July 2018 to elect a new president, 500 members of the Chamber of Deputies and 128 senators, together with a large number of subnational officials, including nine governors. While there are still several months to go until the formal start of the campaign, the field of presidential contenders is crowded, with as many as eight candidates and several unlikely alliances between political groups. While the full line-up might suggest robust

choices for citizens, so far enthusiasm has been limited and support for major parties has declined continuously in recent years. Since Mexico does not have a run-off election for the presidency, there is a substantial risk that whoever wins in a splintered field will take power without a strong mandate. Moreover, recent polls show that more than two-thirds of citizens expect negative campaigns and contested results.

Internationally, the ongoing renegotiation of NAFTA will have profound implications not only for the future relationship between Mexico and the United States, but also for Mexico's economic outlook. While there is a debate around the net effects of NAFTA in Mexico, there is an overall consensus on the potential costs of ending the treaty now. These include a decrease in the international competitiveness of Mexican products as preferential tariffs are removed, and a general weakening of the diplomatic relationship between the United States and Mexico. Such a weakening would have direct effects in key areas where bilateral coordination is necessary: migration and security.

In the short-term, a majority of Mexicans expect the relationship between the United States and Mexico to deteriorate further. In the long-term, however, weaker ties to the United States might create opportunities for Mexico to diversify its political and economic orientation toward other Latin American countries, the Asia Pacific and Europe. For realizing such potentials, however, the country must craft a coherent strategy, but also reach a consensus among political and economic elites on how to position the country in an increasingly multipolar world.

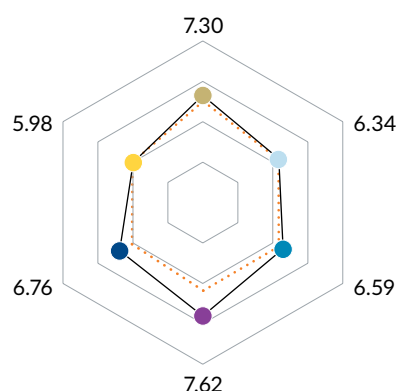
- Jörg Faust
- Imke Harbers
- Zaira Razu
- Martin Thunert

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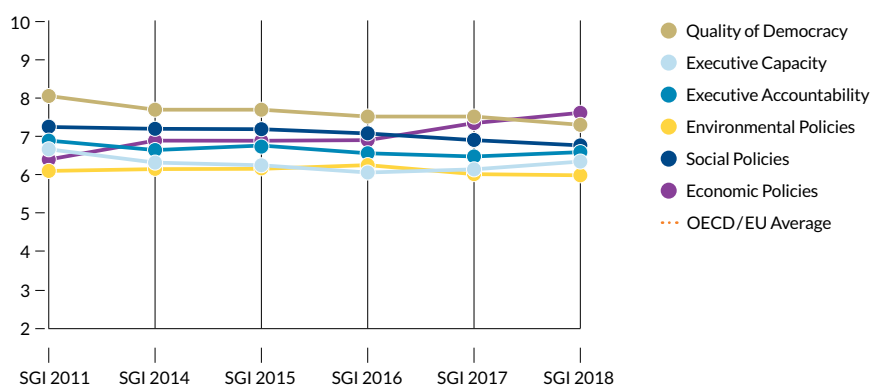
Country profile SGI 2018

Netherlands

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The quality of democracy in the Netherlands remains above average. However, the stability of the democratic system appears to be decreasing. Continuing economic and global political uncertainties have produced an inward-looking and volatile electorate. Since late 2010, governments have no longer been assured of a solid majority in the bicameral States General. Since 2012, the Netherlands has been governed by a minority coalition cabinet (Rutte II) made up of ideological rivals, namely the conservative-liberal People's Party for Freedom and Democracy (VVD), and the Labor Party (PvdA). With its majorities varying on a case-by-case basis, the Rutte II cabinet has nevertheless been able to garner sufficient parliamentary support to pass an agenda of neoliberal legislative reforms softened by social-democratic measures. Providing grounds for more serious concern, the political parties and government bureaucracy have shown an increasing disregard for rule-of-law requirements, legislative

and administrative details, and the management of the judicial infrastructure.

Policy performance is average, but still satisfactory. Economic policies have been successful over the last two years, especially in the budgetary and accounting spheres. Unemployment rates have diminished, although youth unemployment remains of particular concern. In 2015 and 2016, the government announced tax cuts intended to increase consumption spending, with the broader aim of strengthening economic recovery. The Dutch are still doing well in most areas of social sustainability. The crisis in education has been acknowledged. Though policy interventions remain incremental, first steps toward needed system reform have been introduced. Social-inclusion policies have failed to prevent more families from falling into poverty. In the realm of health policy, cost increases have been prevented, but the health care inspectorate does not seem up to the task of monitoring and supervising a hybrid public-private health care system that lacks legitimacy. In the domain

of integration, the refugee influx (although smaller than expected) and continued high unemployment among immigrant young people are reasons for concern. Overall, almost all institutions comprising public safety and security, and judicial branches of the Dutch government face substantial challenges and are under increasing stress. This densely populated country scores low with regard to environmental sustainability. However, after the Paris Agreements, climate change policy is back on the political agenda.

Government apparatus lacks executive capacity and accountability. There are clear and increasing implementation problems, indicating that the “lean” government may find itself overburdened with intractable problems. Monitoring and coordination efforts are substandard with regard to interministerial and agency monitoring. There are increasing problems with the country’s public ICT systems, and large-scale rail and road infrastructure. Regarding water management, a traditionally strong area of Dutch governance, administrative reforms are implemented smoothly. The overhasty devolution of central government functions with concomitant social security budget cuts may threaten the long-term decentralization of welfare policies to local governments. In the area of public safety and security, a contrary trend toward rapid centralization has led to problems in policing and the judiciary

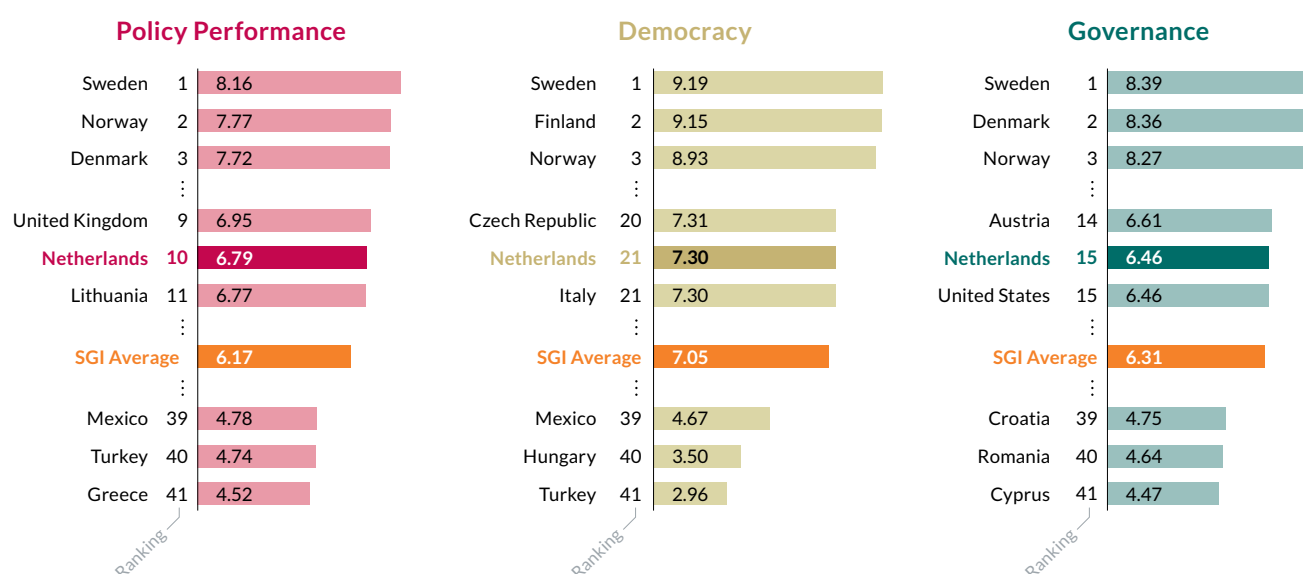
(e.g., in the court system generally, the management of judges and access to the judiciary).

Recently, the influx of refugees and increased threat of terrorism have pushed the country’s political mood toward an inward-looking xenophobia. In the realm of executive accountability, weak intra-party democracy and a lack of citizen policy knowledge are causes for concern. At the local level, there is some evidence that opportunities for more inclusive participatory and deliberative policymaking are increasing.

Overall, Dutch politics and policies remain generally sustainable. However, some challenges have accumulated. For example, the government should seek to untangle policy deadlocks over attempts to address socioeconomic inequalities, integrate citizens more deeply into the policy-making process, set goals and priorities in the areas of environmental and energy policy, restructure policies, solve the looming policing and judicial system crises, and enhance local government and citizen participation in the implementation of policies.

Key Challenges

Three challenges affecting the sustainability of governance in the Netherlands remain insufficiently addressed: restructuring traditional state functions, the shift to a sustainable economy,



Source: Sustainable Governance Indicators.

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and finding a balance between identity politics and globalization. None of these key challenges received due attention during the 2017 election campaign, which was hijacked by a populist-dominated debate about immigration and Islam. This signals the need to seek and develop new modes of citizen representation and participation.

The first challenge involves an urgent restructuring of traditional state functions. The Dutch have eagerly reaped the peace dividend after the fall of communism, in line with traditionally strong pacifist and anti-military public opinion. In view of threats from Russia and Turkey to parts of Eastern Europe, and a less certain U.S. commitment to NATO, the Dutch and other EU states will have to increase their military capacity and spending in a relatively short time. Reforms to the police, judiciary and public prosecution (Ministry of Safety and Justice) have run into implementation obstacles and serious integrity problems that, without adequate political attention, may become chronic. Government tasks in the domain of (public) finances require that the continuity of the tax apparatus is guaranteed, and the country should tackle its reputation as a tax haven for large foreign, especially U.S., corporations.

The second major task is to design and facilitate a shift toward an environmentally sustainable economy. The strong economic recovery that the Netherlands has experienced over recent years has a flipside: the Dutch can no longer fall further behind the rest of the European Union in implementing climate change (mitigation and adaptation) policies. The exhaustion of the Netherlands's natural gas resources in the medium-term means that a new energy policy for renewable energy sources is imperative. Public investment in more sustainable transportation infrastructure can no longer be postponed in view of a looming congestion crisis. Foreseeable technological innovations (digitization, big data, robotification) necessitate reform of the educational system and the labor market. Technological innovations require the development of a strategic approach to digitization, including its effects on essential human rights, regulation and control, and mechanisms for consensus-building concerning contentious (ethical) issues around emergent new technologies. The growing segregation across levels and types of schools needs to be addressed. The relevance

of existing educational qualifications in a rapidly changing labor market is increasingly questionable and education at all levels is inadequately financed. Labor market policies face a difficult balancing act between flexibility, and job security, decent wages and work-family relations. For an aging population, a sustainable economy should include decent (health) care provision and pensions. The third longer-term task is to strike a viable balance between identity politics and globalization. Globalization manifests itself through multi-ethnicity and an increasingly multiracial composition of the population. The public disorder and "Black Pete" debates are initial steps toward a long overdue public deliberation about the integration of refugees and migrants. Considerable popular support for an openly xenophobic, anti-EU and anti-Islamist political party like the People's Party for Freedom and Democracy (PVV) is a sign of widespread public discontent and unease. Established political parties, particularly the Christian Democratic Party (CDA), show no desire to approach the debate openly. However, their leader, Sybrand Buma, agrees with the "angry citizens" who, in his eyes, help protect the "Judeo-Christian" identity of the Netherlands and Europe. The leader of the conservative liberals (VVD), Prime Minister Mark Rutte, in his eagerness to win the support of "angry citizens," differentiated between the existence of "good" and "bad" populism in Dutch politics.

Objectively, for the open Dutch economy, cooperation in Europe is crucial. Economic growth and employment, defense, and regulated migration depend on it. The Dutch economy cannot prosper without a stable euro, a well-functioning banking union, and a strong and fair internal market (i.e., a market offering equal pay for equal work in the same location). Therefore, it is necessary that Dutch politicians publicly insist that the "I want to have my cake and eat it too" attitude held by a large proportion of Dutch citizens vis-à-vis the European Union is unrealistic.

It is increasingly clear that tackling the latter two challenges will require new modes of constructive citizen participation and representation. The gap between government and citizens creates significant discontent and feeds populist calls for more direct democracy. In view of recent negative experiences with national referendums in the Netherlands and elsewhere in Europe,

the highest legal and policy advisory body to the government, the Council of State (Raad van State), claimed that national referendums result in a dysfunctional representative democracy. In its view, participatory democratic practices ought to be limited to the local and municipal level. Critics, on the other hand, accuse politicians of not taking emerging forms of citizen participation seriously. They call for a change of course from “defensive” participation to opening up a “second track,” a more proactive form of participation, based on open dialog, trust and cooperation. To what extent this will be realized, remains an open question.

The country’s new political cleavages – between “particularist” and “universalist” citizens, between adherents of neoliberal and neo-structural economic thought, between freedom for corporations and stricter disciplinary interventions for ordinary citizens, and between top-down expert governance and bottom-up citizen participation – must ultimately be overcome if a viable democratic and sustainable Dutch society is to be created.

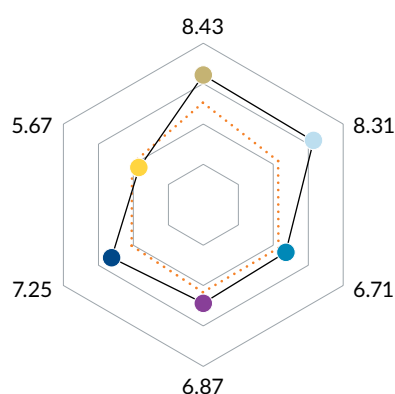
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→ Robert Hoppe, Jaap Woldendorp, Margarita I. Jeliaskova, Nils C. Bandelow

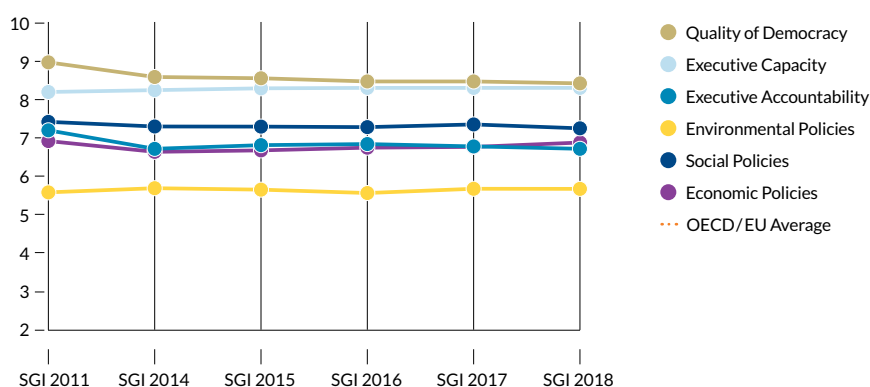
Country profile SGI 2018

New Zealand

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

Throughout much of the period under review, New Zealand’s center-right National Party led government as the largest party in a formally minority

government. Generally able to command a legislative majority, the National Party negotiated confidence and supply agreements with three smaller parties, the Maori Party (two seats), United Future (one seat) and the ACT Party (one seat). In

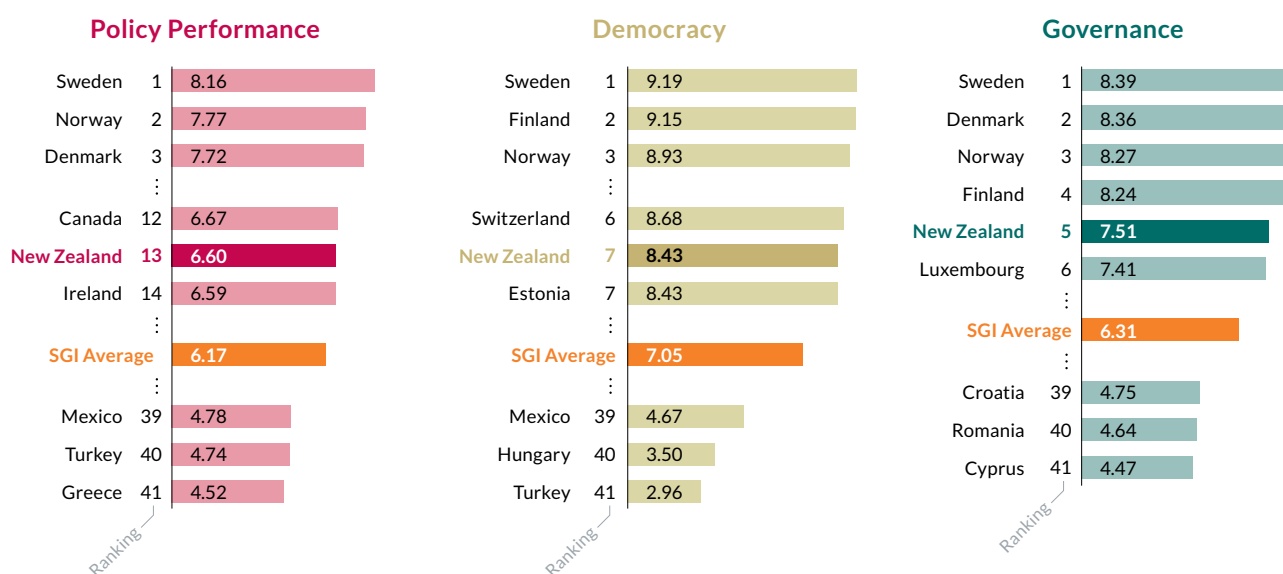
early December 2016, shortly after the end of the review period for the SGI 2017, Prime Minister and National Party leader John Key, who had served as head of government since 2008, announced that he would step down. He was succeeded by Bill English, who had previously served as Deputy Prime Minister and Finance Minister. In February 2017, English announced that there would be a general election on 23 September. Although the National Party won the highest proportion of votes, two of its three support parties failed to win parliamentary seats, leaving the New Zealand First Party leader, Winston Peters, holding the balance of power. Instead of endorsing the more favored National Party, Peters decided to form a coalition government with Labour, while the Green Party offered legislative support from the cross-benches. The new prime minister under this three-party arrangement is the 37-year-old Labour leader, Jacinda Ardern, who is the youngest New Zealand prime minister in modern times.

Throughout the review period, New Zealand performed well with regard to indicators of governance capacity, policy performance and quality of democracy. New Zealand's democratic system is based on a unicameral parliament, working rule of law, a strong executive branch and effective government. The system is healthy and stable. Despite an ongoing debate about adopting a written constitution, the fundamental structure

and operation of governance reflects a fundamental continuity.

The country's commitment to economic freedom is reflected in its leading position in the World Bank's 2018 Doing Business report. According to the report, New Zealand provides the world's best protection for investors. In addition, it is one of the safest countries in the Asia-Pacific region and offers a "low-risk environment for business investment." Political reforms implemented over recent decades have created a policy framework that demonstrates impressive economic resilience. Openness to global trade and investment are firmly institutionalized. The government has entered into several free trade agreements. For instance, in June 2017 New Zealand launched FTA negotiations with the Pacific Alliance (Chile, Colombia, Mexico and Peru), has been an initiator of the 11-member Trans-Pacific Partnership Agreement, and is exploring the possibility of a free trade agreement with the European Union.

New Zealand's economy rebounded quickly from the global recession. The impact of several severe earthquakes on economic growth has been limited; indeed, the subsequent rebuilding programs have contributed significantly to economic growth in the South Island. On the other hand, the recent influx of immigrants and the repatriation of many New Zealanders from Australia



Source: Sustainable Governance Indicators.

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is placing severe strain on the housing market, especially in Auckland.

According to IMF figures, net general-government debt remained well under control at 8.8 % of GDP in 2015. The equivalent rate in the United Kingdom was 80.3 % and in the United States it was 79.9 % for the same year. During the review period, economic growth has been relatively strong, and inflation has remained under control. Economic recovery from the global economic crisis has been driven by exports and the rebuilding of Christchurch. However, although the New Zealand economy came through the world financial crisis comparatively well, the government was forced to prioritize budgetary policy at the cost of other reform projects. As a result and despite strong performance in terms of macroeconomic indicators, fiscal austerity policies have widened the socioeconomic gap between the rich and poor.

In the lead-up to the 2017 election, the rise in levels of child poverty became a particularly salient issue, with close to one in three children being defined as living in poverty. In response, the government introduced a number of initiatives to combat the problem.

Long-term policy challenges have not changed during the review period. First, New Zealand's economic well-being strongly depends on developing a larger, more highly skilled and better paid workforce. This will require new initiatives and further investment in education and training, as well as a stronger commitment to research and development. Recent trends in immigration and employment have been positive, particularly employment rates in Auckland, the largest metropolitan area. Currently, the construction boom has created a demand for skilled labor that has yet to be met. Whereas New Zealand has demonstrated relative success with integrating immigrants, greater investment is needed to advance improved education outcomes and skills training among the Maori and Pasifika populations. New Zealand also needs to develop stronger links with its neighbors in the Pacific region.

Despite the government's decision to withdraw from its Kyoto obligations, New Zealand's own vulnerability to the consequences of climate change were recognized in its endorsement of the objectives of the United Nations Climate Change Conference in Paris in October 2016.

The new government has expressed a strong commitment to addressing the causes and effects of climate change.

Key Challenges

New Zealand is well positioned to tackle current and future challenges. Over recent decades, it has radically reformed its economy as well as its electoral and public management systems. Compared to other OECD countries, New Zealand has emerged from the global financial crisis in a relatively strong position. Nevertheless, four problem areas persist: innovation, tax policy, regional development and government structures, and the government's agenda-setting capacities.

First, innovation. Although governments, including the recent National minority government, have increased investment in tertiary education (particularly in science, technology, engineering and mathematics), and research and development, there remains a need to intensify these efforts, as comparative data for OECD countries has made clear. Similarly, New Zealand does not invest enough in ongoing job-based education and training. The country has followed the tradition of Anglo-American liberal market economies (LMEs), which invest more extensively in transferable skills than in job-based training, which is the focus of some continental European coordinated market economies (CMEs). Given that the New Zealand economy is extremely small, other approaches, including those used in Scandinavian countries, may well be better suited to local conditions. Although unemployment rates are relatively low, at just under 5 %, a particular area of concern is the high rate of youth unemployment in Maori and Pasifika communities.

The economy's innovation potential is inextricably linked to immigration policy, where attracting highly skilled workers is of utmost importance. The new government led by Labour Prime Minister Jacinda Adern needs to remain committed to attracting skilled immigrants and ignore pressure from its populist anti-immigration coalition partner New Zealand First. Although New Zealand First is a small parliamentary party, as the key to maintaining the balance of power, it was strategically placed to negotiate with both major parties, Labour and National. By forming

a coalition with the former, it has been given far more power than vote (7.2 %) or seat share (nine of 120 in parliament) would indicate. The recent surge in support for anti-immigrant parties in the United States and Europe has placed immigration policy firmly on the New Zealand political agenda.

Second, tax policy. Prioritizing a balanced budget, the new government has shelved plans for the new round of tax cuts promised by the former National-led government. The new government needs to tackle the politically sensitive issue of extending National's "bright line" tax – a mild form of capital-gains tax – from two to five years with a view to reducing the impact of property speculation on the housing market. Since this has been a key Labour election proposal for some time, the new government is likely to initiate legislation in this area. The new government has also promised to prevent non-resident foreign investors from speculating on housing. Unsurprisingly, the country has one of the highest rates of home ownership in the world at 63.2 % in 2016. However, these policies violate horizontal equity and divert capital away from more productive uses. A more robust capital-gains tax on all but the family home would cool the property market, especially in Auckland (population 1.4 million). There is growing consensus among parties and economists that this anomaly in the tax structure needs to be tackled.

Third, regional development and governance structures. The economy is characterized by a large and increasing urban-rural divide, particularly regional economic growth, labor productivity and population growth. The government needs to create a focused regional policy both in metropolitan and rural areas. Regional economic policies should be accompanied by governance structures that geographically fit the problem area. The establishment of a unitary Auckland authority with an elected all-Auckland council has been a good starting point, but this should not be the end of local government reform. A similar centralized structure for the Wellington area was rejected by a poll of the city's residents in 2015. Auckland's local government covers more than one-third of the total population of the country. This implies a heavily asymmetric local government structure vis-à-vis central government. The 2010 and 2011 earthquakes in the Christchurch and the Canterbury region, followed by a 2016 earthquake that hit the South Island

provincial town of Kaikoura, has understandably dominated the government's regional-development agenda, with most of its activities receiving praise. The potential for restructuring the regions on a more general scale should be evaluated.

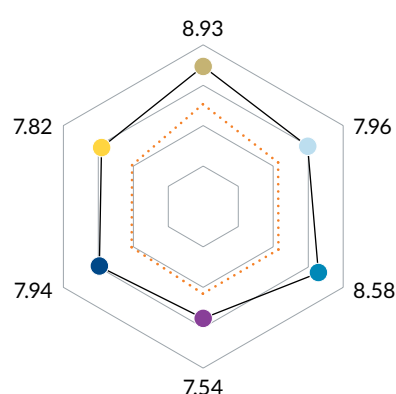
Fourth, government as agenda-setter. New Zealand's political system is still characterized by majoritarian design. There are no institutional veto players whose policy positions the government must consider (such as provincial or state governments, second chambers, constitutional courts or local governments with constitutionally guaranteed powers). However, the change to a mixed-member proportional electoral system has led to a multiparty system, the emergence of several minor political parties with de facto veto powers, and the formation of minority and coalition governments of different formats. After more than a decade, this governing arrangement has proven relatively positive, although parts of the electorate, especially older and more conservative voters, still need to be persuaded of the benefits of proportional representation. The outcome of the 2017 election, with the most popular party being rebuffed by the small New Zealand First Party, has prompted many older and more conservative voters to question the legitimacy of the new center-left government.

Recent governments have been able to proactively pursue their respective policy-reform agendas with noticeable success. However, while successive governments have been able to implement the vast majority of their policies, the process has been very time-consuming and occasionally produced contradictory policy initiatives. In 2013, former prime minister John Key proposed increasing parliamentary terms from three to four years to promote policy coherence and consensus. The proposal had failed in two previous government-initiated referendums (1967 and 1990). Judging from comments made by other party leaders, this proposal appeared to have wide-ranging support. At the same time, there is no evidence that public opposition has weakened. Short of gaining a 75 % majority among members of the unicameral parliament, a four-year term seems an unlikely proposition.

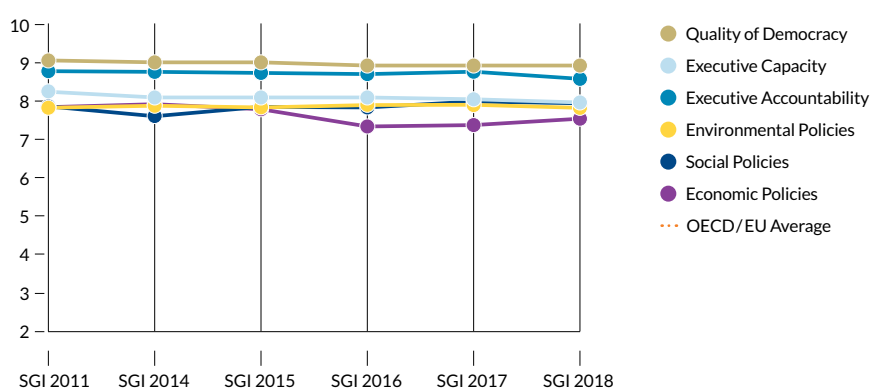
Country profile SGI 2018

Norway

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

As a typical consensus-driven democracy, Norway performs well in most international comparisons of governance, quality of life, and economic and social conditions. Continuity is the most conspicuous quality of the country's governance, which is typically steady and based on the implementation of cautious, incremental legislative measures rather than spectacular, one-off reforms. Norway has been able to avoid the worst of the global financial crisis and subsequent economic turmoil, which severely affected most of Europe, and has pursued a healthy economic policy.

The country's economy is heavily dependent on oil and gas revenues, and its maritime and technologically advanced petroleum-services industries. Many in Norway are concerned about the risks posed by an excessive dependence on the petroleum sector, and in recent years greater emphasis has been placed on developing and maintaining adaptability. In 2017, the government, together with the managers of the coun-

try's oil fund, Norges Bank Investment Management (NBIS, an arm of the Norwegian central bank), decided to divest from investments in petroleum-related industries.

Since 2014, the drop in oil prices has had a significant impact on the economy, exposing its vulnerability. Unemployment is rising due to reduced investment and increased economic uncertainty. Governance is responding to changing economic circumstances, and there is a greater awareness of the need to diversify the economy and reduce its dependence on petroleum. It remains to be seen how successful these efforts will be. For now, the country's economic base remains strong but weakened and the country's currency has depreciated. Public finances have tightened, but there is still a conspicuous continuity in economic policy, which includes relatively high levels of public spending, taxes and welfare services. There has been no shift toward austerity in economic policy.

Norwegian policymaking has long followed a strongly state-centered approach, resulting in a

peculiar system of state capitalism. The state is by far the largest owner of capital in the country, holding about 40% of equity traded on the Oslo stock exchange. The state is virtually the sole funder of research, education and culture, among other areas. Nevertheless, the country has remained open to globalization and free trade, with some minor exceptions, and has been keen to ensure that the benefits of international trade are fairly distributed.

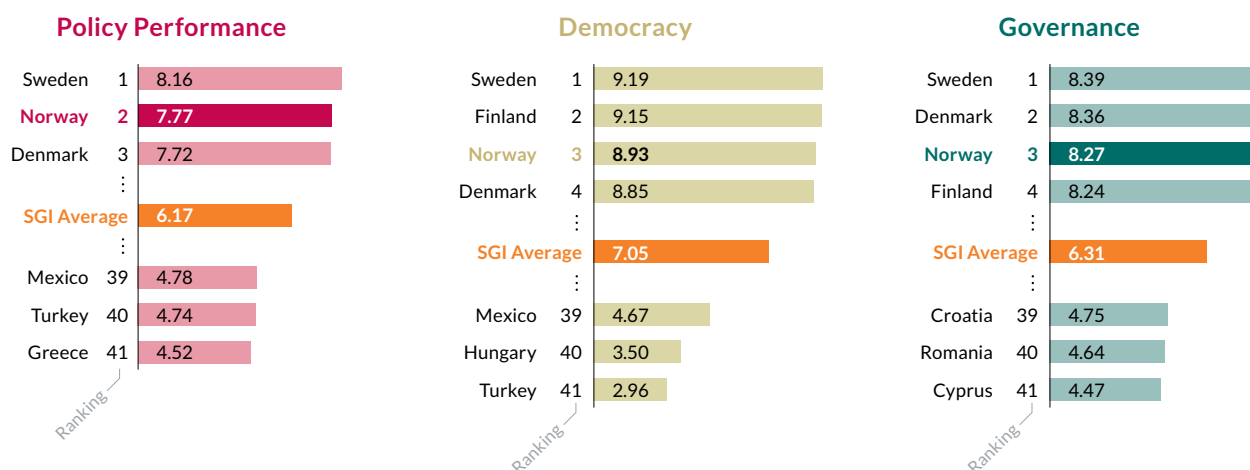
Citizens are subject to a relatively heavy tax burden. A large share of tax revenue is spent on welfare transfers to individuals, which contribute to low levels of inequality in Norway. The government spends significant resources on infrastructure and the provision of public goods, with an arguably excessive emphasis on remote regions. Policymaking is generally effective but often inert when it comes to implementation. The labor force is one of the most educated in the world. However, the country's share of science degrees is low by international standards, which limits the impact that public investment in education can have on economic competitiveness and innovation. International education rankings such as PISA show an improvement in Norwegian students' performance. The level of investment in research, development and innovation remains quite low. An aging population and increased migration, combined with a more challenging financial outlook, have increased pressure on the government to engage in welfare reforms and reduce welfare spending.

Key Challenges

The Norwegian political system functions well, and is characterized by continuity, a sound economy and a generous welfare regime, as well as a relatively high degree of trust and legitimacy, and internal and external security.

Revenues from the petroleum industry have further strengthened the sustainability of the system. An effective public administration and well-developed, cooperative relations between the government and various interest organizations (particularly organizations representing employers and employees) have helped mitigate conflict and enhance the ability of stakeholders to implement joint reforms and adaptations. Nonetheless, the process of implementation has been subject to inertia. Though Norway's engagement in international frameworks has improved the country's reform capacity.

The most critical challenges involve reducing the country's dependence on the petroleum sector, managing the effects of a potentially long period of significantly lower oil and gas prices, and ensuring the sound management of the country's economy and vast oil fund. Ensuring the competitive viability of the economy over the long term will be a key challenge. Norway's economy and policymaking will suffer if global oil prices remain low for long and the risk of stranded assets grows as the effects of climate change intensify.



The terrorist attack in 2011 revealed serious shortcomings in an otherwise robust governance system. Specific shortcomings in security and police routines have been addressed, although concerns remain over the ability to confront and resolve systemic implementation and coordination failures. A governance system that allowed inertia and complacency to negatively affect its most basic responsibility (i.e., protecting citizens) in the first instance, has compounded this failure by responding slowly in the aftermath of the attack. This has led to widespread public questioning of the governance system, in particular the system's management, implementation, learning, adaptability and reform capacities.

The recent election demonstrated that voters are increasingly concerned about how to manage immigration and integration. Labor mobility from the European market has brought talent and resources to Norway and has reduced incentives for businesses to outsource production. However, it has also created a slight downward pressure on salaries, and increased tensions between trade unions and business. In addition, Norway, along with many European countries, faces many challenges stemming from a largely heterogeneous population.

Other persistent challenges include:

- **National leadership.** The state-centered tradition in Norway has many strengths, but is also seen by some as a burden on the country's capacity for encouraging enterprise, innovation and reform. In a world of economic and social competition, there is a need, particularly in a small country, for pluralism and diversity of leadership in order to drive modernization, change and competitiveness. However, Norway has demonstrated considerable adaptability to changing global markets, and its consensus-based culture featuring high levels of trust has been instrumental to fostering effective reforms and changes.
- **Economic restructuring.** There is renewed awareness of the need to restructure the economy to sustain a high level of wealth, decrease dependency on the petroleum sector, and ensure a more diversified and internationally competitive economy. This transition is now underway and new initiatives are being introduced to further stimulate devel-

opments in the maritime, seafood and green-tech sectors, among others. The high labor costs in the oil service sector are being reduced and a weaker currency has helped strengthen economic competitiveness.

- **Education.** The Norwegian government must direct more attention toward the quality of education. The government must do more to strengthen student incentives, monitor and improve teaching quality, and promote a culture of excellence. As Norwegian society becomes more heterogeneous, securing high-quality education, promoting effective integration and ensuring equal access to the job market for immigrants have become increasingly important.
- **Research policy.** Investments in research and development (R&D), both public and private, must be increased. Investments in academic and basic research should also be increased, promoting more joint activity between public and private actors. This major area of reform is currently widely neglected.
- **Infrastructure and regional policy.** Norway's stress on regional redistribution is excessive. Yet, infrastructural investments in national networks, and around the major cities of Oslo and Bergen have been insufficient. The railway system, including commuting services, is inadequate. The policy of agricultural subsidies is costly and should at a minimum be reconsidered.
- **Security and defense.** Norway is a founding member of NATO, and its security depends to a large extent on a well-functioning transatlantic alliance and good cooperation with European partners. Norway has committed to increasing its defense spending to meet NATO targets, although Norway has not yet met its targets. In the new geopolitical security climate, it is necessary for Norway to increase its spending on security. However, this will be demanding and likely come at the expense of further welfare spending.

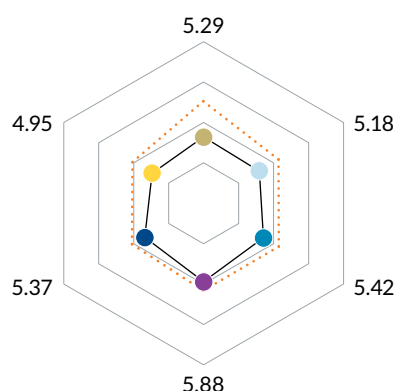
→ Ulf Sverdrup
→ Stein Ringen
→ Detlef Jahn

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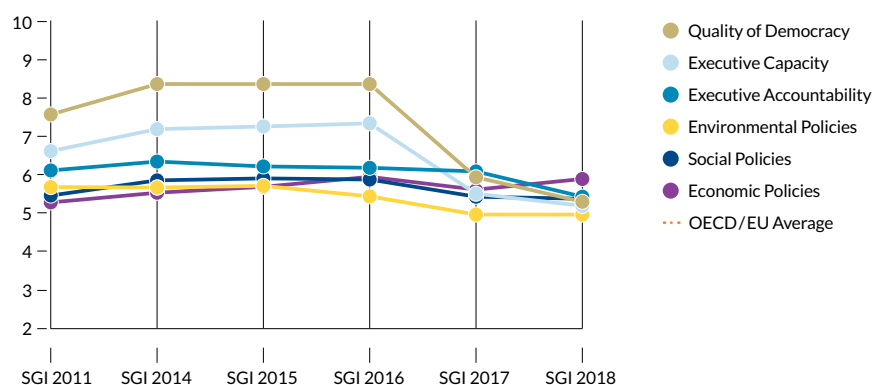
Country profile SGI 2018

Poland

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The national parliamentary election held in Poland in October 2015 altered the country's political landscape and marked a shift in power away from the party previously in government, the centrist Civic Platform (PO), to the now ruling populist-nationalist Law and Justice party (PiS). The PiS won a majority of seats in the Sejm and was able to form the first one-party government in Poland's post-socialist history. The PiS government was initially led by Prime Minister Beata Szydło (PiS) and, behind the scenes, by long-standing PiS party leader Jarosław Kaczyński. Capitalizing on its clear parliamentary majority and strong internal party discipline, the government initiated an ongoing process of radical institutional and policy change. Dubbed "the good change" by PiS, it has prompted a lot of domestic and international critique.

The quality of democracy has greatly suffered from the changes initiated by the PiS government. Following the Hungarian example,

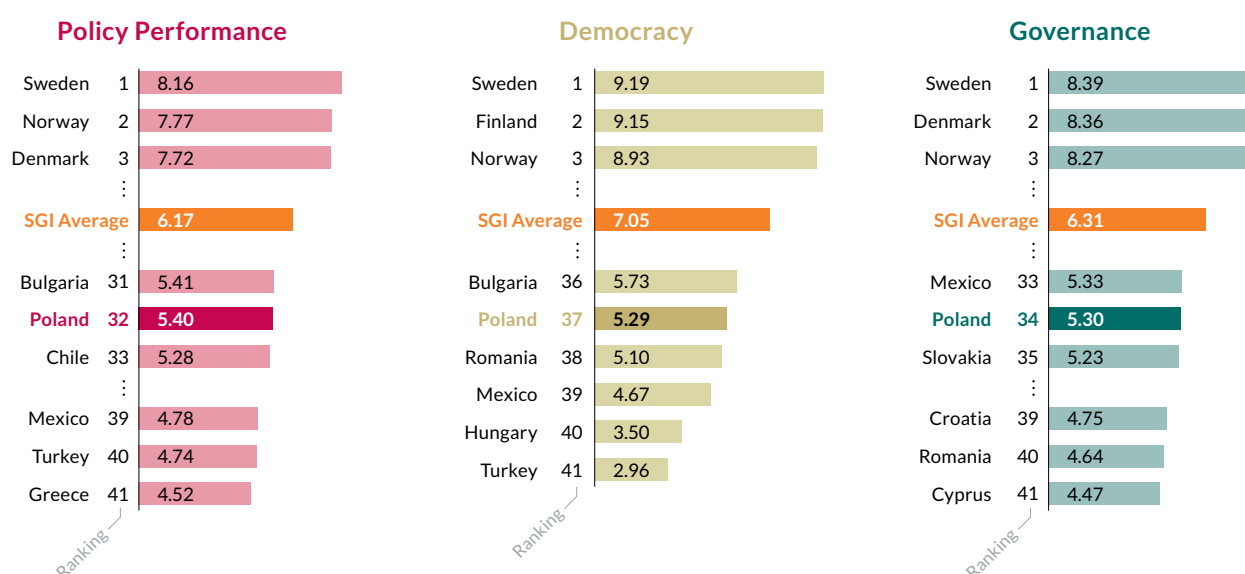
the first activities of the new government targeted the Constitutional Tribunal, public media and civil service. During its second year in office, the government turned to reducing the political independence of the Supreme Court, the National Council of the Judiciary and ordinary courts. Political liberties have suffered from new restrictions on assembly rights, increasing harassment by the police and growing government control of NGO funding. At the end of 2017, the PiS government started to amend electoral law. The quality of democracy has also been affected by the government's strong discourse against Muslims, the LGBT community and "gender-ideology," as well as increasing corruption and cronyism in state-owned enterprises, and political polarization. The PiS government's obsession with retelling Polish history, and desire to impose its national-conservative values on society have impacted public discourses and laws regarding the arts, culture, history textbooks and museums, such as the Museum of the Second World War.

Favored by its absolute majority in parliament, the internal discipline of PiS and the contested authority of PiS leader Jarosław Kaczyński, the PiS government has been quite effective in implementing its policy objectives. It has succeeded in quickly realizing its major campaign pledges, such as increasing the minimum wage and the family allowance, providing tax relief for small businesses, lowering the retirement age, and reversing recent reforms to the education system (which will increase the age at which children start school). The PiS government has bypassed the legal requirements for regulatory impact assessments and public consultation by strongly relying on legislative initiatives proposed by individual members of parliament rather than the government. Precisely because so many bills have sailed so quickly through parliament, the quality of legislation has often proven to be very poor, often requiring immediate amendments. As in the PiS government's first year in office, massive street protests led the government to make some concessions, for example, to the petrol tax, the redrawing of regional districts and the renewed attempt to tighten abortion law. In winter 2016 – 2017, the Sejm crisis and the occupation of its building by opposition members of parliament delayed the passing of the budget. In July 2017, President Duda's unexpected veto of two of the three laws

on the reform of the judiciary revealed rifts within the PiS and limits to the government's power.

The PiS government's assault on democracy and the rule of law and the resulting political polarization have had little visible effect on the economy. In 2017, the Polish economy continued to grow, the unemployment rate fell to a historic low, and the fiscal and public deficits decreased. Along with the government's popular social measures, the strong showing of the Polish economy has kept the government's popularity high. In October 2017, Prime Minister Beata Szydło was supported by 48 % of Poles, while 38 % were unhappy with Szydło's administration, while support for the two opposition parties in parliament, PO and Nowoczesna, fell to 16 % and 6 % respectively.

The PiS government's political course has done more damage to Poland's international reputation. The government's attempts to control the judiciary prompted massive protests internationally. In the European Union, there have been calls to launch a formal proceeding against Poland for breaching European common values and rule of law, and to cut transfers to Poland and restrict Poland's voting rights in the European Council. In November 2017, the European Parliament eventually called on the European Commission to trigger an Article 7 procedure



Source: Sustainable Governance Indicators.

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against Poland for violating the common values of the EU. The conflict between Poland, and EU institutions and most EU member states became also visible in March 2017 when Poland, as the only member state, refused to re-elect Donald Tusk, a former Polish prime minister, as president of the European Council. In response to Poland's growing isolation in the European Union, Poland has turned to the Visegrad countries, and now aims to realize its interests through closer collaboration with Hungary, Slovakia and the Czech Republic.

Key Challenges

In the second half of 2017, debates and rumors about a government reshuffle grew. Ultimately, the changes turned out to be more sweeping than expected. The replacement of Beata Szydło as prime minister by Minister of Finance Mateusz Morawiecki in December 2017 was followed by the replacement of a number of controversial ministers in January 2018, including Defense Minister Antoni Macierewicz, Foreign Minister Witold Waszczykowski, Health Minister Konstanty Radziwiłł and Environment Minister Jan Szyszko.

These changes were widely interpreted as an attempt to placate the public and the European Union. A major figure of the PiS's radical right, Macierewicz was well-known for his conspiracy theories about the Smolensk plane crash and the general betrayal of Poland by the center-left. Meanwhile, Waszczykowski had irritated his EU colleagues with his slur against cyclists and vegetarians; Radziwiłł had alienated doctors and medical staff, and had failed to deal with the massive unrest and strikes in the health sector in 2017; Szyszko had attracted widespread criticism over his moves to allow logging in the Białowieża primeval forest. It remains to be seen though whether or not these changes in personnel will be followed by changes in "substance," not only "style." In the case of judicial reform, arguably the most controversial field, the PiS governments have so far refrained from making any substantial concessions, and the fact that Minister of Justice Zbigniew Ziobro kept his office does not point to any changes here.

The government reshuffle can also be seen as a further strengthening of President Duda, who clashed several times with Macierewicz, for example, over the appointment of generals, and has started to build a reputation as a moderating force. Originally perceived as a mere puppet of Kaczyński, Duda surprised many observers by vetoing key elements of the government's reform of the judiciary. While his own proposals included only cosmetic changes and were not in line with the constitution, the vetoes helped him become perceived as an actor in his own right and a man of the center. This raises the question of how far Duda's emancipation will go and to what extent he might succeed in reducing the political polarization in Poland.

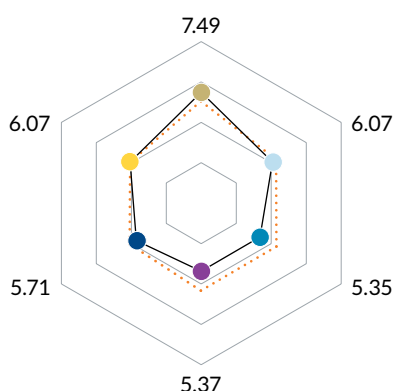
Furthermore, the government reshuffle has made the cabinet less ideological and more technocratic. This might help the government to address the policy challenges ahead. The structural reforms on the agenda, such as the reform of the health system and the energy sector, are complicated issues and the economic and fiscal costs of the government's generous social measures will be gradually felt. From the point of view of the PiS, however, the more technocratic orientation of the new cabinet also creates the risk that its hardcore members might no longer feel represented by the government.

- Claudia-Yvette Matthes
- Radosław Markowski
- Frank Bönker

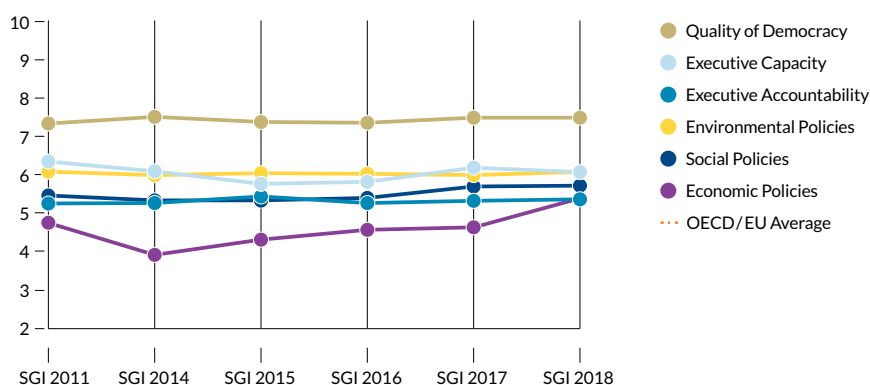
Country profile SGI 2018

Portugal

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The period under analysis here provides seemingly contradictory evidence with regard to governance in Portugal.

On one reading, we could say that Portugal performed spectacularly during the review period. The budget deficit was reduced to 2 % of GDP, the lowest level since democratization. The European Commission closed the country's excessive deficit procedure, which had been open since 2009. Conditions of austerity have been gradually, if not yet wholly, alleviated. Portugal has increasingly become a poster child for the success of post-bailout policies within the EU. The economy has been growing, boosted by exports and tourism. Unemployment rates have fallen to single digits. The country has become increasingly attractive to the tech sector, a fact expressed by its ability to play host to the 2016 and 2017 Web Summits. All this is symbolically reflected in the country's growing international popularity, as seen in the host of foreign companies and in-

dividuals – including many celebrities – that moved to Portugal during this period.

On the political side, António Costa's minority government has proved stable, while also showing itself able to bring the parties to its left – the Left Bloc (Bloco de Esquerda, BE), the Communist Party (Partido Comunista Português, PCP) and the Green Party (Partido Ecológico os Verdes – PEV) – into a governing alliance that had hitherto seemed impossible. This has led to increasing international interest in the Portuguese political solution – the “gerin-gonça” (or “contraption”), as this government has been dubbed. Moreover, the period was marked by a largely collaborative dynamic between the government and the very popular president of the republic, Marcelo Rebelo de Sousa, despite the latter's membership in the center-right Social Democrat Party (Partido Social Democrata, PSD).

The above elements would suggest an overwhelmingly positive assessment regarding Portugal's governance. However, this period was

also marked by events that underline the country's historic governance weaknesses. In particular, the country was rocked by devastating and deadly forest fires; one fire in June caused some 65 deaths, and a second set in October led to a further 45 deaths. These fires, along with the faulty civil-protection response that allowed so many deaths – many of which, it transpired, could have been avoided – reflected a host of deficiencies that have been present in Portuguese governance for decades, including weak strategic planning, a lack of coordination, weak supervision and implementation of public policies, frequent changes in the law, and the lack of a stable policy framework. In June and October, these deficiencies came home to roost. These same governance weaknesses helped facilitate the theft of military equipment from the Tan-cos military base in late June (although this situation was resolved in October thanks to an anonymous tip that led to the retrieval of virtually all the lost material).

Overall, the period highlights the dual nature of development in Portugal. While some sectors are modernizing, others remain neglected until a tragedy occurs, as with the forest fires of June and October 2017.

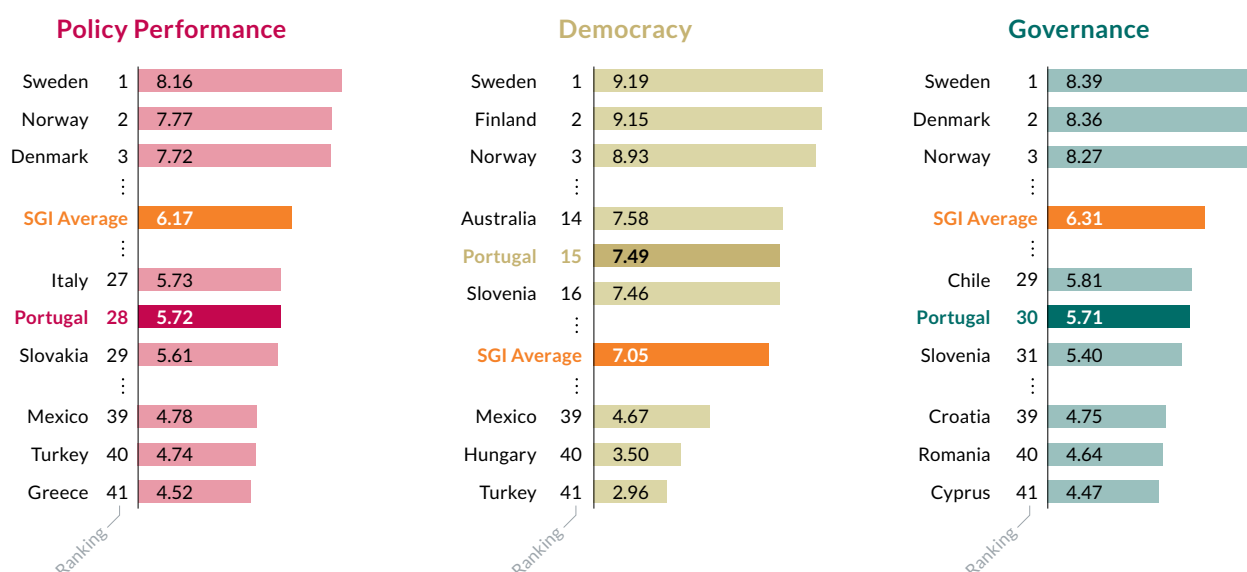
Thus, while some positive changes in Portugal have been evident in this period, notably with regard to economic aspects in general and budg-

etary ones more specifically, these coexist with persistently low scores in governance dimensions pertaining to policy formulation. The regulatory impact assessment framework remains weak, as does the strategic component of decision-making and efforts to monitor institutional governing arrangements; moreover, there has been little systematic effort to improve strategic capacity by making changes to these institutional arrangements. As in the past, this weak capacity is likely to affect the quality and impact of new and existing policies. The Costa government program does include a number of measures regarding governance-quality improvement, and some initial steps have been taken in this area. The question is whether this government will be able to deliver in a domain where so many predecessors have promised more than they achieved in terms of state reform.

Key Challenges

To begin, we must note that there are four challenges common to many other comparatively new democracies that are not a problem in Portugal.

1. Migrants and refugees: Portugal remains outside the routes taken by the large populations of migrants and refugees currently



Source: Sustainable Governance Indicators.

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leaving Africa, the Middle East and South Asia. Even so, the country has accepted more than 1,500 refugees since the end of 2015, the fifth-highest level in the European Union.

2. Portugal does not have the problem with Islamic terrorist radicalization (jihadists) that has been experienced by several other countries in the European Union, including neighboring Spain in August 2017. Its (small) Islamic community is generally well integrated and a participant in the country's strong interfaith dialog. Indeed, President Marcelo's inauguration in March 2016 included an interfaith ceremony held at Lisbon's mosque.
3. Unlike a number of other European countries and the United States, Portugal has not seen the rise of populist, anti-system parties (or major political figures, as in the case of the current U.S. president) either on the right or the left of the political spectrum.
4. Unlike several other comparatively new democracies, there are no pending issues (e.g., the elimination of "prerogatives") currently causing friction in civil-military relations. However, four real challenges do exist.

A first challenge will be to ensure that budgetary consolidation persists into the future. The excessive deficit procedure that was closed in 2017 was the third such for the country since 2002. In each of the preceding two cases, a new excessive deficit procedure was opened within less than two years of the preceding one closing. This risk is compounded by the high level of public debt; at 130.1 % of GDP in 2016, this is the third-highest such ratio within the EU. Barring relief, bringing this debt under control will require an unprecedented sustained effort over many years. An April 2017 forecast by the Portuguese government estimated that debt would decline to 60 % of GDP in 2032, some 14 years earlier than its previous estimation in the 2016 budget. However, this earlier date will continue to require an unprecedented degree of effort to sustain budgetary consolidation over a long time span, and across international and domestic economic and political cycles.

A second and related challenge in the short- and medium-term will be to reconcile this budgetary consolidation with citizens' expectations that the previous years' austerity policies will

be reversed. The Costa government managed to square this circle well over this review period. However, more pressure, not less, is likely to emerge in the future, especially as the economy recovers.

The third challenge is the need to improve governance capacity. As made clear in the ratings in this report, and in all past SGI reports, Portugal scores poorly in a number of areas related to this topic, including the use of evidence-based instruments in policymaking; the degree of strategic planning and input in policymaking; societal consultation; policy implementation; and the degree to which institutional governing arrangements are subject to considered reform. Inevitably, weaknesses in these areas impinge on the quality of policy, both in terms of conception and implementation. This governance capacity pertains not only to decision-making arrangements, but also to broader oversight mechanisms. Indeed, the period under review here quite tragically highlighted the results of failures in the domains of territorial planning, forestation, forest-fire prevention and civil protection. Unfortunately, the country's governance failures have also extended well beyond these domains.

The fourth serious challenge has to do with youth unemployment. As noted in this report, youth unemployment rates have not followed the declining trend of unemployment in general, remaining fairly stable in this period above the EU and euro zone averages, over this period. Labor-market policies will need to engage with this issue in the future in order to avoid wasting the significant educational investment that has been made over the past decade.

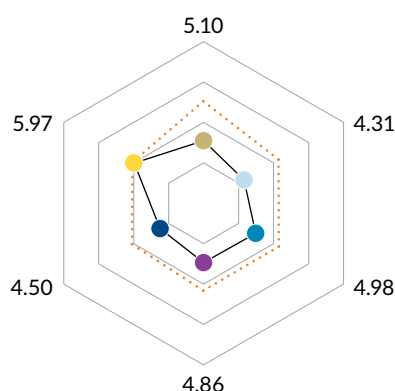
- Thomas C. Bruneau
- Carlos Jalali
- César Colino

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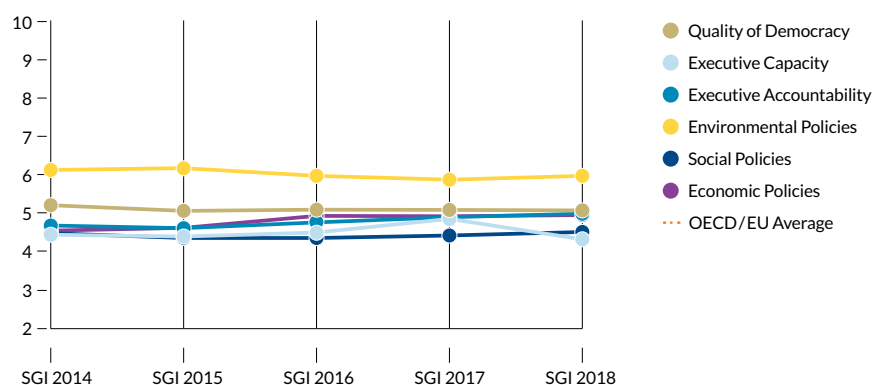
Country profile SGI 2018

Romania

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The socialist PSD emerged as the clear winner of the parliamentary elections in December 2016. The party formed a coalition with the Alliance of Liberal Democrats (ALDE) and replaced the technocratic government led by Prime Minister Dacian Cioloș, that had been established after Victor Ponta, the previous prime minister from the PSD, was forced to resign amidst corruption scandals in October 2015. As PSD leader Liviu Dragnea had been convicted of voting fraud and was therefore barred from becoming prime minister, the relatively unknown PSD politician Sorin Grindeanu was installed as prime minister in early January 2017. In June 2017, Grindeanu was ousted by his own party following a vote of no-confidence. He was succeeded by Mihai Tudose, another PSD politician.

Soon after coming to office, the Grindeanu government launched legislation aimed at decriminalizing and pardoning certain offenses. Broadly understood as an attempt to help politi-

cians and others accused of or convicted for corruption, including PSD leader Dragnea, these initiatives sparked an unexpectedly strong public outcry. Hundreds of thousands of people took to the streets, forcing the government to withdraw the decrees. Since then, there have been strong confrontations between the governing coalition and the president, and between parts of the opposition and civil society on the other. The governing coalition has sought to strengthen its control over the judiciary and discredit and weaken the much-acclaimed National Anti-Corruption Directorate (DNA) – with little effect during the period under review.

The Grindeanu government succeeded in implementing a number of campaign promises, including tax cuts as well substantial increases in the minimum wage, public sector wages and pensions. These procyclical measures fueled the strong growth of the Romanian economy. With real GDP up by more than 6 %, Romania became the EU country with the strongest economic growth in 2017. However, the combination

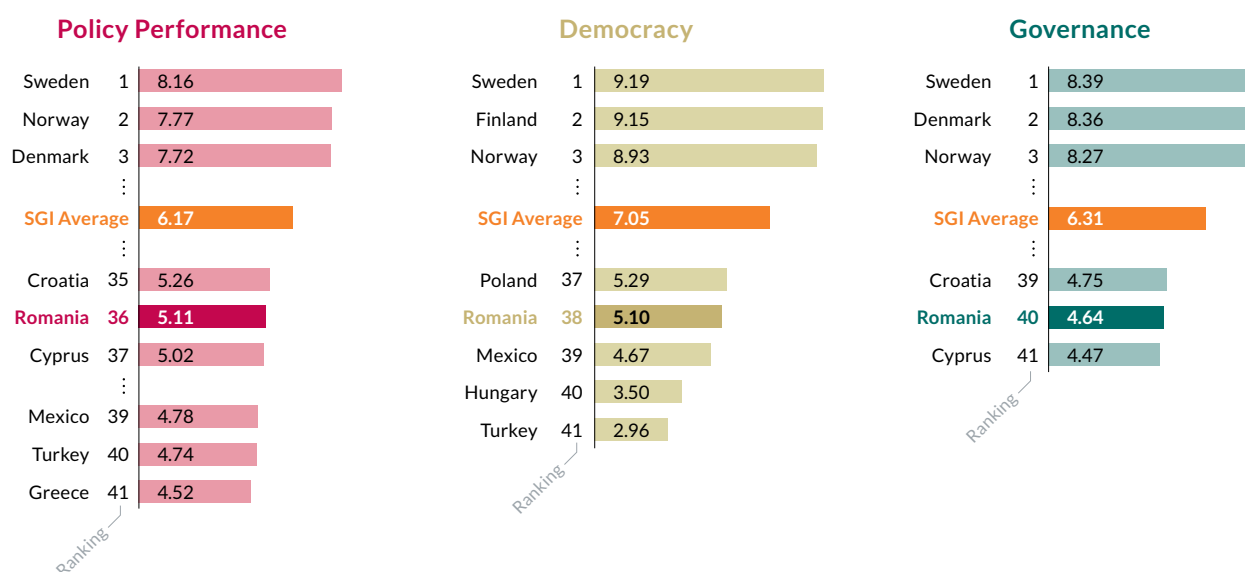
of tax cuts and spending increases also contributed to a growing fiscal deficit. Only by adopting two supplementary budgets and by cutting down on public investment did the Tudose government eventually manage to keep the deficit slightly below 3 % of GDP in 2017. Both the Grindeanu and the Tudose governments made little progress with structural reforms. In the case of education and health care, no major reforms were adopted. As for pensions, the shifting of revenues from the mandatory, fully funded second pillar to the public pension pillar has increased uncertainty among future pensioners and capital markets, thus having a negative impact on the pension system's reliability and long-term sustainability. Similarly, the many changes in taxes have diminished the credibility of the tax system. While public R&D funding increased in 2017, the structures governing R&D and the allocation of funds have worsened.

Institutional reforms under the Grindeanu and the Tudose government were largely confined to changes in the portfolios of ministries. The Grindeanu government increased the number of ministries from 21 to 26. It had two ministers dealing with EU funds, none of which was able to help Romania improve its absorption rate. The Tudose government even started with 27 ministers. Neither of the governments addressed long-standing challenges such as the lack of

strategic planning or the low quality of RIAs. The pledge to reform the subnational administration remained merely a pledge. Under both governments, policymaking has been complicated by the influence of PSD leader Dragnea.

Key Challenges

Until recently, Romania drew considerable acclaim for its judicial reform and fight against corruption. The country's efforts were widely regarded as a model for other countries, for example, the neighboring Bulgaria or Ukraine. Efforts by the PSD/ALDE coalition to rollback judicial reform and anti-corruption efforts – blocked only temporarily by mass protests, parts of the opposition and President Klaus Iohannis – puts these achievements at risk. These developments will likely be accompanied by democratic erosion in other areas. The legislation introduced by two members of parliament from the governing coalition in June 2017 and passed by the Senate in November 2017 that places restrictions on NGOs and is clearly inspired by the “foreign-agent” legislation observed in Russia and Hungary, is a good case in point. The campaigns waged against protesters and the intimidation of critical journalists are further examples. The developments in Romania must thus be seen as part of a broader



Source: Sustainable Governance Indicators.

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democratic backsliding in Central and Eastern European (CEE) countries and elsewhere.

Backtracking on both judicial reform and the fight against corruption is likely to have negative effects on the development of the Romanian economy, too. While there are many factors influencing economic performance, progress with judicial reform and anti-corruption mechanisms would certainly help improve the country's reputation and thereby foster economic growth. The combination of more corruption and less legal certainty will negatively impact investor confidence and favor a diversion of effort and resources from productive to rent-seeking activities. It will distort the allocation of public R&D spending and EU funds, and it will aggravate the growing shortage of qualified labor by fueling the emigration of talent. While fiscal expansion might stimulate economic activity in the short-term, its fiscal limits have already become visible and it won't raise medium- and long-term growth prospects.

Romanian citizens' resistance against the PSD/ALDE governments' attempts at decriminalizing corruption and restricting the independence of the judiciary has been impressive. The big question is whether or not this resistance can be sustained. Romania's recent past suggests we should view this with cautious optimism. After all, the country had seen mass protests against corruption in 2015 and the PSD still won the December 2016 parliamentary elections with a landslide. Sustaining the mobilization against the governing coalition until the presidential elections in 2019 and the parliamentary elections in 2020 will be complicated by the biased media landscape and the government's attempts to weaken NGOs. Moreover, the opposition continues to suffer from fragmentation. These problems make it even more important that the EU take a clear position and make use of the leverage it has for containing democratic backsliding in Romania.

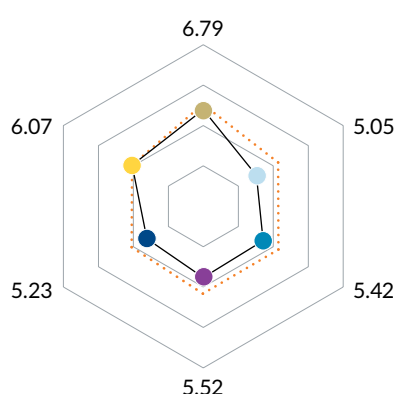
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- Andrea Wagner
- Lavinia Stan
- Frank Bönker

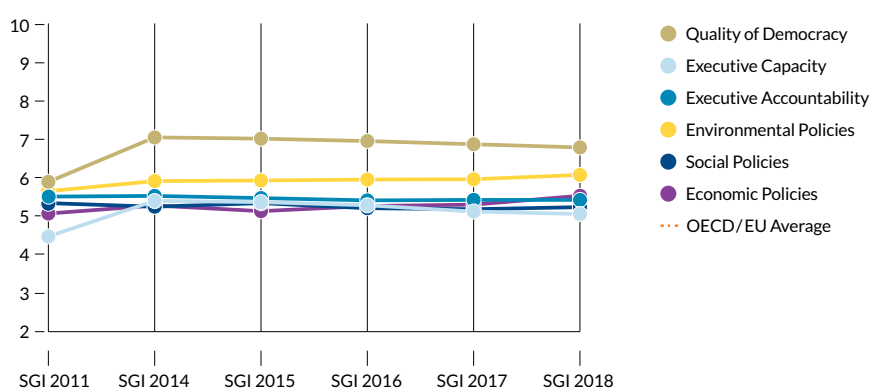
Country profile SGI 2018

Slovakia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

In the parliamentary elections in March 2016, Prime Minister Robert Fico's social-democratic party, Smer-SD, lost its absolute majority of seats. While Smer-SD remained the strongest faction in parliament and Fico was sworn in as prime minister for the third time, the governing coalition only won a marginal majority of 78 out of 150 seats. The coalition also includes "strange bedfellows," namely the nationalist Slovak National Party (SNS) and Most-Híd, a centrist party representing the Hungarian minority. To the surprise of many observers, the coalition turned out to be rather stable in its first year in office. The first coalition crisis only broke out in August 2017. Prompted by the decision of SNS leader Andrej Danko to withdraw from the coalition, the crisis lasted just two weeks. Its main result was the resignation of Minister of Education Peter Plavčan, a SNS nominee involved in a scandal about the misuse of EU funds.

As for the quality of democracy, no significant progress was achieved in the period under review. The country has continued to suffer from opaque media ownership, a strong politicization of courts and public administration, and rampant corruption. As evidenced by the controversial change in the leadership of the public broadcaster RTVS in June 2017, political pressure on the media has further increased. Despite some legal steps in the right direction, widespread discrimination against Roma, women, LGBTI persons, refugees and Muslims has persisted. On a more positive note, reforms introduced by Minister of Justice Lucia Žitňanská have made the judiciary more transparent, and the long-standing stalemate between President Kiska and the parliament over the appointment of Constitutional Court justices has been overcome.

With GDP growing by almost 3.5 % in 2016 and 2017, the Slovak economy remains among the strongest growing EU and OECD countries. The stronger-than-expected economic growth has brought a further decline in the unemployment-

ment rate and helped the government to reduce the general government fiscal deficit to below 1.5 %. By contrast, there was little progress with much-needed health care, education and R&D reforms. In the case of education and R&D, the implementation of reforms was delayed by resignation of Minister of Education Peter Plavčan in summer 2017.

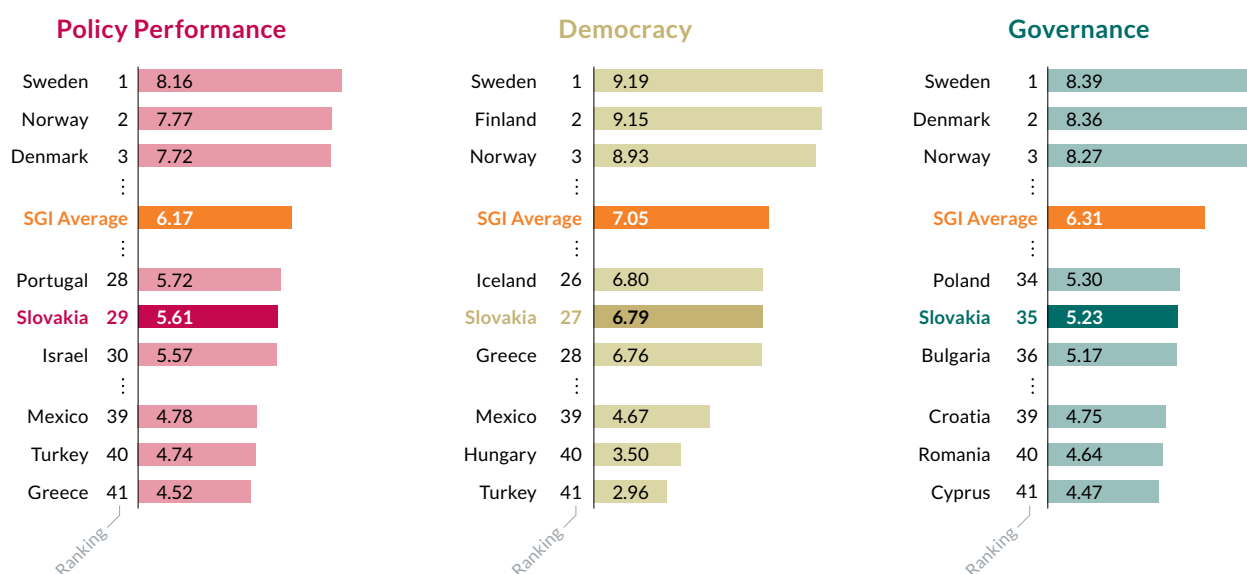
The change from a one-party to a coalition government after the 2016 elections resulted in some differences between the second and third Fico governments. In the latter, ministerial compliance has become more precarious, particularly since SNS-nominated ministers are not party members and lack experience. After the coalition crisis in August 2017, more formal coordination mechanisms were introduced to improve communication and consultation among the coalition partners.

While Prime Minister Fico pursued a rather confrontational approach toward the European Union in the context of the 2015 refugee crisis, his attitude changed during 2017. In the face of a regression of democracy and rule of law, and the eurosceptic positions of Hungary and Poland, Fico sought to pursue a different policy course. Fico emphasized that he is very much interested in regional cooperation within the Visegrad-4 but that Slovakia's vital interest is with the European Union. He expressed a desire to cooperate

in the reform plans of France and Germany, and to be part of a deeply integrated "core" European Union.

Key Challenges

Since autumn 2017, the political scene in Slovakia has changed. The regional elections in early November saw a continuation of the trend of declining support for Prime Minister Fico and his once dominant Smer-SD party, which set in with Fico's surprise defeat in the 2014 presidential elections and continued with Smer-SD's loss of its absolute majority in the 2016 parliamentary elections. Fico's Smer-SD lost four of six regional governors and a considerable share of chairs in the regional councils. Fico's core message of strength and dominance has begun to fail. His one-week silence after the regional elections raised questions and unrest in his party has grown, as evidenced by the resignation of Marek Mad'aric, the vice-chair of Smer-SD, in December 2017. In mid-March 2018, Fico resigned after the murder of the investigative journalist Jan Kuciak, who had uncovered links between people in government, the mafia and his fiancée, which sparked mass protests and a coalition crisis. The resignation of Fico and some other concessions by Smer-SD cleared the way for a con-



Source: Sustainable Governance Indicators.

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tinuation of the coalition of Smer-SD, SNS and Most-Híd, now led by former Deputy Prime Minister Peter Pellegrini. Contrary to opposition and public demands, no early elections were called and Smer-SD has gained an opportunity to win back credibility. This will require Smer-SD to take a clearer position on corruption, and to end its interventionist approach to the media and public institutions.

The resignations of Minister of Interior Robert Kaliňák and Prime Minister Fico will not be sufficient to overcome public frustration with the political class. One critical issue will be dealing with the audit of Slovak anti-corruption legislation, which Fico and the OECD had agreed on at the beginning of 2017. What is also required is the continuation of the reform of the judiciary started by Minister of Justice Lucia Žitňanská (who resigned in March 2018), and a de-politicization of specific public bodies – such as the Public Procurement Office, the Prosecutor General and the Supreme Audit Office – and public administration more generally. In the case of the Constitutional Court, the rules for the appointment of justices should be amended with a view to strengthening professional requirements.

While Slovakia's short-term economic and fiscal situation looks favorable, the country faces a number of policy challenges. Long-term economic prospects are limited by the poor state of the infrastructure, a lack of skilled labor and limited R&I activities. All these aspects require an improvement in order to sustain the economic course in the mid- to long-term perspective.

As for the next parliamentary elections, party competition is likely to focus on the political center. Defying widespread fears, right-wing populist and extremist parties scored poorly in the regional elections in November 2017.

Marián Kotleba, the extremist governor of the Banská Bystrica region, was ousted by an independent candidate. This suggests that the good results of far-right parties in the national elections in 2016 do not reflect a deeply anchored attitude in the Slovak public, but were primarily a consequence of the aggressively anti-migration and xenophobic discourse nurtured by Fico and his party in the electoral campaign. As the recent formation of two new centrist and programmatic parties – Spolu – Občianska Demokracia (Together – Civic Democracy)

and Progresívne Slovensko (Progressive Slovakia) – indicates, the next elections might bring about substantial changes in the party landscape.

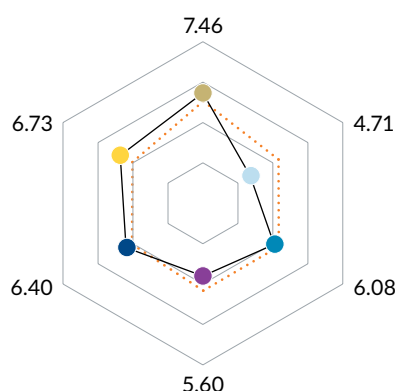
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- Marianne Kneuer
- Darina Malová
- Frank Bönker

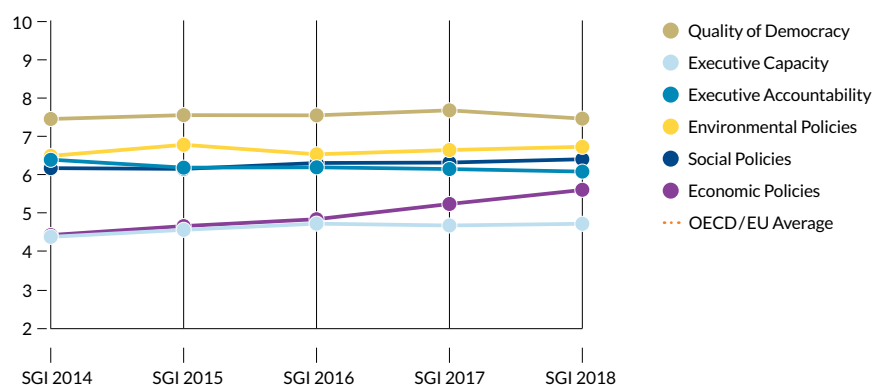
Country profile SGI 2018

Slovenia

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

From September 2014 to April 2018, Slovenia was governed by a center-left coalition led by Prime Minister Miro Cerar and his Modern Center Party (SMC). Despite some differences of opinion and infighting, the three-party coalition managed to stay together and bring some much-needed economic stability to a country that had stood at the brink of a financial crisis in 2013/14. The Cerar government benefited from a favorable political position. Divided into two right-wing and two left-wing parties rarely able to reach a consensus on goals and interests, the opposition was not effective in blocking legislation. At times, the government even managed to cooperate effectively with the opposition, which has been relatively rare in recent Slovenian politics. While the Cerar government partially regained the public trust it lost in 2015, when trust in government fell to the lowest levels found among citizens across OECD countries, disenchantment with politics and political institutions has remained

high, and the three parties of the governing coalition continued to score poorly in public opinion polls.

In 2017, the recovery from the economic recession of 2008–2013 continued. The country's robust economic growth helped reduce the fiscal deficit and resulted in a strong decline in unemployment. At the same time, however, the favorable short-term economic situation reduced the pressure to move on with policy reforms. Although Slovenia features the largest long-term sustainability gap of all EU members, the announced comprehensive health care reform has been postponed once more. The government presented in March 2016 its "White Book on Pensions" and achieved some consensus with social partners regarding pension reform, but has not committed itself to any concrete measures yet. The tax reform eventually adopted in summer 2016 has been more modest than initially announced, and minor changes announced by the minister of finance for 2017 were canceled. The promised privatization of Telekom

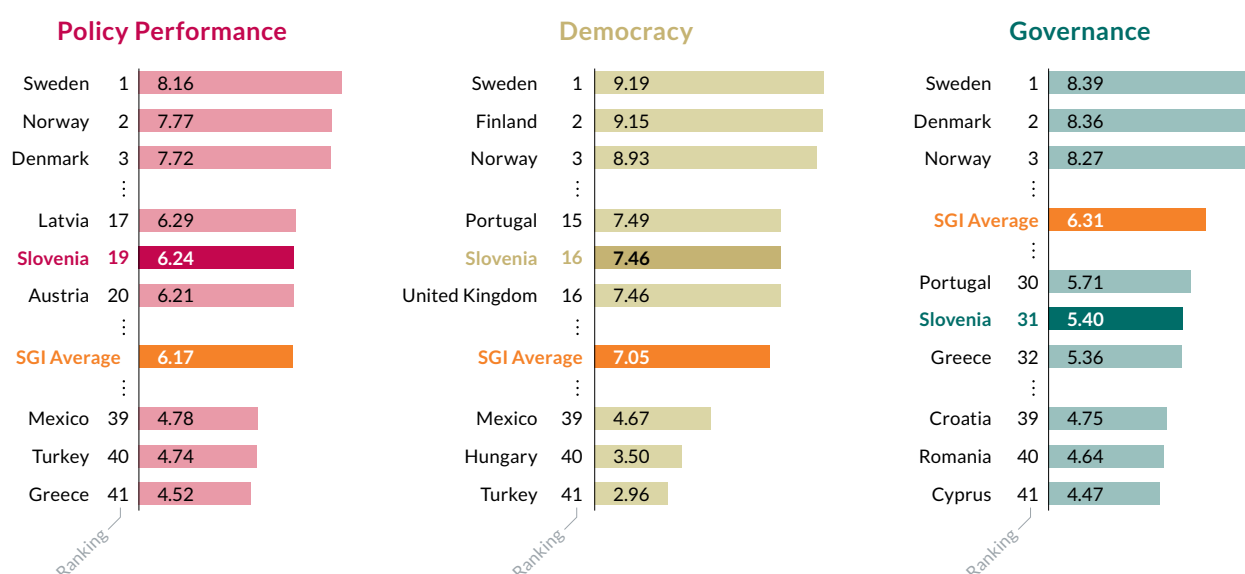
Slovenije, the largest communication company in the country, fell victim to political opposition from within and outside the governing coalition. The same happened with the promised privatization of largest bank NLB, which was further postponed in May 2017.

The quality of democracy has continued to suffer from widespread corruption. While the Cerar government continued to implement the Anti-Corruption Action Plan adopted in January 2015, and the Commission for the Prevention of Corruption managed to upgrade its supervisor web platform and launch its successor Erar in July 2016, doubts about the political elite's commitment to fight corruption were raised by two developments in particular. The first involved the intransparent management of a government project in which a second railway track was constructed between Divača and the port of Koper. The second involved investments by Magna, a Canadian-Austrian company that received large subsidies and unconditional support from the government for a plan to build a new car paint shop close to Maribor but failed manage things transparently and deliver on its promise of bringing several thousand new jobs to the region. The differences in opinions between the government and civil society organizations on the financial construction of the second railway track project resulted in a referendum being called,

once again strengthening the power of direct democracy in Slovenia. Nonetheless, the project was not halted as turnout levels for the referendum were too low to render the vote binding and votes in favor of the government's plan slightly outnumbered votes in opposition to the plan.

Governance in Slovenia is marked by a strong corporatist tradition, which has had a mixed impact on the government's strategic capacity. At the beginning of the Cerar government's term, when the country's economic problems were acute and visible, the unions accepted major reforms, which gave the government a chance to capitalize on the support of social partners. However, as economic stability and growth returned, the unions have become less willing to accept further compromise and have once again become more active in organizing strikes and have rejected new pay-related arrangements in the public sector. Slovenia's strong corporatist tradition accounts in part for the lack of strategic planning in policymaking, as well as the government's limited reliance on independent academic experts, a weak core executive, an increasingly politicized civil service and a largely symbolic use of RIA.

Institutional reforms under the Cerar government have largely been confined to a reshuffling of ministerial portfolios at the beginning of the term and a strengthening of the Government



Source: Sustainable Governance Indicators.

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Office for Development and European Cohesion Policy, the public body in charge of coordinating the use of EU funds. In addition, the Cerar government adopted a strategy for the development of public administration in April 2015 and a separate strategy for the development of local government in September 2016 but failed to implement any serious reforms. As a result, conflicts between municipalities and the national government have continued.

Key Challenges

After four years of relative political stability, the upcoming parliamentary elections in 2018 are likely to bring about change to the political scene in Slovenia. The three parties of the governing coalition have scored poorly in the polls and, as has been the case in previous elections, new political forces will likely emerge. Marjan Šarec, a comedian turned mayor who came second in the presidential elections in 2017, has already announced that he will establish a new political party. The strong showing in the polls of the center-right SDP led by Janez Janša, a controversial former prime minister at odds with major parts of the political elites, further strengthens the concerns that building a stable new government after the elections might become difficult.

In order to regain the lost public trust in political institutions and political elites in general, the new government should strengthen the judiciary's quality and take a tougher stance on corruption. In addition, the selection and promotion of civil servants on the basis of their political affiliation, which has continued under the Cerar government, should be brought to an end and the career civil service model should be rebuilt. To counter fears about a weakening of media freedom and independence, the strategy for media regulation presented to the public in summer 2016 should be first amended and then implemented rigorously.

While steady economic growth has reduced short-term reform pressures, the need for structural reforms remains strong. Without major pension and health care reforms, aging demographics in Slovenia are likely to result in substantial fiscal pressures in the medium- and

short-term. Adopting substantial health care and pension reforms, particularly in a failing public health sector saddled by corruption, should be a clear policy priority. In order to strengthen the economy, the government should also intervene less – whether formally or informally – in state-owned companies and implement its strategy to privatize remaining state-owned enterprises. The government should also stand firm on its decision to give much more attention to R&I and higher education, two areas which have been neglected for years.

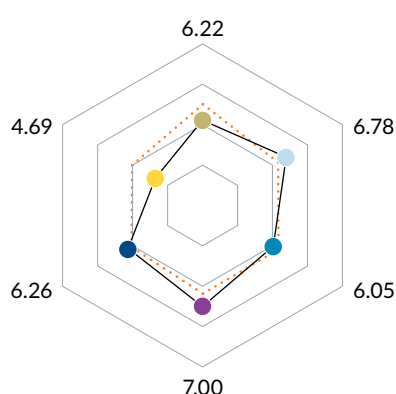
Achieving these goals could be facilitated by a number of changes in the Slovenian policy-making process. The government could make greater use of expert advice, strengthen strategic planning and improve the RIA system. Such changes would make it easier for the government to plan and act on a long-term basis, overcome resistance by special interest groups, which often hinder or even disable governmental activity, and win larger share of public acceptance for much-needed reforms.

- Miro Haček
- Susanne Pickel
- Frank Bönker

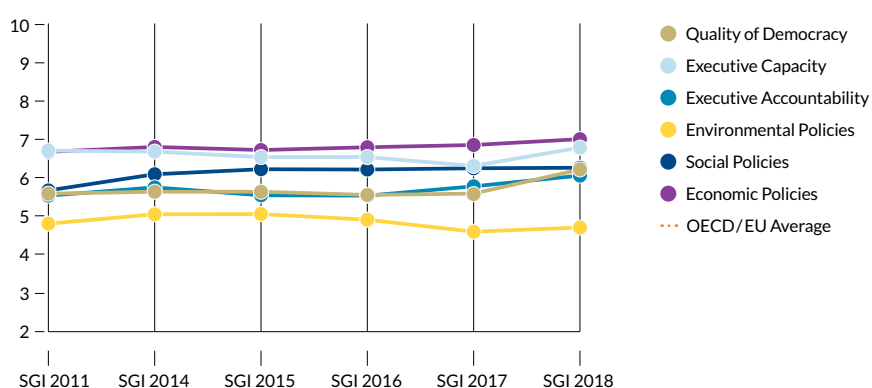
Country profile SGI 2018

South Korea

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The period under review saw dramatic changes in South Korea, with the parliament voting to impeach conservative President Park Geun-hye in December 2016 following a corruption scandal and months of public demonstrations in which millions of Koreans participated. In March 2017, the Korean Constitutional Court unanimously decided to uphold the impeachment, and new presidential elections consequently took place in May 2017. The elections were won by the leader of the opposition Democratic Party, Moon Jae-in, by a wide margin. The corruption scandal revealed major governance problems in South Korea, including collusion between the state and big business and a lack of institutional checks and balances able to prevent presidential abuses of power in a system that concentrates too much power in one office. Particularly striking were the revelations that under conservative Presidents Lee Myung-bak and Park Geun-hye, the political opposition had been systematically

suppressed by a state that impeded the freedom of the press, manipulated public opinion and created blacklists of artists who were seen as critical of the government. It was also revealed that the government had colluded with private businesses to create slush funds. However, the massive protests against President Park that began in October 2016 showed that the Korean public remains ready to defend its democracy and stand up against corruption. On 3 December 2016, an estimated 2 million people across the country took to the streets to demonstrate against President Park. While the protests were to a large degree spontaneous, they were in part driven by the work of vibrant civil-society organizations. News reports, particularly from JTBC TV, also played an important role in uncovering the scandals.

The Moon administration has promised major changes with the aim of making South Korea more democratic and improving social justice. During his first six months in office, Moon announced a large number of policy proposals ("100 policy tasks") that include welfare-,

justice- and education-system reforms. He also promised to decentralize power and put place new limits on the constitutional powers of the president. These changes were to be proposed in a set of constitutional reforms that would be put to a referendum in 2018. As of the time of writing, many of the policy proposals had not yet been implemented. Moreover, many will certainly face difficulties, as President Moon's Democratic Party lacks a parliamentary majority. Negotiating the remaining overlap between the Park and Moon governments presents a major challenge, as does completion of the new government's many announced but as-yet-unimplemented policies.

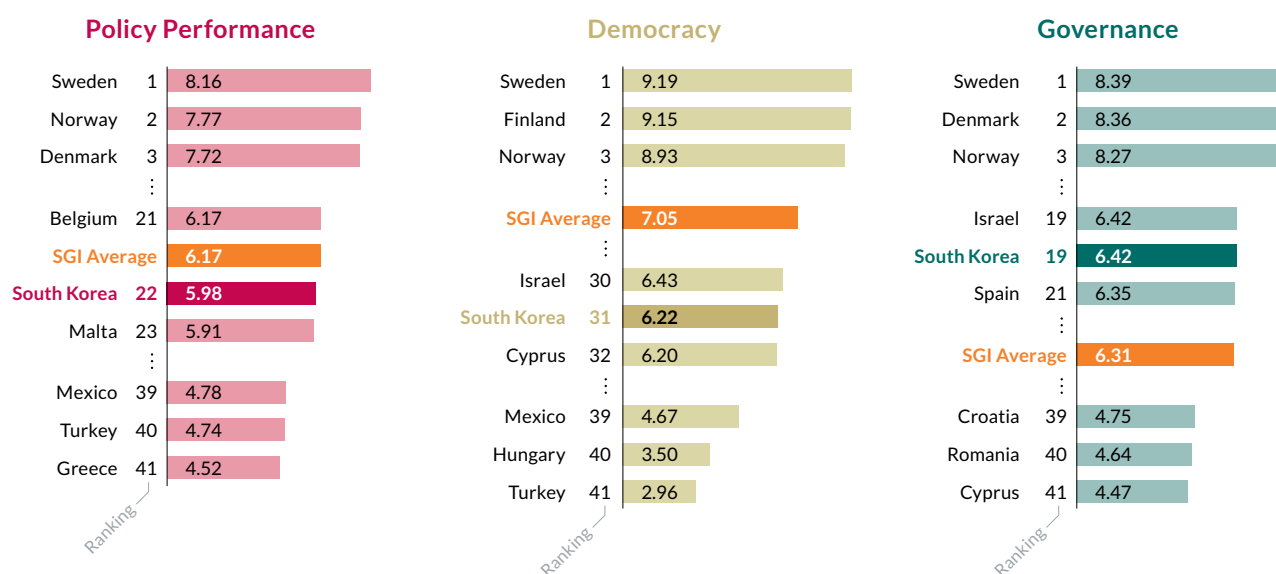
Economically, Korea is doing exceptionally well in cross-OECD comparison. With an annual GDP growth rate of 2.8 % in 2016, Korea was above the OECD average of 1.78 %. Korea remains a major exporter, with many highly competitive multinational corporations producing a great variety of products in the automotive, IT and other industries, although this also leaves the country vulnerable to global market volatility. The overall unemployment rate remains low at 3.8 %, but the labor-market participation rate is below average, and the lack of social mobility is causing an increasing degree of concern, particularly among the younger generations. With regard to international relations, President Moon Jae-in has abandoned the hard-line rhetoric of previous govern-

ments and wants to actively engage and negotiate with North Korea. However, this policy path carries its own difficulties given the continuing provocations from the North, as well as the actions of hard-line leaders in the United States and Japan that have used the threat from the North to pursue their own agendas of nationalist consolidation and militarism. Beyond the North Korea question, the character of the country's future international engagement – for example, with regard to urgent issues of climate change, poverty in the Global South, and a fairer global economic and financial system – has yet to come into sharp focus.

In conclusion, South Korea has begun a new project to restore democracy and revitalize the transformation to a mature democracy that had stalled and even regressed somewhat under the previous two conservative administrations. However, South Korea is moving in the right direction with the momentum gained from the so-called candlelight revolution.

Key Challenges

At the domestic level, the biggest challenge for the incoming Moon administration will be to deliver on the candidate's numerous campaign promises, particularly at a point when Moon's party lacks a parliamentary majority.



Source: Sustainable Governance Indicators.

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While Moon remains extremely popular, and at the time of writing had proven relatively successful in filling positions and implementing a few of his promises, it will be difficult for his administration to fully satisfy the public expectations built up during the last years of frustration under the Park Geun-hye government. Many of President Moon's proposals are likely to improve social and economic conditions in South Korea. For example, he has promised to reform oligopolistic and paternalistic structures in the corporate sector, strengthen the small and medium-sized enterprise (SME) sector, increase the minimum wage, and transform irregular employment contracts into permanent ones. He has also promised to pay more attention to the environment, a badly needed policy change after previous administrations' focus on growth, support for business and car-oriented infrastructure planning.

From an institutional perspective, Moon has promised to make the country's political system more democratic, more decentralized and less corrupt. In particular, he has proposed to decentralize the power of the president; strengthen the cabinet, parliament and regional governments; and enhance opportunities for citizen participation. He has additionally proposed a constitutional change transforming the one-time five-year presidential term into a four-year term with a second term possible. In combination, such reforms would make South Korea more democratic, while at the same time increasing strategic-planning capacities by reducing the lame-duck period. In general, it is expected that civil- and human-rights conditions will improve substantially under President Moon, who is a former human-rights lawyer.

Economically South Korea is doing well, but the country remains vulnerable to global economic volatility and external political conflicts due to its dependence on exports. The tide of global trade protectionism is additionally becoming a significant challenge to the South Korean economy. Domestically, the biggest economic challenge is to enhance social mobility and improve job conditions for irregular workers and the younger generation. In addition, household debts related to a real-estate bubble and high education costs are also major challenges. The historically low-tax country also faces a major challenge in further expanding the welfare state so as to pre-

pare for inevitably lower growth rates and an increasingly aging society. Moreover, the rise in social inequality in what was previously a relatively equitable society has undermined social cohesion. Several long-term tasks, including restructuring the country's dominant business conglomerates and strengthening SMEs and startups, are becoming increasingly critical. The economy must also move away from its current dependence on the construction sector, and instead place greater focus on innovation. The ongoing restructuring of the shipping and shipbuilding industries, in particular, will be very costly and is expected to lead to substantial unemployment. South Korea is also behind the curve in shifting to a sustainable and low-carbon economy based on renewable energy.

North Korea continues to be a major threat to stability on the Korean peninsula and within the East Asian region as a whole. More than 60 years after the end of Korean War, there is still no peace treaty that would formally end the Korean War. The unpredictable and confrontational behavior of the North Korean regime, particularly with regard to nuclear and missile tests, has led to further deterioration in North-South relations. Maintaining peace and achieving the demilitarization of the Korean peninsula is an urgent and critical task for the South Korean government. The Moon administration has promised to abandon the failed hard-line policies toward the North and combine deterrence and strength with engagement and negotiations. However, the election of U.S. President Donald Trump and the re-election of Prime Minister Shinzō Abe in Japan have made the situation even more difficult, as each of these figures has followed a hard-line strategy. While war on the Korean peninsula remains unlikely for now, the further deterioration of relations with the North and the prospect of an escalating arms race in East Asia are grave dangers that will undermine stability in East Asia in the medium and long term. In addition, amid these mounting tensions, there always remains the possibility that error, accident or sudden unintended escalation could produce unpredictable consequences.

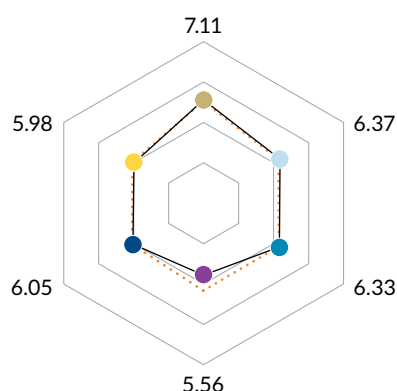
→ Thomas Kalinowski, Sang-young Rhyu,
Aurel Croissant

Full report available at
www.sgi-network.org

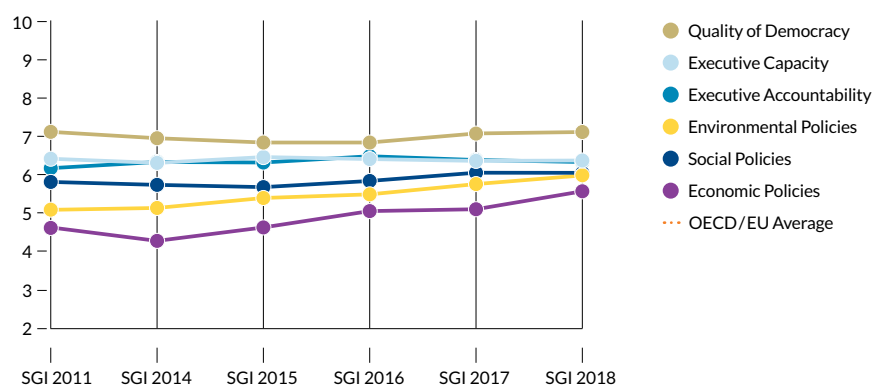
Country profile SGI 2018

Spain

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

After several years of recession, social unrest has eroded the legitimacy of and public trust in Spain's political system. The shift from a two-party into a multiparty system has been a notable consequence of these developments. In addition to traditional parties such as the Popular Party (PP) and Spanish Socialist Party (PSOE), this multiparty constellation now includes the leftist party Podemos and liberal Ciudadanos. Although the nascent parties offered a fresh pluralistic impetus in parliamentary debates, this came with higher political instability: since the traditional parties lost support, the building of coalition governments at the national level had become unviable. Prime Minister Mariano Rajoy began the process of securing parliamentary support for the 2017 budget in a test of his minority government's power. With a fourth of the year already gone, the Spanish cabinet passed his 2017 tax and spending plans. Spain's lower house approved the long-delayed 2017 national budget after Rajoy

secured the support of smaller parties in exchange for investment pledges and tax benefits. Also in 2017, however, the conflict in Catalonia escalated into the country's biggest political crisis since democracy was restored in 1978. Police violence exerted to prevent the holding of a referendum on the political relationship between Catalonia and the rest of Spain, which had been suspended by Spain's Constitutional Court, has damaged the image of the country internationally.

After secessionist Catalan members of parliament voted to declare an independent republic in October, the Spanish government dissolved the Catalan parliament and announced new elections for December 2017. The Spanish senate granted Rajoy unprecedented powers to impose direct rule on Catalonia under article 155 of the constitution. The interpretation and application of article 155 have been widely discussed. Some consider that the state had to take measures to protect the general interest. Others, among them the Catalan ombudsman, considered the application of article 155 as "abusive."

Most economic domains continued to bear the fruits of previous economic reforms. Economic growth has been strong and balanced in 2017 and is projected to moderate but remain robust in 2018 and 2019. In fact, economic growth will be much higher than in other euro zone countries in 2017. After radical austerity programs, reforms in the banking sector, increasing foreign investment, and labor market reforms, the unit labor cost fell significantly and productivity rose. In 2017, these competitiveness gains continued to support exports, despite the strength of the euro. The European Commission's decision to grant more flexibility in meeting fiscal targets and euro area monetary policy were also helpful as were the decline in oil prices and the record-breaking number of tourists (80 million forecast for 2017).

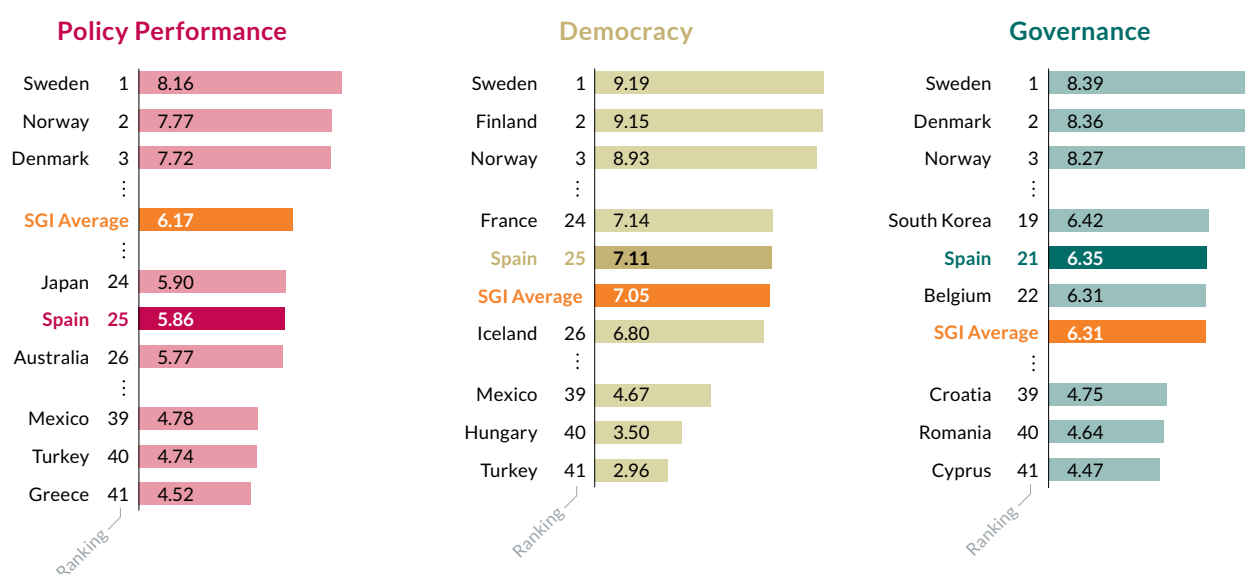
The recovery has also been driven by domestic demand. Nevertheless, the Spanish economy has not yet rebounded to 2008 levels, the incomes of Spaniards remain lower than before the crisis and bank lending remains limited. Although households have reduced their debt by nearly 55 % of GDP since mid-2010, the public deficit remains very high (forcing the continuity of austerity policies). Unemployment rates are lower than in 2016 but remain very high (16.5 % in 2017).

It is premature to assume Spain is now on a truly sustainable economic path, since several

weaknesses persist. Bank lending remains limited and current-account deficits may reemerge, the labor market continues to languish, and inequality is becoming more extreme. Most new jobs created are unstable. Social exclusion remains a perennial problem, with 22 % of Spaniards at risk of poverty. In addition, increasing life expectancies are leading to an unsustainable population pyramid – the most challenging in Europe. In combination with the effects of the crisis, this challenge has reopened the debate on the future of the Spanish social security system.

Spain continues to collect less in taxes relative to wealth than most other European countries, making ambitious education, welfare and environmental policies difficult. Investment in R&D accounts for just 1.2 % of GDP, compared to European Union and OECD averages that are above 2 %. There are some positive trends in policy areas such as health care (a well-considered and innovative system, despite recent budgetary cuts).

The crisis had a profound impact on public trust in democratic institutions and the Catalan conflict is considered by some in the country to be damaging the quality of democracy. Opaque party financing and several corruption scandals (most cases under investigation have their origins in the housing bubble years) materialized as significant challenges for the future. At the national level, the capacity of citizens to participate



Source: Sustainable Governance Indicators.

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through legally binding referendums remains a weakness of the political system. However, at the local level and at the level of Autonomous Communities, new mechanisms of direct democracy are progressively being used. In addition, Spaniards abroad, whose numbers have recently substantially grown, face barriers to political participation domestically. Media pluralism and independence could be improved as well.

Key Challenges

Spain is no longer viewed as the euro zone member whose troubles are most likely to put the single currency in peril. Instead, it is regarded as a success story thanks to reforms implemented by the Spanish government in recent years. External factors contribute to foster this growth. For this to continue, however, the country's profound domestic challenges must be addressed. On the fiscal front, the persistent gap between public spending and tax receipts will oblige Spain to either implement additional austerity measures or collect more revenue. The latter, more appealing option, can be realized by making the tax system more efficient and reducing the high level of tax evasion. Also, the financing system of the 17 Autonomous Communities must be reformed so that these subnational governments have sufficient resources. Deficit levels remain very high; although Brussels is inclined to help, much more progress is required.

In order to improve the competitiveness of the Spanish economy and foster economic growth, the government must place greater emphasis on innovation and education. Evidence suggests that Spain's current education and R&D systems are hindering the move toward a more knowledge-based economy.

Regarding the country's extraordinarily high unemployment, especially among youth and those who have now been out of the labor market for several years, the government must develop and implement job-creation policies involving more than simple wage cuts. Needed reforms include policies to improve human capital and expand R&D, increase competition in goods and services markets, end labor-market dualities, reduce energy costs, and find an effective and capable means of redistributing income to reduce inequality.

The economic growth observed over the past years has not made a difference in many Spaniards' lives. Management of the crisis undermined every social program and has amplified inequality and increased social exclusion. As a consequence, the government's social policies require strategic attention over the coming years. Maintaining social cohesion has itself become a critical challenge. There is the near-term risk that adjustment costs may become unsustainable as well as a longer-term risk that spending cuts in health care, education, inclusion and family policies may increase social tensions. Widespread support is increasingly found among the Spanish population to carry measures dealing with this increasing inequality.

The aging population represents another major challenge. The average Spaniard today lives 81.6 years, the birth rate is extremely low (1.3) and forecasts suggest that one-third of Spain's population will be 64 years of age or older by 2050 (compared to 17.4 % in 2012). Effectively addressing this challenge will depend on future immigration patterns and the integration of foreign workers, but also requires tackling the unsustainable pay-as-you-go pension system. Remarkably, given the large inflow of foreigners followed by a deep economic crisis, Spanish society has thus far not succumb to xenophobia, although this may change with the next generation.

The central government has demonstrated little concern for environmental sustainability, despite the country's risky geographic location with regard to global challenges such as desertification and climate change. Spain, which imports most of its energy, has gone so far as to reduce earlier investments for developing renewable energy sources. In contrast, local governments and the governments of the Autonomous Communities began in recent years to adopt policy measures to reduce pollution and protect the environment.

Regarding political stability, the single-party minority government requires allies for most legislative initiatives. This means PP must strike compromises with other parties in the parliament on a variety of issues, including budgetary matters. Due to ideological (and tactical) considerations, it will be difficult for PP to do so with the parties on the left, in particular, the socialists, PSOE, and Podemos. Ciudadanos will be a

source of support, though alone insufficient to get legislation passed. This means PP must count on other minor parties, including Basque moderate nationalists and Canary Islands regionalists. As a consequence, it is unlikely the government will secure majorities for major reforms and quite possible that elections are called before the current parliamentary term ends in 2020.

The push for independence in Catalonia, one of Spain's wealthiest regions, endangers political stability and threatens constitutional turmoil. Political positions in Madrid and Barcelona remain very distant and negotiation channels have yet to be established. In October 2017, PP, Ciudadanos and PSOE agreed to create a parliamentary com-

mittee to study the current territorial model. The committee's final report may be the impetus for a constitutional reform. However, such a reform would require traversing a perilous constitutional process (article 167). Also, a constitutional reform may help to consolidate the territorial model, but may not be enough to reduce tensions between Catalonia and the "rest" of Spain.

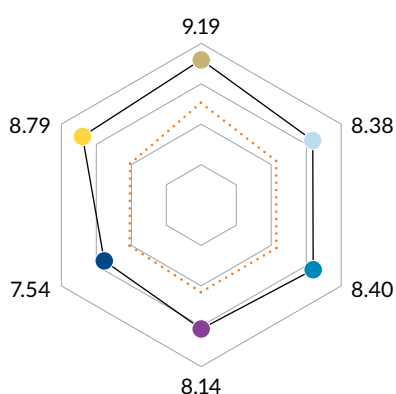
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→ Ignacio Molina, Mario Kölling,
Oriol Homs Ferret, César Colino

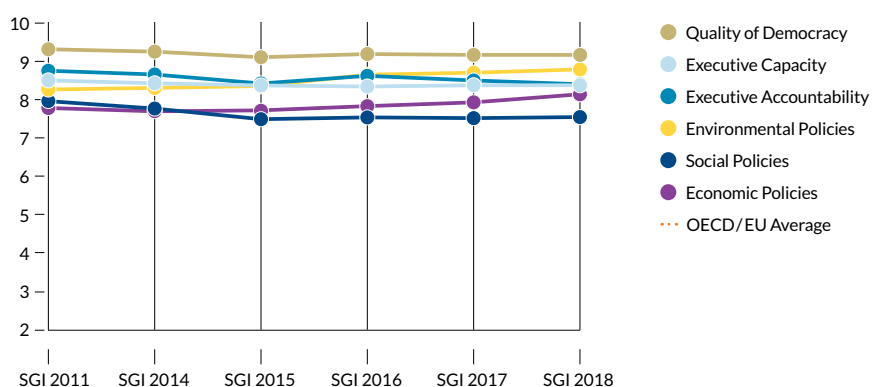
Country profile SGI 2018

Sweden

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

Democratic governance remains robust and deeply institutionalized in Sweden. Some of the societal underpinnings of governance are

changing: party membership continues to decline and electoral allegiance to parties is increasingly volatile. Yet these changes may simply demonstrate that Sweden's system is capable of adaptation and reinvention.

The Swedish political and administrative system is fragmented by design. Agencies are autonomous in relationship to the political center. Local and regional governments likewise enjoy substantive, constitutionally guaranteed autonomy. Reforms over the past several years have focused on strengthening the political center's oversight powers. Advocates of these reforms argue that such powers are essential to sustain a responsive political leadership. Equally important is the need for accountability, as the agents and structures of political power must be held responsible for the policy measures they advance.

These reforms have also increased the strategic capacity of the political system; though this appears to have come at the price of some inclusiveness of societal interests, discourse and debate. Using information increasingly as a strategic asset, the government, and not least the Government Office (GO), is today more secluded and inaccessible to the media and interest associations. Increasing coordination among government departments, where fragmentation had been a major hinderance, is enhancing the strategic capacity of the government at the same time as it weakens the points of contact with society.

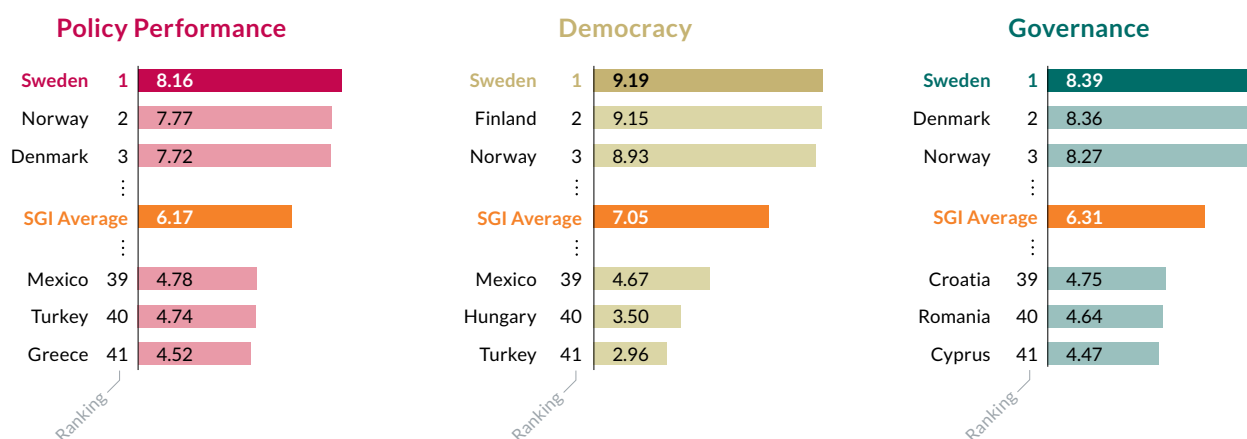
In terms of economic policy, the government has skillfully navigated the Swedish economy past crisis and instability. Not being a member of the euro zone has certainly helped, but the government deserves praise for its management of the economy through the recent series of financial and economic crises, global as well as European.

Perhaps the biggest challenge facing the Swedish government in late 2017 involves accom-

modating and integrating the large number of asylum-seekers that have arrived in Sweden. This policy challenge has upended the dynamics between parties as new alliances have formed while conventional collaborative arrangements are showing signs of strain. This development has exacerbated ambiguities in an already fragile parliament.

Until the change of government in September 2014, the non-socialist "Alliance" government had continued its goal-oriented policy of transforming the welfare state. It had implemented market-based reforms in a wide variety of sectors, so much so that it appears as if bringing the market into public services and the welfare state was an end in itself. The previous government had extensively cut taxes, yielding cutbacks in many welfare programs, which put pressure on those on medical leave to return to work. Some of the implemented measures did not, at first glance, undermine the logic of the Swedish welfare model. Considered individually, the family, labor market, tax and social insurance reforms seem moderate. However, in sum, these reforms represent a significant departure from the traditional Swedish model. The tax policy reforms, in particular, mark a genuine break with the past and are ideologically driven to a greater extent than in many previous governments.

The unique features of Sweden's political, economic and social systems appear to be fading with time. Stability, broad consensus, and the absence of right-wing populist parties have traditionally been defining features of Sweden's political environment just as corporatism, centralized wage bargaining, high taxes and a



Source: Sustainable Governance Indicators.

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generous welfare state have attracted considerable praise. Noted for its societal homogeneity and high levels of equality, employment and affluence, Sweden is becoming increasingly diverse and faces sustained unemployment, dualities in the labor market, growing inequality, and diminished quality of life and health. In short, Sweden is losing its “unique” status as a role model in the European context.

The Social Democratic and Green coalition government that was formed after the 2014 general elections appears to place less trust in the market than their predecessors. As the red-green coalition government has no clear majority in parliament, it remains to be seen if it is capable of organizing stable majorities and to what extent their more state-centric policy style will help address urgent issues in education, welfare and unemployment. As of late 2017, the government has been rather successful in securing sufficient support for its most significant bills.

The capacity of the parliament to set long-term goals and pass budgets has been severely constrained by the post-2014 distribution of seats. The red-green coalition and non-socialist “Alliance” parties control roughly the same percentage of seats. The right-wing populist Sweden Democrats party holds a pivotal position between these two blocs, yet neither of the two is willing to negotiate with them. This resulted in a major parliamentary stalemate until a December 2014 agreement helped ensure passage of the minority governments’ budget proposals. That agreement, however, collapsed in October 2015. As of 2017, the argument about whether the other political parties should cooperate in some form with the Sweden Democrats appears to have been put on hold pending the 2018 general elections, which may or may not produce a more manageable parliament. Until then, it is easy to see that the combined factors of a political system under duress and the challenge of ensuring a working majority in parliament has not strengthened the strategic capacity of government institutions.

Key Challenges

Sweden’s long-term strategic ambitions are global competitiveness, a lean but effective and

productive public sector, and carefully managed international influence. Many indicators suggest that Sweden is well on its way to achieving these goals. The key challenges facing the government relate to aiding the economic and social losers. Sweden’s long-term social and economic sustainability hinges on the capacity of the government to address this need. Sweden’s government now faces the challenge of clearly defining its social agenda. Choosing which strategy to implement is not feasible until the government delineates its policy objectives.

With the Social Democrats’ return to political power, a key issue is determining which of the previous non-socialist government’s reforms of the welfare state, education system and labor market should be continued and which should be reversed. Reversing a large number of reforms could introduce a stop-and-go pattern of policymaking that would be detrimental to institutional capacity, stability and predictability, which are important for economic development. On the other hand, simply further administering an inherently non-socialist policy agenda would be difficult to sustain electorally.

In terms of challenges facing the government, four related problems stand out: immigration and accommodating asylum-seekers, unemployment, integration and equality. Over the past several years, Sweden has enjoyed strong economic development, except for the odd year in the midst of the global financial crisis. However, even during high-growth periods, the government has recorded relatively high levels of unemployment. Whether these are the result of shortcomings in the preparing of students for work life or invisible thresholds to entering the labor market, unemployment in general and youth unemployment in particular remains a problem. The previous government put their trust overwhelmingly in the market and incentives; the new government appears to be more “dirigiste” in its approach. It is too early to assess whether this new policy style will be any more successful in addressing these urgent issues.

Integration poses a similar type of challenge. Visible and invisible obstacles prevent immigrants from finding meaningful jobs and societal acceptance in Sweden. A comparison with other countries is insufficient. Unlike other countries,

Sweden has devoted financial resources to solving the problem. Yet its formula has not worked, likely because the government has been unable to overcome societal obstacles. The government has taken the first step in strengthening the internal strategic capacity of the state, but now, in a second step, it needs to address the issue of making societal governance more integrative and effective.

Core values of Swedish governance such as equality and equal treatment are being tested by the acute crisis in accommodating asylum-seekers and refugees from Syria and other war-torn countries. In the past, equality was one of the major features of the Swedish model. However, inequality has increased in Sweden because of wage bargaining deregulation, the trend away from collective wage determination toward individualized patterns and increasing income from capital for high-income earners. Tax reforms under the previous government further accelerated the trend toward inequality. From a comparative point of view, Sweden remains a very egalitarian society. From a historical point of view, however, the rise in inequality has been strikingly fast and threatens to further undermine societal trust and integration. Addressing rising inequality will therefore be a political challenge for the new red-green government.

The government has a rare opportunity to capitalize on high institutional trust, a strong economy, a vibrant civil society and a competent professional staff at all levels of government. The key decision it must make is whether to employ those resources to pursue collective goals or instead promote individual initiatives and deregulation. This is obviously a political decision, although many scholars argue that the correlation between growth and a small public sector is weaker than once assumed. For Sweden, it appears unlikely that strong growth can be sustained with a “race to the bottom” strategy, which would undermine integration, equality and trust. Instead, economic prosperity will more likely be the outcome of concerted action between an effective, capable and productive public sector and a globally competitive and balanced business community.

The major challenge in the longer term, however, will be integration. The very large

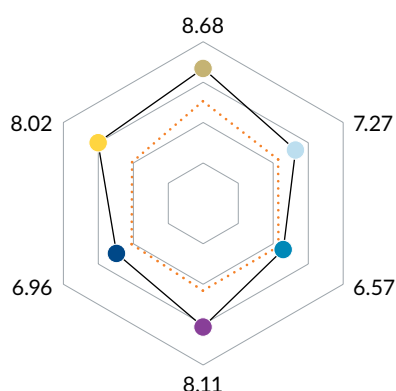
number of immigrants represent, in the short term, a significant challenge in terms of accommodation and welfare provision. These challenges will impact local governments even harder in 2018, when state subsidies will be reduced. In the longer term, achieving real integration will be essential to the future wealth and stability of the country.

- Jon Pierre
- Sven Jochem
- Detlef Jahn

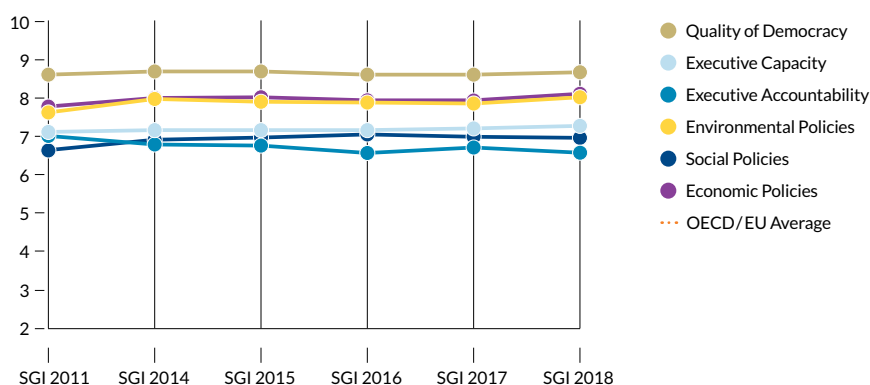
Country profile SGI 2018

Switzerland

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

| BertelsmannStiftung

Executive Summary

In the current review period, governance in Switzerland has shown considerable continuity with SGI 2017. By implication, the country's strengths and shortcomings have remained unchanged. These strengths include the stability and quality of democracy, the efficient rule of law, an excellent system of public education and research, and a competent system of public transportation. The country has a high level of GDP per capita (one of the highest in the OECD) and accumulated wealth, and the natural environment remains ecologically sound. Social and economic policies are pragmatic, solution-oriented and heterodox. The Swiss government can be commended for maintaining a highly competitive economy, sustainable fiscal position, comparatively sustainable and generous welfare state, and moderate and stagnant income inequality. The flexible labor market has maintained full employment and high employment rates for both men and women. These policies

have resulted in an absence of deep social divisions and marginalization (at least among Swiss citizens). As a result, citizens report a high level of life satisfaction and positive opinion of the national political system compared to neighboring countries.

Notwithstanding these successes, the shortcomings and challenges that existed a year ago persist, with some amplified to an extreme degree (see also "Key Challenges"):

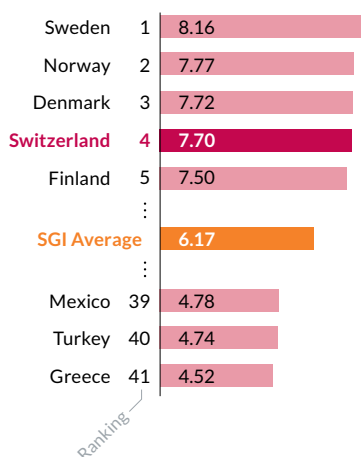
1. Most dramatic in this regard are the developments in relations with the European Union. With 54 % of exports going to the European Union and 72 % of imports coming from the European Union (2016), as well as a strong inflow of highly qualified labor from the European Union, Switzerland is far more dependent on the European Union than the European Union is on Switzerland. The relationship is based on bilateral treaties, many of which are conditional on each other. If one of the major treaties were to be terminated, other important treaties would auto-

matically become null and void. In 2014, the Swiss electorate voted for a constitutional amendment establishing a cap on immigration. Such a cap is not compatible with bilateral treaties between Switzerland and the European Union. While many Swiss citizens and politicians expected the European Union to adapt existing treaties to the new constitutional amendment, the European Union rejected a renegotiation of existing treaties. As a result, implementing the amendment against the will of the European Union would have entailed enormous economic risks. Most Swiss politicians have shown themselves unwilling to take such a risk, instead embarking on a strategy of, in effect, not implementing the amendment. In this context the Swiss People's Party (already the strongest party in the country) is pursuing three projects which may further strain the relationship with the European Union. First, the party strongly opposes an institutional framework agreement between Switzerland and the European Union. Such an agreement would allow for a smooth revision of existing treaties and court-based adjudication of conflicts between the two trade partners. Second, the party has also submitted a new proposal for a constitutional amendment (the "self-determination initiative"), which will be de-

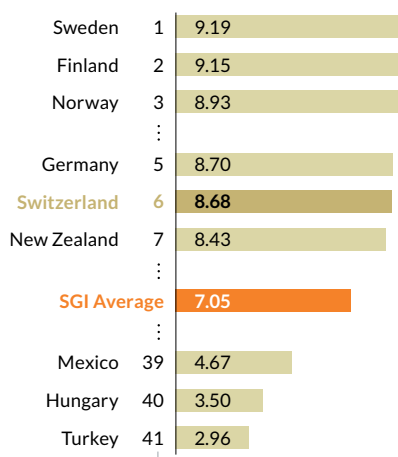
cided upon in a popular vote between 2018 and 2020. If this proposal wins approval, international law and treaties would become subordinate to Swiss law. Third, in September 2017, the party announced that it would collect signatures for a new popular initiative, which is necessary to call a public vote. This initiative aims to force the government to terminate the current bilateral treaty on the free movement of labor between Switzerland and the European Union, which would automatically lead to the termination of other basic bilateral treaties.

2. Closely connected to the issue of Europeanization (and globalization) is the polarization of Swiss politics, and the concomitant weakening of the system of consensus democracy and social partnership. This applies not only to institutional and behavioral indicators of consensus democracy, but also to deep-seated cultural patterns and indispensable elements of the elite socialization of the past, such as the willingness to compromise and interact respectfully with political opponents. The political system of Switzerland is converging toward the continental pattern of non-majoritarian politics.
3. As in previous years, the system of direct democracy succeeds in giving citizens the feeling they have a say in government policies.

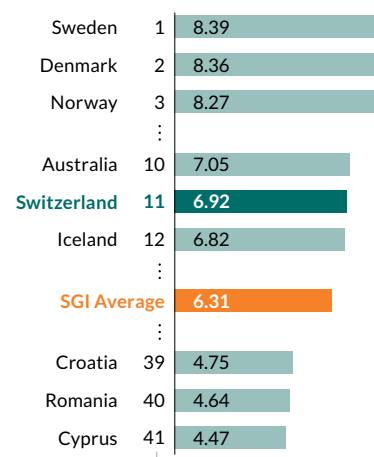
Policy Performance



Democracy



Governance



This system is one of the major reasons why Swiss citizens are far more satisfied with the way democracy works in their country than their European neighbors. However, the system of direct democracy also demonstrates serious shortcomings. Among them is the likelihood that voters approve constitutional amendments which cannot be implemented for legal or economic grounds. A recent example is the initiative capping immigration, illustrating the tension between the myth of the people's unconstrained sovereignty and the reality of a semi-sovereign political order where international law and economic interdependence severely limit democratic politics.

4. Although the welfare state is sustainable and generous, the pension system must cope with demographic challenges. While increasing the age of retirement beyond 65 is not feasible given the constraints imposed by direct democracy, there are possibilities for reforming the three-pillar pension system (basic pension, occupational pension and tax-deductible savings for retirement). A major reform was rejected in a popular vote in September 2017. Under considerable time pressure, politicians must work on a new adaptation of the pension system to demographic challenges.
5. Another major political conflict relates to environmental and energy policies. In the aftermath of the catastrophe in Fukushima, the Swiss government opted for an exit from nuclear power. It has been difficult, however, to implement that decision. In its new energy strategy, the government opted for a long-term "soft" exit which allows all nuclear power stations to remain in operation for their lifespan. No new nuclear power stations will be licensed to operate, however. Following a left-green initiative that demanded a quicker and harsher exit from nuclear energy failed in a popular vote in November 2016, the government's strategy was approved in May 2017.
6. In the past, Swiss cantons have offered generous tax deals to foreign firms. This has provoked criticism from the OECD and European Union, leading to a reform proposal. Switzerland wants to keep these foreign companies in the country, since they make a substantial contribution to the pub-

lic revenues of local and canton authorities. To achieve this, the government proposed to lower taxes for domestic firms in line with the effective tax rates enjoyed by foreign companies, thereby obviating the preferential tax treatment of foreign firms. As a consequence, general tax income would decrease. This is against the wishes of the political left, which generally would like to see a higher level of taxation, in particular on capital. In a popular vote in February 2017, the public rejected this reform. There were two major reasons for this rejection. First, a large share of citizens found the proposal too complex and given their uncertainty opted against it. Second, another share of voters found the proposal excessively biased in favor of "the rich" and large enterprises. Currently, the Ministry of Finance is developing a new reform proposal which is less generous toward large enterprises and contains compensation payments (increased child allowances) in order to win support from left-wing voters.

Key Challenges

Switzerland faced ongoing, interrelated challenges at the close of the current review period. There is a disconnect between Swiss identity and reality: an enormous share of the population is comprised of foreign workers and other migrants. Policymakers are struggling to implement popular referenda by navigating between a "responsive" (implementing the people's preferences) and "responsible" (furthering the people's common good under conditions of constraint choices) reaction. They also have to reform the pension system, establish a tax regime for enterprises that is EU-compatible, and find sustainable solutions for the relationship between the European Union and Switzerland.

First, the country's relationship with the European Union remains provisional and increasingly fragile. In the past, the realities of domestic politics made bilateral agreements the only practical solution as neither a policy of "going it alone" nor EU membership were feasible strategies. However, this bilateral solution is becoming increasingly untenable. While domestic conflicts about the future relationship between the Eu-

ropean Union and Switzerland have not abated, solutions have to be found. The current strategy of muddling-through, currently successful, may become unsustainable in the future.

Second, minimizing internal political conflicts fueled by migration has grown more challenging. The share of foreigners within Switzerland's population is among the highest in the world. Immigration has stimulated economic growth. To sustain the high economic growth rate, it remains essential that the country continue to recruit highly skilled labor. An extraordinarily high proportion of elite positions in the economy and higher education are staffed by foreign workers. Foreigners are also younger than the average Swiss citizen. Consequently, they contribute far more to the Swiss pension system than they receive. Hence, they subsidize the Swiss pension system and contribute significantly to its sustainability. Nonetheless, immigration has prompted considerable concerns among Swiss workers about housing prices, jobs and the use of infrastructure (e.g., roads and public transportation). Swiss workers constitute the base of the right-wing populist Swiss People's Party (SVP). Today, the SVP is among the strongest populist parties in Europe in terms of votes, representation in government and success in referenda. Notably, this political strength cannot be primarily attributed to xenophobia. At least in international comparison, Switzerland and some of the Nordic European democracies show a relatively low level of xenophobia. Even so, the SVP has been extremely successful in mobilizing xenophobic elements within the population.

This points to another challenge. In recent years, a growing number of popular initiatives have been approved by voters but implemented incompletely or not at all. This failure to implement constitutional amendments derived from popular initiatives is not entirely new. Historical examples of provisions left unimplemented include the prohibition on absinth (1908) and ban on gambling houses (1920 – 1921). Notwithstanding, these precedents are few and the exponents of these initiatives were not in the political center. By contrast, the number of successful initiatives has grown in recent years and their advocates (e.g., SVP and related organizations) are politically powerful. Several recent initiatives

remain only partially implemented because full implementation would violate international law, international treaties or economic requirements. This has put the administration in a difficult position: full implementation would violate international or economic norms, but partial implementation gives rise to accusations among right-wing politicians that the “will of the people” is not respected. In order to mitigate the conflict between responsive and responsible government, political elites must effectively communicate that the Swiss nation is – as all Western nations – at best semi-sovereign and that there are strict limitations on what the public can decide upon. However, such a communication strategy would clash with the self-image of the Swiss, who are immensely proud of their (perceived) independence and sovereignty.

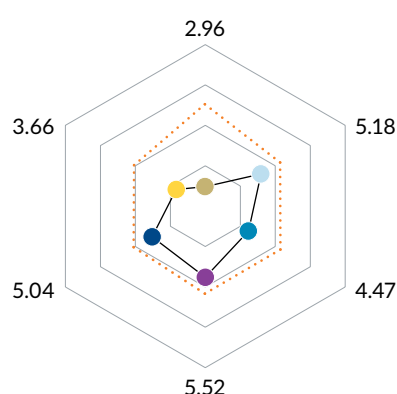
As in most other mature democracies, Switzerland's pension system must cope with the challenges posed by an aging population. To date, the system has been sustainable and provides relatively generous pension payments. Nonetheless, without exceptionally strong productivity growth or a continuing inflow of young foreign labor, in the long run either the retirement age will need to be raised or the level of benefits reduced. After the failed pension reform, the government is under strong pressure to develop a new reform proposal that will gain the support of a majority of voters in a popular vote.

- Klaus Armingeon
- Fritz Sager
- Reimut Zohlnhöfer

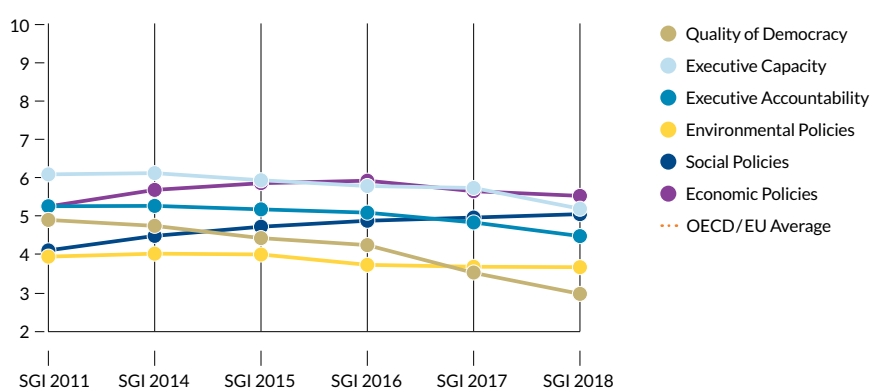
Country profile SGI 2018

Turkey

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The period under review was marked by deep political and social divisions in Turkey. The failed coup attempt of 15 July 2016, and the subsequent state of emergency has changed the course of Turkish politics and increased uncertainty. The government's politically charged allegations, judicial investigations and dismissal of thousands of civil servants, and the immense organizational capacity of the Gülenist movement in the public and private sector brought public trust to rock-bottom levels. Rising popular authoritarianism has undermined the rule of law, legal certainty and judicial independence, exacerbated widespread social discrimination, and reinforced the presidential model and exclusion of the legislature from governmental processes. The chair of TÜSİAD, Turkey's leading business association, stated "Judicial independence and impartiality, freedom of thought and expression, a free and scientific academic environment, free media and internet, well-defined authorities and re-

sponsibilities, and a meritocratic public administration are important parameters of a country's competitive political system, which Turkey currently lacks. Domestic and international challenges require a new economic, political and social grand strategy for Turkey in order to raise the level of sustainable governance."

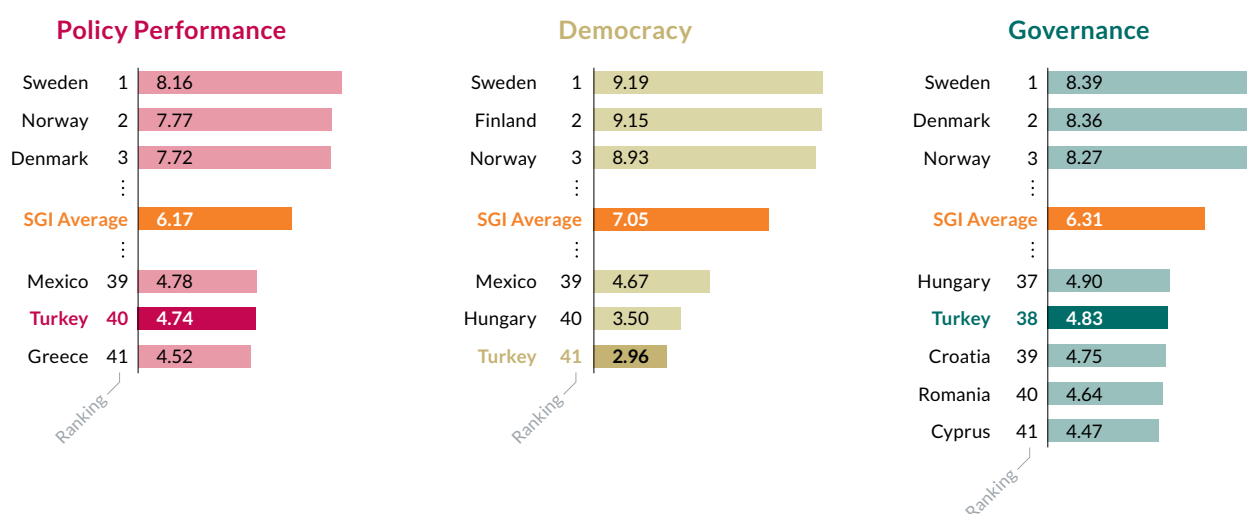
The war in Syria has had a profound impact on Turkish politics and society. The terrorist attacks in Suruc, Ankara and Istanbul, the massive inflow of Syrian refugees, and the emergence of the Islamic State group have fueled tensions across the country and presented the government with major political challenges. The government's extensive military counterinsurgency in predominantly Kurdish provinces in the southeast of Turkey and attacks by terrorist-designated groups – such as the Kurdistan Workers' Party (PKK) and the Kurdistan Freedom Hawks – signified an end to the peace process between the Turkish state and PKK, which had shown significant promise in recent years. The government appears to lack a clear strategy

for ending the conflict in Turkey's southeast region. This not only hampers economic opportunities in the southeast, but will also undermine democratic governance in the years ahead. Indeed, throughout the review period, the government continued to respond to dissent with repressive tactics, including openly threatening perceived opponents (e.g., activists, academics or journalists). Many journalists critical of the government now operate under financial threats, self-censorship and increased job insecurity.

Although the number of civil society organizations increased during the review period, their influence in decision-making processes remains limited. The massive polarization between pro- and anti-government camps is present across all spheres of political, economic and social life. The negative effects of this divide were evident in the aftermath of the parliamentary elections on 7 June 2015, which failed to deliver a coalition government in line with the constitution. This inability and/or unwillingness to engage in a power-sharing agreement demonstrates a serious crisis of democracy in Turkey. The election marked the first time in modern Turkish history that civilian politicians refused to accept a parliamentary election result and reach a cross-party compromise. The Justice and Development Party (AKP) secured an absolute parliamentary majority during the November 2015 parliamentary election, allowing the AKP to rule alone for the fourth time since 2002.

Electoral fairness, the AKP's use of state resources and the lack of campaign finance transparency were major issues in both the June and November 2015 parliamentary elections. Throughout both elections, the AKP failed to fully implement the recommendations of the Group of States against Corruption (GRECO) on campaign and party funding. The use of languages other than Turkish was permitted in both elections. Despite strengthening anti-discrimination efforts, Alevis and Roma people still lack access to basic public services. Moreover, anti-Semitism in Turkish politics and society remains widespread. Authorities have begun to address gender discrimination, but violence against women persists, and there has been no improvement in the educational attainment and economic participation gender gaps. The inflow of Syrian refugees is likely to have serious social, economic and political implications for Turks and Syrians living in Turkey. At the time of writing, there are more than three million Syrian refugees in Turkey.

Over the last decade, Turkey has experienced important gains in income and living standards. Though economic competitiveness has decreased, recently. While economic growth has returned after the 2016 economic slowdown, such positive signs are based on the availability of cheap and abundant money, which increases demand (higher consumption and public expenditure) rather than efficiency.



Source: Sustainable Governance Indicators.

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Environmental sustainability, energy security, sustainable urban development and progress toward a high-tech, science-based society are not assured. However, increased government spending (e.g., on research and development, education and vocational training, social policy and health care) during the review period marked a step forward, but so far fails to show sustainable results.

Key Challenges

Turkey's main problems are political and social. Political stability versus political competition and participation, freedom of religion versus freedom from religion, majority-minority cleavages versus an integrated state and society – each issue presents a trade-off with political, social and international repercussions. The polarization of society has been a key strategy used by the Justice and Development Party (AKP) to secure and hold on to power. Legal uncertainty, distrust in the judiciary, the deterioration of fundamental rights and freedoms, and inefficiency in governmental sectors have increased in the aftermath of the averted military coup of 15 July 2016. Suppression of opposition has intensified. The parliament has not been willing to reduce the 10 % electoral threshold for representation in the parliament. Moreover, gerrymandering, single-member district plurality and narrow electoral district boundaries have been used by the AKP to reinforce the party's parliamentary majority. However, the establishment of a new party, İYİ Parti (Good Party), may present a real challenge to the AKP in the next presidential and parliamentary elections, a reaction to Erdoğan and his alliance with the Nationalist Movement Party (MHP).

Civil rights shortcomings persist. The incumbent AKP government should expand minority rights for Kurds, Alevis, Christians and other minorities to increase the visibility of minority groups within society and foster minority groups' identification with the state. This would promote intra-societal peace and a pluralist, integrated society. The government should enhance the powers of local and regional authorities, and introduce stronger mechanisms for democratic participation and political subsidi-

arity. In addition, the 10 % electoral threshold should be reduced to increase smaller parties' participation in national decision-making.

At the same time, the AKP should seriously consider domestic and international concerns about increasing authoritarianism and exclusivist conservatism, and declining pluralism and liberalism within society. The government should contribute to the peaceful inclusion of all social groups, while continuing to tackle extremism and terrorism. The AKP's monopoly on government, and the authoritarian stance of President Recep Tayyip Erdoğan against groups and media critical of the regime is a concern for foreign observers, but even more so for Turkish citizens. Since the Gezi protests, mass protests have continued against the government and its policies. However, protests are typically suppressed by the government, using its state of emergency powers. A more inclusive, reconciliatory rhetoric and better communicated policy intentions are urgently needed. Freedom and security must not be considered zero-sum games. In this respect, international stakeholders, such as the European Union and the Council of Europe, repeatedly exercise their influence over the Turkish government.

Despite the global financial crisis, Turkey's economic performance has been above average. To sustain this positive trend, the government should introduce structural reforms and extend the EU-Turkey Customs Union Decision of 1995, which covers industrial commodities, to include agriculture, services, government procurement and investments. Turkey's relatively high current account deficit remains a major challenge, requiring action such as the adoption of a real exchange rate policy. Turkey and the European Union have shown a willingness to open a new chapter and conclude the present chapter of accession talks. However, U-turns and dramatic shifts in Turkey's foreign policy may not bring the expected outcomes.

During the review period, Turkey's gradual demographic shifts and the country's economic slowdown have increasingly posed a problem. While a young and well-educated population is a boon and offers enormous potential, financial and social provisions for the elderly need to be addressed. The government should continue reforming the pension system to tackle social exclusion and poverty. Furthermore, the coun-

try's record on environmental issues, education and innovation is poor when compared to other OECD countries. Since these areas are key to supporting Turkey's growing population and economy, the government should increase expenditure in these areas. Illegal immigration and the refugee situation are exacerbating social tensions and leading to widespread discrimination.

Turkey has become a major emerging economy and a key regional power. However, it increasingly struggles with the repercussions of internal conflicts in neighboring and regional countries, and the coup attempt of 15 July 2016. In order to regain credibility and influence, Turkey should use diplomatic means to reestablish trust, peace and security in the region, and pursue dialogue with reliable regional actors and Western partners. Turkey's international influence and credibility would further increase if the government became more involved in and implemented more international agreements, especially OSCE, Council of Europe and EU agreements. An active continuation of reform processes in line with the *acquis communautaire* and in close cooperation with the European Commission is necessary for Turkey's EU accession ambitions and democratization in Turkey.

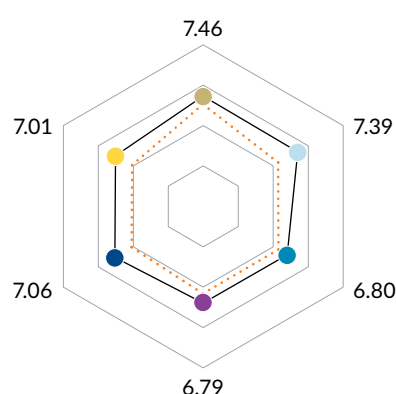
Full report available at
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- Ömer Faruk Genckaya
- Subidey Togan
- Ludwig Schulz
- Roy Karadag

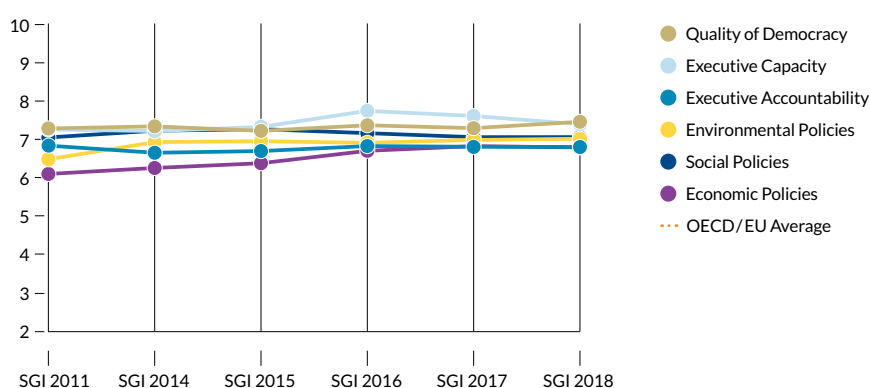
Country profile SGI 2018

United Kingdom

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The political situation in the United Kingdom remains defined by the result of the “Brexit” referendum of June 2016. The most significant influences on governance in the last year were the triggering of Article 50 of the Treaty on European Union in March 2017 to start the process of the United Kingdom leaving the European Union and the outcome of the snap general election called in April 2017, demonstrating the practical irrelevance of the Fixed Term Parliament Act passed by the previous parliament. The loss of the slim absolute majority that the Conservative Party previously held has weakened the prime minister and left her able to govern only by relying on a “confidence and supply” arrangement with the Northern Irish DUP. This is likely to constrain the government in an area central to Brexit, namely the question of the status of Northern Ireland. While these developments exposed profound political divisions – as much within parties as between them – and Brexit will

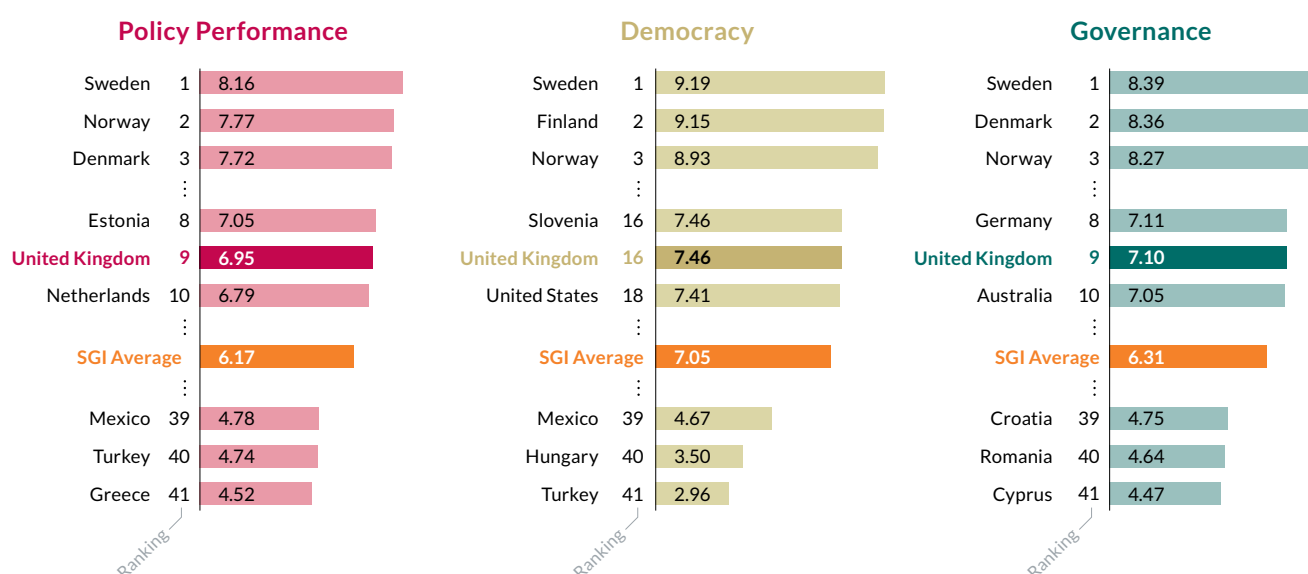
undeniably entail prolonged and difficult governance changes, the speed with which new governing arrangements were concluded compares favorably with other countries faced with similar electoral outcomes. An emerging governance challenge is the inability of the party system to aggregate voters’ preferences on Brexit in a representative way. This risks engendering enduring divisions in British society, with unpredictable consequences for social cohesion. In addition, cross-party cooperation (which might be a suitable reaction in such a situation) continues to be an unattractive option in a system in which the dynamics and the logic of party competition are dominant. Shortcomings in preparations for Brexit have also been exposed, including a reluctance to spell out in a timely manner what the United Kingdom wanted from the negotiations, amid evident political disagreements among senior ministers. The economic situation in the United Kingdom is mixed. Job creation is robust and the headline total of people in work reached a new all-time high, but – although there has

been a further fall in youth unemployment – it is around double the rate of older age groups. However, UK growth (previously at the higher end of the league table of larger economies) now lags behind and there are growing concerns about the economy's weak productivity growth. There has been an uptick in inflation and, because nominal wages have not kept pace, consumers are likely to be squeezed by reductions in household spending power. Investment remains a weakness and uncertainty about the eventual outcome of Brexit negotiations has led many firms to hold off making significant investments. There are also concerns about the impact of Brexit on the financial and business services sectors which are important both as net exporters and sources of tax revenue. The public finances of the United Kingdom are still shaky, despite many years of supposed austerity and, in a number of areas, public services are over-stretched. In particular, health care, which was (as so often) one of the most salient themes of the June 2017 general election and its integration (or lack of it) with social care is an unresolved governance concern, accentuated by the responsibility of local authorities for the latter at a time when their resources have been cut substantially. The general election also prompted renewed disputes over the funding of higher education. Despite governance reforms at the center of

government aimed at strengthening implementation, political indecision has stalled major infrastructure developments. For example, yet another postponement of a definitive green light for a new London runway was announced, prolonging a process dating back to the 1960s. The United Kingdom has persevered with efforts to improve the openness of government and to communicate more effectively with stakeholders. The sheer administrative burden of Brexit and its dominance of the political agenda has, however, had a debilitating effect on other major policy initiatives resulting in them being stalled or inadequately thought-out. An example was a proposal for redressing inter-generational imbalances in meeting the costs of care for the elderly, initially put forward in the Conservative manifesto, was quickly dropped. No real alternative has since been proposed, despite the urgency of finding solutions.

Key Challenges

Dealing with the consequences of the Brexit referendum – internally and externally, as well as politically and economically – remains the main challenge for the United Kingdom until the process is complete. More than 18 months into the process, it can safely be stated that in many



Source: Sustainable Governance Indicators.

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areas the challenges are not being handled optimally. Unsurprisingly, given the complexity of the tasks the British government has taken on, delays, disagreements and wishful thinking largely characterize the situation. Finding good solutions for as many of these challenges as possible will require political will and skill, hitherto lacking. The main domestic political challenge is to find and sustain a stable political majority for completing Brexit, despite both major parties being split over the course to be taken and seeming unable to find compromises that bridge their antagonisms. Internationally, maintaining good relations with the European Union is vital both for successfully concluding the Brexit negotiations and securing a mutually satisfactory future relationship. However, the tactical behavior of some UK politicians over Brexit so far has threatened the credibility of the United Kingdom as a negotiation partner. In parallel, the United Kingdom faces the challenge of recasting its economic, political and security relationships with other parts of the world. Unrealistic expectations of a rapid conclusion to trade deals will have to be tempered, while renewing relationships with old partners (for example, Commonwealth countries) and enhancing them with others will need attention. An economic challenge will be to achieve a post-Brexit outcome that minimizes the risks to economic growth while making it politically possible to claim to have achieved increased sovereignty. However, the economic policy agenda facing the United Kingdom transcends Brexit. A weak record on productivity and a persistent external deficit are known problems, but greater urgency is needed in resolving them. Consolidation of the public finances has been slow and the longer-term consequences of unwinding the substantial program of quantitative easing undertaken by the Bank of England will have to be taken into account. Constitutionally, there are immediate challenges in settling the continuing difficulties in Northern Ireland, but there is also unfinished business around the devolution of powers from central government to Scotland, Wales and the growing number of mayor-led authorities in England. This is especially important to avoid the sort of constitutional crisis that could arise if the respective political authorities disagree with the terms of Brexit, possibly leading them

to try to block an agreement with the European Union. Difficult though Brexit undoubtedly is, the United Kingdom cannot neglect other important societal challenges. Because of the inexorable effects of an aging population, much more will have to be done to improve health care and to integrate it better with social care, against a backdrop of constrained public funding and staff shortages. Similarly, and even if Brexit does ultimately stem the inflow of economic migrants, the need for an increase in housing is striking, the funding model for higher education has to be revisited, and over-stretched infrastructure calls for substantial new investment. Concerns have surfaced about the readiness of the armed forces to undertake missions and, as so often, terrorist threats remain high. Dealing with these and other domestic priorities will be demanding at a time when Brexit is consuming so much political attention and capital. While much has changed in recent years, arguably for the better, in the conduct of public administration, not least in making government more open, the extent of change in the pipeline will be testing for the government. The challenge for the executive will be to reconcile the heavy demands of Brexit with the need to maintain momentum in other policy domains.

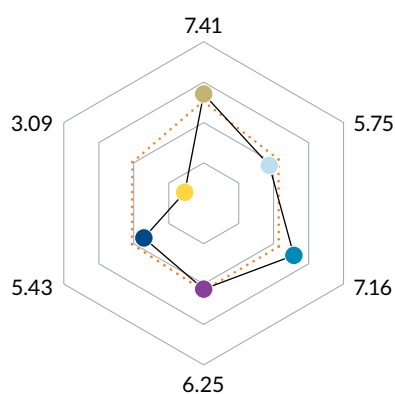
- Andreas Busch
- Iain Begg
- Nils C. Bandelow

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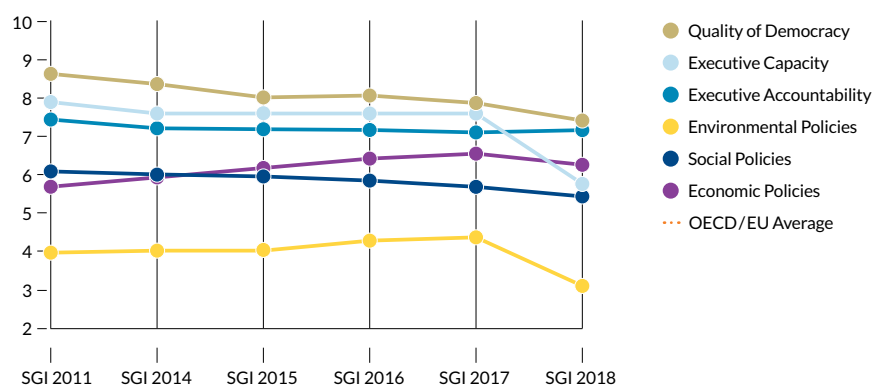
Country profile SGI 2018

United States

Overall 2018 Performance



Development over time



Source: Sustainable Governance Indicators.

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Executive Summary

The twelve-month period ending in November 2017 was a challenging time for the United States. The country's performance on the Sustainable Governance Indicators (SGI) has deteriorated sharply across numerous indicators.

Some of this erosion was the straightforward consequence of the 2016 elections: the election of Donald Trump as president and Republican majorities in both houses of Congress. Neither Trump nor the contemporary Republican party have policy agendas that align well with the normative assumptions of the SGI. Trump campaigned on a platform of "America First" nationalism – promising drastic action on illegal immigration and a moratorium on Muslims entering the country. He raised objections to U.S. participation in NATO and complained that the United States was treated unfairly in its major trading relationships. Despite long-term fiscal imbalances, he promised major tax cuts, a massive infrastructure pro-

gram, and rejection of spending cuts for middle-class entitlement programs (Medicare and Social Security). He endorsed the long-standing Republican plan to "repeal and replace" the Affordable Care Act (Obamacare), signaled opposition to policies benefiting racial minorities and low-income people, and dismissed concerns about climate change. Congressional Republicans initially espoused alternative viewpoints on some issues, particularly trade, international security and entitlements spending. Given Trump's staunch support among the party's voter base, however, most eventually deferred to his policy positions.

Beyond policy positions, however, both Trump and the Republican-controlled Congress have demonstrated substantial difficulties in capability and execution. By conventional, nonpartisan standards, Trump has proven an incompetent, even dangerously unfit president. The White House has been poorly staffed and managed. The administration lacks experienced leadership in most key positions and been unable to fill many

important posts. Trump himself has remained undisciplined, uninformed and prodigiously mendacious.

At the same time, Republicans in Congress have declined to cooperate with Democrats on their major policy goals, yet been too divided to govern effectively without Democratic support. Until the enactment of a major tax cut in December 2017 (after the assessment period of this report), Trump was on track to become the first modern U.S. president unable to pass a single major law in his first year.

In terms of the SGI, the United States continues to have high scores in some areas of long-term strength, including economic policy, labor market efficiency and innovation. Indeed, the American economy continued to perform well in 2017. However, as a consequence of the policy agendas of the Trump administration and the Republican-controlled Congress, the United States inevitably performed worse in policy areas concerned with social inclusion, the integration of new immigrants, elementary education, family policy, environmental protection, and fiscal sustainability.

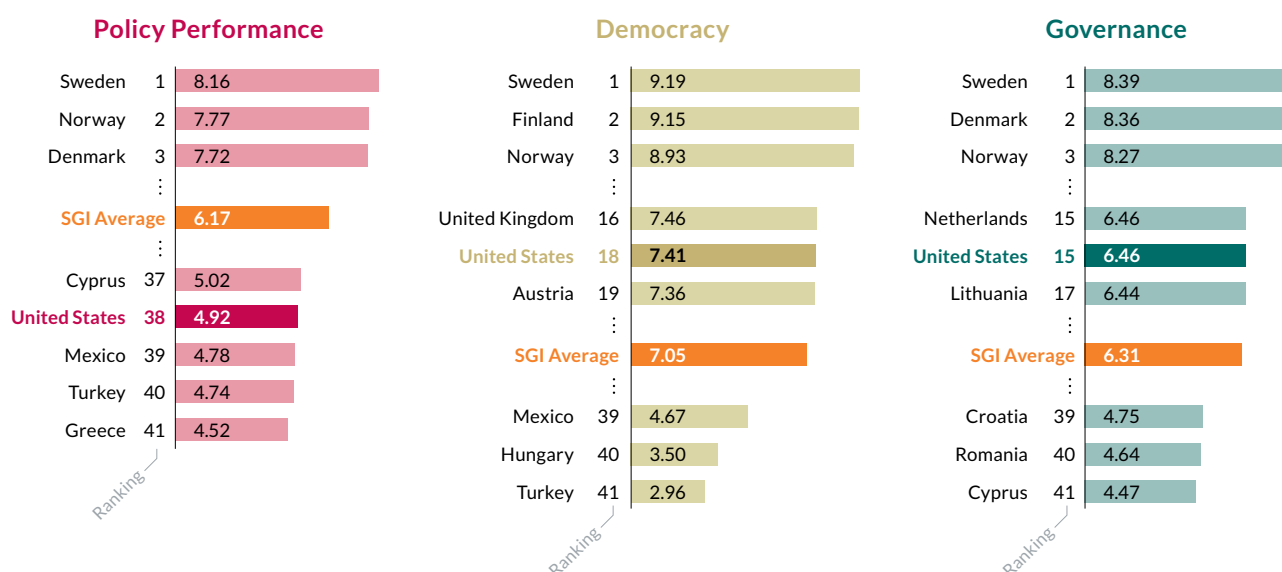
With respect to the quality of democracy, the United States continues to exhibit strengths, including equal political rights, candidate and party access to the ballot, and relatively balanced news media coverage and campaign funding.

In many Republican-controlled states, however, the 2016 election continued the trend of raising barriers to voter participation for black, Latino and lower-income citizens. The sources of campaign funding, although relatively balanced between the two major parties, became even less accountable with the increased role of independent expenditures funded in large part by extremely wealthy individuals. In addition, voters' access to reliable information has suffered because of the increased prominence of social media as a news source.

The worst scores in this assessment – some radically lower than those from the last year of the Obama administration – are in the areas of governance, especially those of “steering capability.” There is a bad news, good news story: the leadership of the U.S. government has been uninformed, ideologically extreme and reckless, but also relatively ineffective in achieving its policy goals. In its first year, most of the Trump administration's policy achievements have consisted of ordering reversals of Obama-era administrative regulations, using truncated administrative processes that eventually may not withstand judicial scrutiny.

Key Challenges

The presidency of Donald Trump is itself the major challenge facing the United States. From a



Source: Sustainable Governance Indicators.

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sustainable-governance perspective, the United States must deal with numerous challenges. Among them a dangerously excessive long-term budget deficit, increased economic inequality, the loss of well-paying middle-class and working-class jobs, and cost problems and provider shortages in some health care insurance markets. Racial tensions have increased and there has been an explosion of drug addiction (i.e., the opioid crisis). The Trump administration lacks motivation and thereby effective policies to reduce greenhouse gas emissions. Beyond its borders, the United States faces several major foreign-policy challenges centering on North Korea's nuclear weapons program, the Syrian war and Russian expansionism.

The Trump administration and Republican-led Congress have few plans, if any, that credibly address these challenges. In his presidential campaign, Trump's appeals were an incoherent blend of populist nationalism, Tea Party conservatism and sheer puffery with virtually no supporting analysis. He promised to stop illegal immigration, including by building a wall on the Mexican border; to repeal and replace Obamacare; to enact massive tax cuts, while rejecting reductions in Social Security and Medicare spending; to dramatically increase military spending; to cut back regulations, especially on environmental protections; to rebuild the country's infrastructure; to cancel or renegotiate supposedly unfair trade deals; to reduce American involvement in the Middle East; and to limit American support for NATO.

At the end of the first year, Trump had achieved some of his goals: a very large tax cut, primarily for corporations and wealthy individuals, an increase in deportations and sharp reduction in illegal immigration, and cancellation of many Obama-era regulations, effected entirely by administrative means. These successes, however, were limited and qualified. Trump and the Republican-controlled Congress, despite lengthy efforts, had failed to repeal Obamacare. They had failed even to propose the broad outlines of an infrastructure program. The tax bill increased the ten-year budget deficit by an estimated \$1.5 trillion and was hugely unpopular. The regulatory revisions were subject to judicial appeal, with many vulnerable to reversal. In foreign affairs, the United States had lost

influence and credibility in several regions of the world. Trade relations were unsettled with China, Japan, Canada and other important trading partners. Trump had also recklessly exacerbated dangerous tensions with nuclear North Korea.

Given the political circumstances, plausible paths toward significant progress are hard to identify. At this point, the main item on congressional Republicans' agenda for 2018 is to mitigate some of the adverse fiscal consequences of the tax bill by cutting spending on entitlement programs. The most bloated programs – Medicare and Social Security – subsidize middle-class retirees and will be difficult to cut; Trump at times has opposed cutting them. For the United States to bring long-term budget deficits under control would almost certainly require not only reversing most of the 2017 tax cuts, but also raising taxes beyond recent levels – steps that the Republicans will be unwilling to take for the foreseeable future.

After the chaotic first year of Trump's foreign policy, the United States must develop carefully deliberated, stable positions on existing trade relations, the North Korean nuclear weapons program, several Middle East conflicts, the country's role in NATO and other security alliances, and the rivalries with Russia and China. In view of the successful broad-based effort by the Russian government to disrupt and distort the 2016 elections, the federal government and states must harden the security of election systems and strengthen deterrence of such efforts in time for the 2018 elections. The worst-case scenarios of many of these challenges are indeed calamitous. Unfortunately, Trump and his administration will likely remain incapable of developing coherent foreign-policy positions and unwilling to deal seriously with the threat of Russian election interference.

Trump's second year as president will be dominated by the 2018 midterm congressional elections. Almost a year before the election, polling suggests that a building anti-Trump, anti-Republican wave could return control of the House, the Senate or both to the Democratic party. A Democratic House or Senate would effectively nullify Trump's legislative agenda for the rest of his presidency. Beyond that,

a Democratic-controlled House would likely vote to impeach him. Although his being convicted in the Senate (requiring a 2/3 vote) appears highly unlikely, Trump's removal from office by one means or another is a possibility. It is a time of extraordinary dangers both to Trump and his presidency and to the rule of law in American politics.

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Design

kopfstand, Bielefeld

Print

Druckhaus Rihn GmbH, Blomberg

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