GLOBAL PARTNERS FORUM 18
GLOBAL PARTNERSHIP FOR SOCIAL ACCOUNTABILITY

HOW INDEXES MAY PREVENT WASTE OF PUBLIC FUNDS
AND ENHANCE PUBLIC GOVERNANCE

Paola Caporossi (Fondazione Etica)

1. *WHO WE ARE*

Fondazione Etica is an **independent** and no-profit **Italian Foundation**,

founded in 2008 by professionals, academics, entrepreneurs, simple citizens who wanted to do something for their country.

It's **focused on the improvement of the public system**: PAs, from one side, and social impact innovation, from the other:

We are convinced that **without a strong and sane public system no social development and no economic growth are possible**. All over the world.

2. *THE CONTEXT*

In 2018 **we still have to face poverty**.

Figures are appalling not only in those parts of the world considered endemically poor, but they are increasing **also in some western countries**, including European countries, mainly because **of inequalities.**

As far as institutions and philanthropies have been investing enormous amount of work and money for years, poverty and inequalities are still here.

WHY?

It's evident that **something lacked**, or it was **not enough stressed**, and it is the **role of governments and public institutions:** economic and social development is **unfeasible** without a strong public system.

In the last years, **economists** such as the Nobel Prize for Economics *Angus Deaton* and *Marianna Mazzuccato* have emphasized how important strengthening public institutions is.

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HOW CAN WE STRENGTHEN THE PUBLIC SYSTEM?

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3. AN INCENTIVIZING SYSTEM

Strengthening public institutions means, first of all, **to defeat CORRUPTION**: not because it's ethically mistaken, but because it prevents a country from growth.

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How to prevent corruption?

We need transparency and also efficiency.

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In many countries **laws oblige PAs to be transparent and accountable**, but even there **laws are not complied**.

And even **sanctions** are not enough.

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SO, WHAT CAN WE DO?

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We can demonstrate that **TRANSPARENCY AND PERFORMANCE ARE CONVENIENT** for a country as well as a municipality and a regional government.

Convenient **for 2 different reasons**: **reputation** and **financial funds.**

1) REPUTATION

If you evaluate some PAs, it implies **to compare** them.

To compare implies a ranking.

And the result is that **none** of the ranked local or national governments wants to be placed **in the last positions of the ranking**.

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WHY?

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Simply because they want to **keep consensus among citizens** and **match international standing.**

For example, if I live in a Municipality which is less accountable and performing than the Municipality where my parents live, I'll wonder why.

And I'll ask the mayor to explain it,

since I pay the same taxes they do, getting worst public services.

In other words, I'll put pressure on him.

As a consequence, that Municipality will try to improve, in order to re-gain a good name in public opinion.

2) *INTERNATIONAL AIDS AND NATIONAL TRANSFERS.*

When financial resources decrease, a **national government** needs to **allocate them in the best way**, which is to **reward the most virtuous municipalities** and to penalize the less virtuous ones.

Also, *international aids* should be **distributed also on the base of an improving trend in transparency and efficiency**.

Of course, they <u>have to support the most inefficient</u> and most opaque countries too,

but they don't want to waste money, don't they?

So, they can **select two or three** municipalities –let's say in Nigeria – asking them if they want to *be supported* in the process to get transparent and efficient and, *as a prize*, they'll receive more funds.

Little by little, *citizens who live in other cities will ask their municipality* to do the same, since they want to get more money for public services.

It'll bring a *sane competition* among local governments and a general administrative improvement.

3) *HOW TO MAKE AN INCENTIVIZING SYSTEM POSSIBILE*

An **incentivizing system** REQUIRES COMPARISON.

And comparison **requires an assessment.**

But **to assess** WE NEED TO KNOW, SO WE NEED INFORMATION

WHICH KIND OF INFORMATION we need?

Not just for specialists and technicians, but for citizens

Citizens crucial for the improvement of public systems

Participation and civic engagement are **misused terms**: just slogans, since people can participate, but can't truly decide. That's people give up.

Instead, the Public Rating **provides citizens** accessible information,

Summarized in a synthetic index:

a P- means, for instance, that a regional government is not sufficiently transparent and performing, while PP+ means that it is a transparent and performing one.

In other words, the Public Rating **informs** and educates citizens,

contributing to their capacity building.

So, the Public Rating is also a tool to make **institutions and citizens/stakeholders** to match:

it allows institutions to show what they have done and to explain why they couldn't do something.

In other terms, the Public Rating **supports a dialogue** between institutions and citizens, fighting the anti-political mood, for instance in the European countries, and **bring trust again**.

SO, the Public Rating is a **real way** **to involve people:**

    a) to be **part of** *the changing process* in their country, by evaluating their local and national public system;

    b) to accomplish **civic monitoring**.

Civic monitoring is the **only effective control** on integrity and efficiency in the public system,

 simply because citizens **interact daily** with the public offices.

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4. *AN INNOVATIVE APPROACH*

Fondazione Etica tried to offer its support here:

- o *Collecting and analyzing data,*
- o and *transforming them in accessible information* for citizens,

to **make them aware and able to participate**

and **make pressure** on their government.

WHAT IS THE PUBLIC RATING?

It is a **scientific method** to evaluate and measure **transparency, performance and integrity of different typologies of public administration**;

It's based on **based on ESG Indexes** used in financial markets for **private companies.**

So why shouldn't we use the **same for the public sector**?

Citizens are not only stakeholder but also shareholders: as a matter of fact, **they pay taxes** and they have the right to know not only **how much public money** their Municipality spends, but also **how** and for **what.**

The Public Rating is innovative for different reasons:

- It's **INDEPENDENT,** because the evaluation process doesn't need a direct collaboration with public institutions.

·   It **adopts the citizens' point of view**, since they are *stakeholders* and also *"shareholders"* of   public administrations, since they pay taxes.

·   It considers both **qualitative and quantitative data** regarding performance.

·   It **compares** local and national governments, driving a sane competition among them.

·   It **identifies a reference benchmark** periodically.

·   It **involves citizens**, facilitating participation and inclusion.

The Public Rating also:

·   predicts **default risk**,

·   provides for **alerts about corruption**,

·   helps to **rebuild citizens' trust** towards Institutions,

·   provides a **diagnostic tool** for governments.

5. *METHODOLOGY:*

The Public Rating analyzes 6 Macro-Areas:

1) Economic and Financial Profile,
2) Governance,
3) Human Resources Management,
4) Public services and relationship with citizens,
5) Public Procurements and Suppliers,
6) Environmental impact.

The **sum of the scores assigned** to the Macro-Areas **is 100**.

Each Macro-Area is made up of multiple Indicators.

The Rating will be **the sum of the scores of each Macro-Area**, **weighted considering the impact** assigned to each Macro-Area.

A **mathematic algorithm translates the scores in the final Rating**.

The Public Rating is divided into **8 Rating grades:**

7 distinguished **by letter P and 1 by letter F**.

They are divided in **classes of Rating** from **Very Good (PPP) to Fallible (F).**

Main **sources** are data that Public Administrations already publish and national and international databases.

6. *FOR WHOM PUBLIC RATING IS USEFUL:*

Thanks to the Public Rating, a NATIONAL GOVERNMENT can better understand **how to allocate public revenues among local governments**.

The Public Rating would also represent an opportunity for BANKS.

They might choose to accept requests for funding from local or national governments depending on the positive results of the evaluation.

And INVESTORS, as well as INTERNATIONAL INSTITUTIONS may decide to invest in performing Municipalities.

The same also applies to COMPANIES, which need detailed evaluations about the governments they work with (credit merit and average time of payments).

Finally, the Public Rating helps CITIZENS understand why and on what their government spends public money.

4) *MAIN RESULTS – SYNTHESIS*

Our last annual analysis regards **a sample of significant Municipalities** in Italy:

1 for each of the twenty Regions: Administrative Centers.

The sample has been chosen on the basis of their *geographical position* (North, Center and South of Italy), *population size* and **per** *capita income*.

In the analysis some **commonplaces** have been confirmed, but some others have been stamped out**.**

- In general, we can say that the **most performing PAs** are also **the most transparent**, and vice versa.
- Also, we noticed that **the richest** Municipalities are the **most efficient**:

the question to be deepened is if they are efficient because they are rich ore if they are rich because they are efficient.

- As expected, **Municipalities in northern Italy have better scores** than the ones in the South.
- But it **isn't confirmed for all the northern Municipalities**: Aosta and Imperia get a low score, in class of rating "Weak".

- Also, it doesn't mean that all the **southern Municipalities are less transparent** and performing.

For example: **OLBIA** is in the South, an island, but **its rating is at the same level as the rating of BRESCIA** is and Brescia is one of the most industrialized cities in the North, and, as consequence, one of the richest.

Both Brescia and Olbia get a **sufficient rating**, higher than 50 to 100.

- The general result is **not encouraging**: **none of the selected sample gets the excellence score** (PPP). Even the **benchmark Municipality stops at 67 over a total of 100**.

It's like a high school class, where the most brilliant student is just a little bit over the sufficiency.

- **TRENTO is the benchmark**, but we have to consider that it benefits from a favorable autonomous regime in Italy.

That's why **CUNEO and PARMA** can be considered **benchmark as well**, since they belong to ordinary regime Regions.

In particular, Parma is a very dynamic Municipality that pays great attention to transparency, performance and prevention of corruption. It pays special attention to open-data and online services.

- At least it is positive that **none of the sample Municipality is in class Fallible**, even if the last 5 Municipalities get a score *close to it*: **SIRACUSA, POTENZA, BRINDISI, COSENZA, SALERNO.**

  Thy are all located in the South of Italy.

- The last place in the ranking goes to **SALERNO**.

It is even **overcome by COSENZA** and **POTENZA,** which have been declared insolvent.

It would have gotten positive scores in some areas, but it **neglects accountability**: citizens must blindly trust their Municipality.

Is our assessment too severe? No, it's not: **a Municipality spends public funds and it has to account on this**.

Even if it's compulsory, Salerno doesn't account on its annual goals, the level of their implementation, the sum of money it was programmed to spend and the amount they has been spent so far. They don't publish all they should about human resources management, and so on.

- **POTENZA.** Even if *it has been declared insolvent*, the **chronological trend shows its improvement**.

Of course, it's not enough performing yet, but it has to be appreciated the evident effort to change in better.

- **CENTRAL MUNICIPALITIES**: their performance is **very disappointing**. They are 4 Municipalities and they are all in *class of rating **Weak.***

Two of them, **TERNI AND FROSINONE**, are in *rebalancing procedure*.

- **TERNI** is the Municipality in which the **alert function of the Rating has proved to be reliable** in at least two areas.

The first one is **the Economic and financial Macro Area**: in 2014, Terni got **the worst score**; in 2016, it had to **adhere to the rebalancing procedure**.

The other one regards **the Public Procurements and suppliers Macro Area**: in 2014 Terni was among the lowest places for transparency towards suppliers; in autumn 2016, a raid by police led to the arrest of the Mayor for alleged **rigged contracts.**

7. *ACKNOWLEDGEMENTS*