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MEASURING FOR DECISION MAKING:

SOFT AND HARD USE OF INDICATORS IN REGIONAL DEVELOPMENT POLICIES

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1.   Introduction: EU regional policy and territorial indicators

Persisting social and economic regional disparities within countries, in the global context of increased movements of goods, capital and labour, have called for a greater role of policies aimed at enhancing the competitiveness of specific regions. In Europe, new development strategies have emerged that move away from sectoral interventions and subsidies to compensate for territorial gaps, towards integrated place-based policies, focusing on the provision of public goods (or collective services under-produced by markets) to increase indirectly the productivity of private investments in areas with unused potential[1].

The implementation of new strategies for regional development is accompanied by major changes in the locus of decision making. Since the 90s, several countries have decentralised a large share of their policies to regional and local governments; cooperation and networks among different levels of government (local, regional, national, supra-national) and between public and private agents are replacing traditional top-down decision-making in the design of policies and projects.

This policy shift rises a strong challenge in terms of knowledge and information needs. Devising and delivering public goods and making networks truly useful to local needs is a knowledge-intensive process. Furthermore, most of the knowledge needed to implement policy is dispersed among several agents, at local and central levels. Policy actions designed for specific territories require therefore a high degree of vertical and horizontal co-ordination among administrations and improved co-operation between public and private bodies.

As a result, in the process of decision making, institutions that convert scattered private information into collective knowledge come to play a fundamental role.

In Italy, regional development policies involve four levels of government: the European level, setting general rules and objectives; the central State, adapting those rules to the national context, monitoring their implementation, providing technical assistance to regions and allocating rewards and sanctions; Regions, with a fundamental role in selecting projects, allocating resources among them and monitoring their implementation; counties and municipalities, pooling together local actors, designing projects and promoting their implementation. This institutional set-up has two implications. First, the efficiency of the decision making process heavily relies on the capacity of interaction, both formally and informally, among institutions. Second, the implementation of new governance tools – whereby general policy targets and the "rules of the game" are set by an upper level through technical and political consultation with the lower levels, and the specification and implementation of these targets require continuous diagnostic monitoring through partnership network[2] - hinges on the exchange of reliable, timely and meaningful, quantitative information.

In implementing in Italy this new policy framework a very relevant role is being played by EU regional policy. EU policy provides a toolbox of measuring instruments (e.g. statistical tools; quality standards and guidelines for evaluating and monitoring development programmes; sanctions and rewards systems for

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[1]   See OECD (2003).
[2]   See Barca F. (2001, 2003).

the allocation of funds; additionality rules; etc.) allowing Member States to use a common language for evaluating the territorial dimension of phenomena at stake and design appropriate policies[3].

Since the late 90s, Italy has promoted and refined this EU-originated toolbox to support the implementation of the new development strategy for the Southern regions, characterised by a serious historical output gap. Within the Community Support Framework (CSF) 2000-2006 for the Italian South, institutions for developing comprehensive information systems were established and different sets of territorial indicators were used to evaluate the geographical dimension of phenomena and assess the quality of policy action[4]. These represent major steps forward in the development of a new regional policy.

The principles underlying the selection and construction of territorial indicators reflect their specific purpose: to support and guide policy making. In performing this task, two main interrelated problems, affecting the use of indicators for decision making, were to be tackled.

First (problem 1), in an "incomplete information framework", policy objectives - whether intermediate or final ones - are difficult to translate into quantitative and verifiable measures (where for verifiability we intend the possibility of evaluating ex post the achievement of objectives), since the knowledge needed to do so is partly held by the agents implementing the policy, and is partly produced through policy implementation. Second (problem 2), the causality link between actions and objectives is very hard to be established, since many variables and noise influence the achievement of objectives.

The use of indicators is linked to the relevance of these two problems and the way they were solved. In particular the Italian CSF 2000-2006 implemented indicators in two very different ways, which we describe here as "soft" and "hard".

On the one hand, a set of territorial indicators was chosen that describes final objectives (e.g. in terms of well-being, desired characteristics of regional economic systems, quality of services, etc.). Different aspects of the same phenomenon (e.g. social exclusion) are captured by a variety of indicators (e.g. financial poverty, accessibility to services, quality of housing, etc.). These indicators, denominated "context indicators" were aimed at a "soft use": better targeting of policy actions and broadly assessing their effectiveness. The choice of a soft use is explained by the fact that problems 1 and 2 were very relevant and no tool was available to reduce them enough.

On the other hand, indicators that describe intermediate process objectives were chosen to capture policy targets in terms of institution building. While easier to monitor, these "process indicators" are strongly affected by problem 1, since what is a good measure of effectiveness of institution building depends on the institutional context itself and it is often revealed only in the very process of implementation. In order to make a "hard use" of these indicators, a "knowledge revealing mechanism" had to be established, both

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[3] It should be noted that in the current negotiation on the reform of EU regional policy for the period 2007-2013, the Commission and several Member States agree to develop this common toolbox (e.g. definition of a common lexicon, common objectives and quantitative targets, reliable statistical tools) thereby increasing the level of synergy between regional, national and community policies and the Lisbon and Gothenburg agendas. Some net-contributing countries – namely some of those advocating a significant reduction of community resources for cohesion policy – have suggested to restrict the use of this toolbox to what is below called a "soft" use, linked to the adoption of an "open method of co-ordination" for regional policy; see HM Treasury, Department for Trade and Industry, Office of the Deputy Prime Minister (2003). As it will be clear from section 3, this restriction would likely weaken the effectiveness of policy as well as pushing some other net-contributing countries to reduce their contributions.

[4] Within the Community Support Framework 2000-2006, around 22 billion Euros of EU funds – to be matched by the same amount of national resources - were assigned to the six Objective 1 regions in the South of Italy (Basilicata, Calabria, Campania, Puglia, Sardegna and Sicilia) and one phasing-out region (Molise). These resources represent about thirty percent of all public capital spending in the area in this period. Within the CSF, more than four million Euro were assigned to develop the statistical infrastructure. Most of the rules and incentive mechanisms agreed by central and regional administrations under the CSF were subsequently extended to all public investment policies in the South.

before and after the definition of the targets, by which indicators could be more clearly specified during the monitoring process. Sanctions and rewards could then be attached to these indicators and citizens could judge their local governments with relatively homogenous standards.

The process of definition of indicators is necessarily a dynamic one, responding to new policy challenges and objectives. Lessons learned from the Italian experience can have relevance in the framework of the political negotiations on the reform of EU cohesion policy 2007-2013.

This paper examines the technical and institutional basis on which the two set of territorial indicators were selected, and the implications for policy making. Section 2 reviews "context indicators", the involvement of different institutions in the selection process, the different uses of indicators to guide decision making. Section 3 analyses the group of "performance indicators", the consensus-building process underlying their selection, the role of partnership mechanisms at the foundation of the rewards and sanctions' system, the limits of this system.

Problems in establishing commonly agreed indicators to guide decision making are summarised in the conclusions and possible solutions are identified.

2.   Soft use of indicators: the case of measuring final objectives

2.1   The task

Within the priorities of the CSF 2000-06 for the Italian South[5], a large set of variables - called "context indicators" and measuring well-being, quality of services, supply of infrastructure, labour market conditions, etc. - has been identified to describe strengths and weaknesses of areas targeted by policy and to assess policy impact. These indicators represent, with different degrees, the strategic choices of the CSF, as they are defined to measure final objectives of regional policies within specific policy areas.

The two general problems, of translating the policy objectives into quantitative and verifiable measures and establishing a direct link between policy actions and the dynamics of context indicators, were very clear at the time when context indicators were chosen.

The first problem – how to find clear-cut indicators to represent policy objectives in an incomplete information framework – was addressed by involving all the relevant actors in the choice of indicators and by choosing more than one indicator for each phenomenon[6]. As for the second problem - the difficulty in establishing a direct link between policy actions and objectives - it was decided not to build a causality model.

Given these limitations, context indicators were aimed at a "soft use": targeting policy actions and broadly assessing their effectiveness. The mistake was avoided to use them for a sharp evaluation of policies.

More specifically, the use of context indicators for decision making was aimed at three tasks:

1. *Pinning down regional weaknesses and strengths* (such as, which is the offer of tourist attractions in the South and what share of visitors are drawn to the South? In recent years was there any

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[5]   The CSF is arranged around six priorities: natural resources, cultural resources, human resources, local development, urban development, material and information network.

[6]   As a result, the data base includes almost 90 indicators, while when it was built at the end of 1999 less than 60 indicators had been defined.

difference in the delivering of public services among regions? And which is the perception of citizens? Which is the trend of the gender gap in the participation to labour market?). The clarification is especially important in an asymmetric information framework, where the central administration in charge of setting the general strategy and monitoring the implementation of the CSF does not hold all the relevant information and needs to involve sector experts and all the administrations responsible for the implementation of the strategy. The participation of relevant stakeholders in the selection process of indicators is aimed at reinforcing their bottom-up nature.

2. *Reducing the degree of fuzziness of regional policy objectives*. The interaction among different levels of government (central government, coordinating the process, and regional and central administrations, implementing it) in defining the context indicators and, in some cases, quantifying targets to be aimed at within few years, helps to focus the objectives, and provide some direction for policy.

3. *Increasing the accountability of all the stakeholders involved in decision making:* administrations responsible for policy implementation are pressed to explain possible deviations from the expected dynamics; policy makers have a political incentive to realise the announced objectives. Communication to the public – through the revelation of policy preferences – is the necessary condition for policy effectiveness.

Paragraph 2.2 describes the basic features of context indicators; paragraph 2.3 shows, through examples for water management, social exclusion and information society, how context indicators were identified and used in decision making and to what extent the three above-mentioned tasks were addressed. Paragraph 2.4 recounts the choice of setting targets for some of the context indicators; the meaning and use of targets are discussed in relation to the problems presented.

2.2 Selection and use of context indicators

During the ex-ante evaluation of the CSF, context indicators were identified for each strategic area of the programme. The effort was made to ensure indicators satisfying the following basic features: unambiguous measure of weaknesses or strengths of an area, either in terms of well-being or in terms of development opportunities; availability at regional level (for all the regions); timeliness (the delay is limited on average to one year); availability of time-series and updates; uncontroversial quality of data.

The choice of indicators was conducted by the Department for Development Policies (DPS) of the Ministry of Economy and Finance together with central and regional administrations responsible of policy implementation and other relevant public and private actors. The aim of DPS was to select bottom-up indicators through partnership and co-decision. While enabling central and regional administrations to better understand the potential and weaknesses of each territory and to agree on the overall strategy of the CSF, this process allowed DPS to increase its knowledge on how the strategies could be implemented in the different regions, by extracting "local" information held by regional decision-makers.

After the approval of the CSF by the European Commission (August 2000), the need to improve the statistical information available and to obtain more detailed information led to a formal agreement with the National Statistical Office (Istat) to finance the production of statistical information at territorial level within the CSF. The agreement was constantly supervised by a Scientific committee, monitoring the improvements in the availability and quality of information at the territorial level. Technical assistance was supplied in order to better measure available information (choice of indicators, sources, updates, etc.). Inter-institutional working groups were established to detect the information gaps to be filled and to

define adequate indicators both in specific sectors not previously covered (for example water supply and regional poverty estimates) and in strategic sectors not adequately described by statistical information (for example innovation and information society). In order to obtain better information, *ad hoc* surveys were carried out and collaboration was offered to improve existing data.

So far, 96 indicators have been selected and are being measured, of which 89 have spatial and temporal values available. Table 1 contains a sample of the indicators organized by CSF priority: the last available values for both Centre-North and South are presented, with the value for Italy equal to 100. The actual database includes, for each indicator, yearly values (generally starting from 1995) for each region and macro area. The database is of public domain on the web site of the National Statistical Office and updated versions are released twice a year.

Table 1: A sample of Context indicators data base (Italy =100)

Sector	Indicator	last available year	Centre-North	South	Italy
Priority I "Natural Resources"					
Water	Water distribution irregularities (as perceived by households)	2003	61,1	180,4	100,0
Water	Km of swimming-forbidden seashore	2002	84,5	105,3	100,0
Electricity	Frequency of long stoppages of electric power service	2002	77,4	136,5	100,0
Pollution and waste	Urban recycled waste over total urban waste	2001	134,9	27,0	100,0
Priority II "Cultural Resources"					
Cultural resources	Per capita average expenses for theatre and concerts	2003	127,7	50,4	100,0
Cultural resources	Tickets sold for theatre and concerts per 100 people	2003	124,6	55,8	100,0
Priority III "Human Resources"					
Labour	Unemployment rate of youth (age 15-24)	2003	14,4	49,1	27,1
Labour	Gender difference between labour participation rates	2003	21,0	35,0	26,1
Education	Drop-out rate (students who left school over total enrolled students) in the first year of high school	2002	13,6	16,8	15,1
Research	Expenditure of the public and private enterprises for R&D (percentage over GDP)	2001	121,0	36,0	100,0
Priority IV "Local development"					
Local development	Industry added value (over labour equivalent units of the sector)	2002	102,4	88,1	100,0
Local development	Added value in the turistic sector (over labour equivalent units of the sector)	2002	101,2	95,8	100,0
Local development	Net birth rate of enterprises (new enterprises, minus cancelled ones at year t, over stock of enterprises at year t-1)	2003	91,4	119,5	100,0
Priority V "Urban development"					
Urban development	Difficulty to reach grocery stores (as perceived by households)	2003	96,3	107,6	100,0
Urban development	Number of air monitoring devices per 10.000 inhabitant	2002	127,8	50,4	100,0
Urban development	Share of public transportation use to work places over total transportation to work places	2003	100,7	98,5	100,0
Priority VI "Material and information network"					
Transportation	Passengers in airports over regional population	2002	122,3	60,3	100,0
Transportation	Air pollution due to transportation (tons of carbone dioxide due to road transportation per inhabitant)	2002	103,9	93,1	100,0
Information society	Percentage of population in municipalities connected to SAIA (system of exchange of administrative information)	2001	122,4	60,4	100,0
Information society	Percentage of families with internet connection	2003	106,9	87,7	100,0

Source: DPS-ISTAT, Context Indicators Database

2.3 Water, information society and social exclusion: supporting decision making

A first example is provided by the case of context indicators for water management. It clearly shows the three main tasks introduced in paragraph 2.1.

One of the objectives of the Natural Resource priority of the CSF is to "guarantee adequate water supply"; the achievement of this objective depends on several aspects partly linked by causal links (density of population along the coast, use of water for agriculture, maintenance and improvement of cleaning systems, improvement of urban dwellings, implementation of the sector law - "Galli" law 36/94 - etc.). These aspects and their links were taken into account when designing the programme strategy, and deciding the financial effort[7]. The sector strategy underscored the necessity to build efficient management systems in order to pursue the objective.

Different indicators were available which can give measure of the progress in "guaranteeing adequate water supply": infrastructure indicators, effectiveness of the water system, reform implementation. As context indicator the *"percentage of families perceiving irregularities in the water distribution"* (see figures 1 and 2)[8] was finally chosen. This indicator ensures the basic features of context indicators: together with availability, to capture well being in a non ambiguous way.

Figure 1 shows[9] that the gap between the South and the rest of Italy is still significant, and it has actually worsened between 1998 and 2001. A closing of the gap has taken place in 2002-2003, while a target has been set for year 2008 which brings this indicator for the South at the Italian level for year 2000[10]. Strong differences exist among Regions (fig. 2).

The negative results of the period 1996-2001 have indeed led to strengthen the effort to adequate the water system to the national and European standards and to increase public investment in the sector. At the same time the cooperation among different levels of government in defining the CSF's strategy has helped administrations to refine the objective and to explicit the critical aspects[11].

In designing the strategy for the water sector, important aspects that affect and blur the final objective of guaranteeing adequate water supply were identified, such as the amount of liberalization of the water sector, the level of efficiency in the management, the degree of implementation of the sector law ("Galli" law 36/94). The CSF clearly identified the responsibilities for necessary intermediate steps towards a sound management of water systems. In particular, except for the first two years, only actions directed to integrated water systems within ATO could be funded.

It should be noticed that in the reform process some of these institutional steps were so clearly and unambiguously identified, that they could indeed be turned into "hard" indicators and be therefore targeted for the allocation of sanctions and rewards. An indicator which measures the pace with which Regions accomplish the sector reform, was then chosen, and an incentive scheme for the achievement of the desired target by 2003 was designed (see section 3).

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[7] Ten per cent of the total CSF funds plus almost 900 millions of euro of national resources earmarked to the under-utilised areas are devoted to the implementation of integrated water systems.

[8] The source of data is the "Indagine multiscopo" conducted by the National Statistical Office yearly; the survey is addressed to a panel of more than 22.000 families.

[9] The source of all the pictures in par. 2 is the DPS-ISTAT Context Indicator Database

[10] It is important to notice that this indicator comes from a customer satisfaction survey, therefore its values can be the result of features of the service as well as of changes in the families' expectations.

[11] For example, through this process the lack of the fundamental information about the organization of the sector in "optimal areas" (ATO) became clear – for details see DPS (2004).

Figure 1: Families perceiving irregularities in water distribution (as a percentage of total families): South and Italy
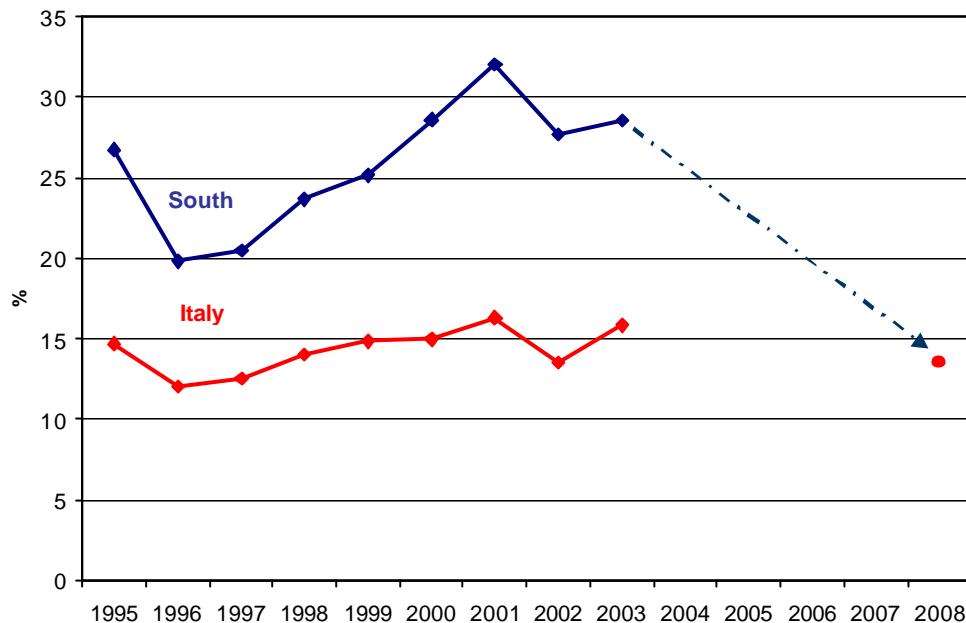
The availability of regional data helped to increase the accountability of regional decision makers, creating an incentive for administrations to intervene and address actions (for example a new survey was conducted in Basilicata on different aspects of water supply and the acceleration of the investment plan in the ATO in many regions).

Figure 2: Families perceiving irregularities in water distribution (as a percentage of total families) by regions (South)
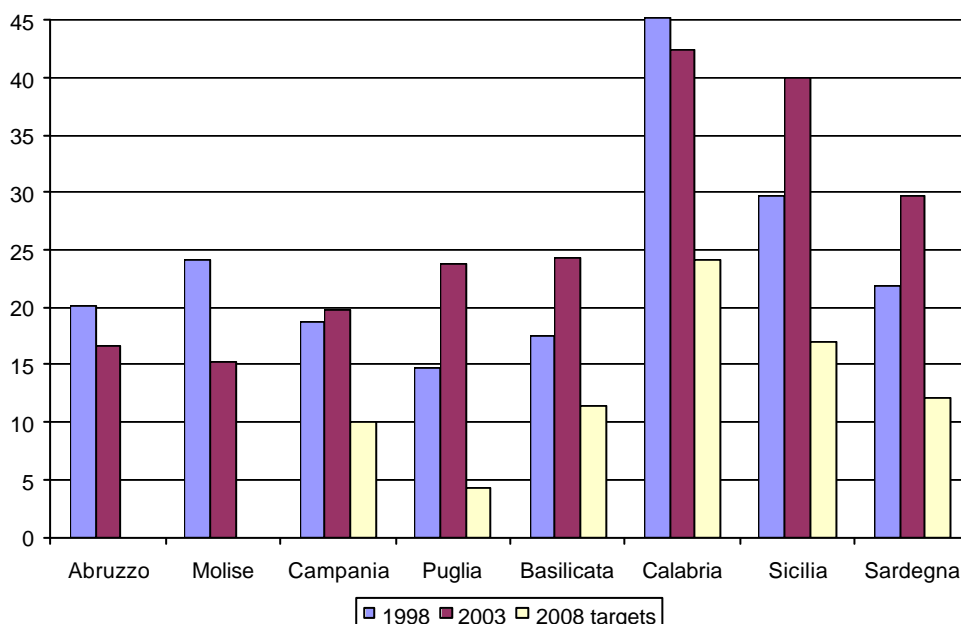
A second example shows how co-operation among administrations in the choice of indicators for decision-making can lead to the improvement of existing statistics and to the provision of information for actually appraising policy: the case of indicators for the "Material and information network" priority of the CSF.

The target of this priority is to strengthen the modernisation of public administrations, in particular the regional and local ones, delivering better services to citizens and firms in order to increase the competitiveness of the area. When the CSF was designed, the strategy for promoting information society and the use of information and communication technologies in the public administration was quite generic. The choice for context indicator reflected this early stage, as well as the lack of statistical information on the theme: "*percentage of municipalities with electronic administrative database*". Besides the fact that it was a measure of internal management innovation, it did not guarantee the reliability and updating of data.

In the following years, a clear e-government strategy has been developed and objectives for the innovation of regional and local administrations have been established[12] and embraced in the CSF during its mid-term evaluation. In the meantime, the context indicator was changed to also measure the evolution of local administrations towards technological services for citizens: "*percentage of municipalities connected to the on-line database for the exchange of administrative information*" (see figure 3). This context indicator is nevertheless not completely satisfactory to measure local e-government, since it considers only municipalities and only a specific activity (not necessarily the most relevant one) that can benefit citizens. More focused information to monitor the progress of local administrations in the area of e-government are needed (timely official surveys at regional level are still not available), and the recent agreement between the National Statistical Office and the Ministry for Innovation to develop an information system on e-government is an important step in this direction. Coordination among Regions and central administrations in charge of developing and monitoring the information society within the working groups of the CSF has helped to focus the regional priorities and the subsequent territorial indicators.

Figure 3: Percentage of municipalities connected to on-line database for the exchange of administrative information

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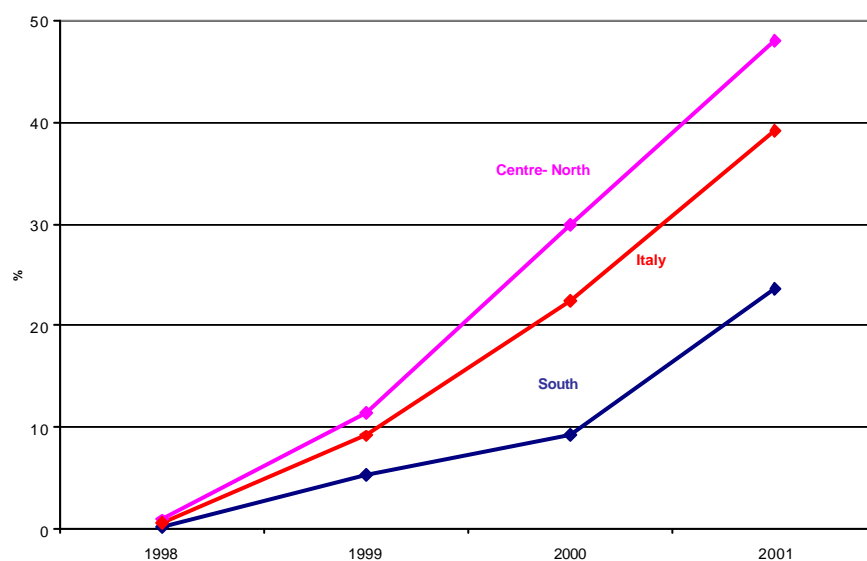
[12] See E-government Plans in local and central government offices:
www.innovazione.gov.it/ita/egovernment/entilocali/egov_Fase2.pdf

A third example concerns the problem of multi-dimensionality in the measurement of well-being and policy effectiveness. For most features of well-being, one-dimension measures do not offer adequate understanding of how backward one area is, nor they offer much guidance for policy. This is the case of social exclusion.

Together with the growth of GDP, the reduction of social exclusion in the South is one of the general objectives of the CSF. In the implementation of this goal, one is presented with two very relevant problems. First, a wide-spread belief exists that social disadvantage in the South is much less serious than what traditional measures of poverty show: the percentage of families in the South whose per person expenses are lower than the national average (called the relative poverty line [13]) is in 2002 equal to more than 22%, compared to around 6% in the Centre-North, but most argue that the comparison between the two macro does not take into account the lower cost of living and the relevance of the black economy in the South [14]. This belief affects both the actual political consensus for policy targeted to the South and the South's convictions and confidence in claiming for this policy.

Second, poverty in monetary terms does not provide much guidance for policy-making. By de facto calling for redistributive measures, it completely obscure problems of access to services and opportunities that no redistributive measure can indeed address.

Both problems can be correctly faced by making use of a multidimensional approach. This approach can capture signals of economic well-being as well as the possibility for individuals to have access to adequate social services such as quality of housing and area of residence, access to medical services, availability of child care, etc.. This approach can first allow to check whether the extent of social exclusion is well captured by monetary poverty. It can then provide indications, region by region, for what service gap actually affect social exclusion.

Within the agreement with the National Statistical Office to improve territorial statistics for better monitoring and evaluation of the impact of the CSF, DPS financed for 2002 edition of the Households Budget Survey [15] both (i) a new set of questions addressed to families regarding different aspects of their living condition, and (ii) the availability of these indicators and of that on monetary poverty at regional level.

The information available on regional monetary poverty first confirms previous results on poverty distribution [16]. While a decrease is shown in the percentage of families in the South under the poverty line between 2001 and 2003, a strong gap between the Centre-North and the South of Italy persists: in 2002, 66 out of the 100 poor families live in the South, which includes only 33% of all the families. At the same time a significant variability among regions in the South is observed and, even if to a much smaller extent, also in the Centre-North [17]. But, the more interesting results concerns the comparison of monetary and multidimensional measures.

First, a strong gap between Centre-North and South of Italy is confirmed also when considering the regional values of exclusion indicators: the two distributions are always distant and recognisable, except

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[13] Poverty is estimated on the basis of the number of families whose expenses are under a certain level. This level is computed as the average monthly expenses per person and it is equal to 823,45 euro in 2002. This level represents the *relative poverty line* for a two people family.

[14] The updated data for 2003 substantially confirm 2002 situation with a slight improvement for the South. Nevertheless, since the exclusion indicators have not been updated, this paper refers to the year 2002.

[15] This is the traditional source of official information on poverty in Italy; see ISTAT "Indagine sui consumi delle famiglie italiane", various years.

[16] It is important to remind that, due to the sample dimension, the confidence intervals comprising the regional values are quite large, especially for small regions; therefore caution must be used when comparing regional values and yearly variations.

[17] The standard deviation is equal to 9 in the Southern regions and 2,1 in the Centre-North ones.

in the case of the child-care indicator. The monetary indicator is then confirmed to be very relevant in synthetically describing social exclusion.

On the other hand, all exclusion indicators present high variability among regions, especially in the South. Monetary indicator of poverty appears to be a very poor measure of well-being, since it covers up for very different situations. Only exclusion indicators can illustrate specific situations of perceived disadvantage and therefore offer indications on where to address policy actions[18], thus orienting the action of policy makers at different levels of government (see figure 4 for one example).

Figure 4: Percentage of families under the poverty line (left) and percentage of family with difficulties to access to health services (right)

(*regions ranked by quartiles*)
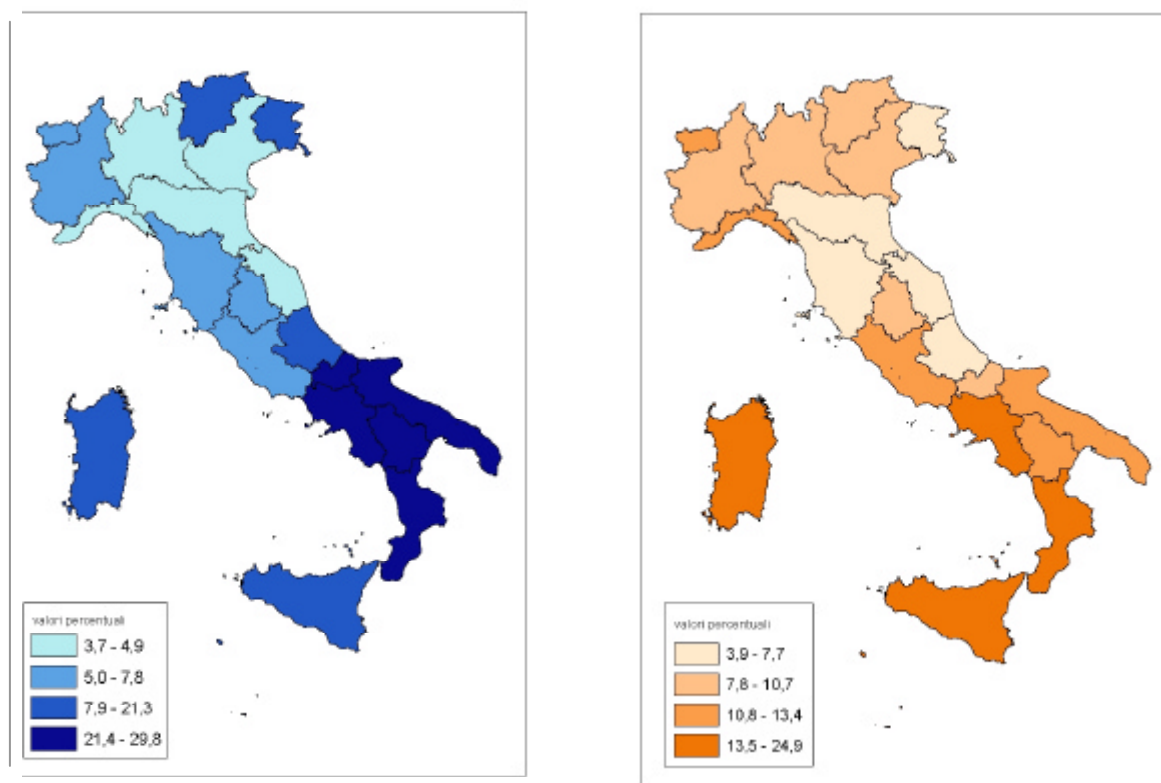
Regional ranking within the two macro areas is different for the exclusion indicators, showing that they are able to capture different aspects of social conditions (see table 2). For example Basilicata, Calabria and Molise which have the three highest values for monetary poverty, do perform better, relatively to the other southern regions, with regard to some of the indicators of social exclusion. Similar things happens in Trentino Alto-Adige and Friuli Venezia-Giulia.

Finally, consumption expenses do not directly reflect difficulties that families face to buy necessary goods. The exclusion indicator which measures the percentage of families who perceive difficulties in paying food, medical expenses and utilities offers a better description of a family's conditions. The variability among the Southern regions for this indicator is statistically significant, but at the same time the distribution of this indicator twinned with the monetary poverty shows that in the Southern regions monetary difficulties can be perceived as less serious than in the Centre-North (see figure 5).

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[18]   The correlation with the monetary poverty is significant for the indicators of inadequacy of housing and difficulty in purchasing basic goods (equal 0,75 in both cases).

Table 2: Regional ranking within macro areas for monetary poverty and exclusion indicators in 2002

	RANKING (higher in the ranking = worse)	monetary poverty	housing problems	difficulty to access to health services	difficulty to access to child care	difficulty to buy basic goods
Center North	Piemonte	5	2	4	1	2
	Valle d'Aosta	4	12	3	4	12
	Lombardia	12	7	6	10	5
	Trentino Alto Adige	1	11	4	3	11
	Veneto	11	4	6	6	4
	Friuli Venezia Giulia	2	6	12	2	8
	Liguria	9	9	2	12	6
	Emilia Romagna	10	8	9	7	10
	Toscana	7	9	10	5	3
	Umbria	6	1	8	11	7
	Marche	8	5	11	8	9
	Lazio	3	3	1	9	1
South	Abruzzo	7	8	8	2	8
	Molise	3	5	7	4	7
	Campania	4	6	3	3	2
	Puglia	5	7	6	7	4
	Basilicata	2	1	5	5	6
	Calabria	1	4	2	6	3
	Sicilia	6	2	4	1	1
	Sardegna	8	2	1	8	4

Figure 5: Regional distribution of monetary poverty and difficulties to buy basic goods in 2002
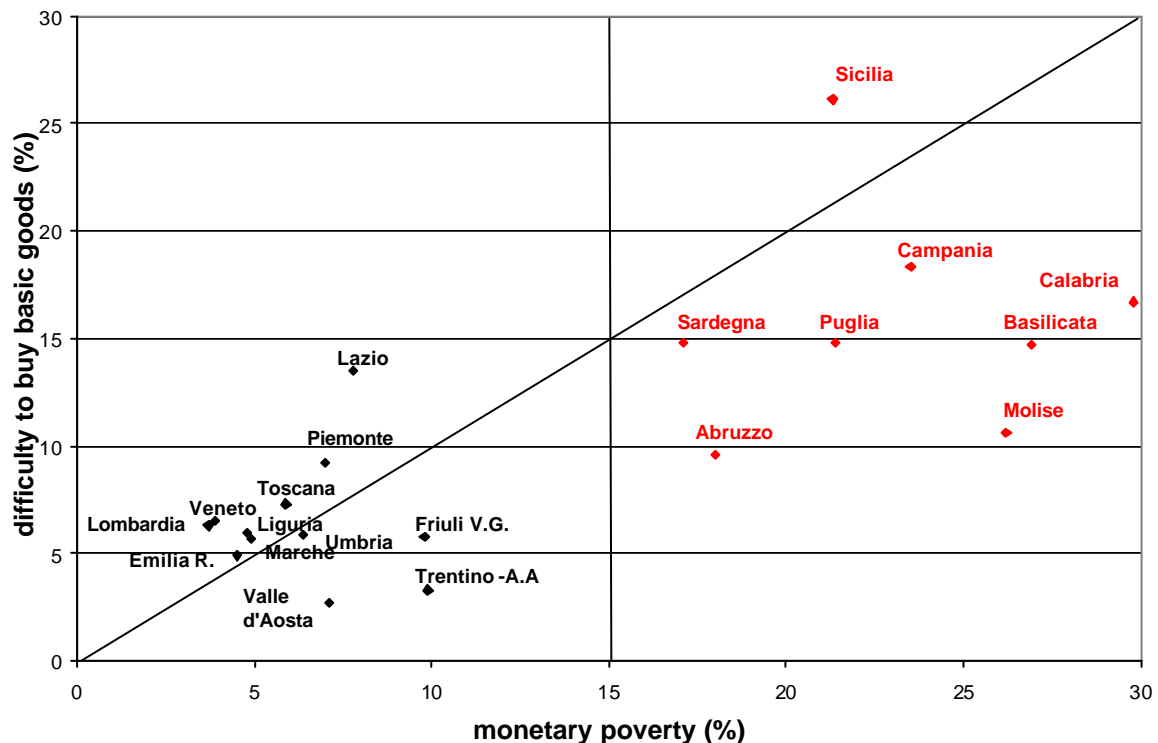
2.4   Targeting context indicators

Because of the difficulty to establish causality links among policy actions and objectives, context indicators are aimed at a "soft use". A limited use of targets has therefore been made.

The limitation concerns two aspects. First, only for a subset of context indicators, whose link to the policy actions was more direct, targets could be established. Second, since the achievement of targets is not fully under the control of policy-makers, sanctions and rewards were not attached to it.

The identification of benchmarks for the South to be reached by 2008[19] was carried out by experts coordinated by the Evaluation Unit of the Department of Development Policies (DPS). Moreover, in analogy with the choice of indicators, the final values for benchmarks were the result of interactions among DPS and regional administrations recipient of EU funds and responsible for selecting projects.

The identification of benchmarks was carried out by evaluating variables, trends and the comparative position of the area with more developed ones and by relating the expected results to objectives and strategies of the CSF[20]. Figures 1 and 2 show the targets, respectively for the South and for each Southern regions, in the case of the context indicator "irregularities in water distribution"[21]. In this case the expected reduction for the South was more than 10 percentage points within ten years.

In analogy to the CSF, regional programmes include the same set of context indicators with benchmarks referring to the regional situation. The setting of benchmarks for specific sectors and the use of the evaluation between national and regional objectives and actions represent an important innovation in regional programming and ex-ante evaluation. The purpose for introducing regional benchmarks is that conditions of regional competitiveness can be improved through interregional comparisons of competitive advantages, territorial policies and extensive use of evaluation and monitoring systems. Furthermore the monitoring of the competitive position of each region with regard to quantitative benchmarks should help policy makers to evaluate and, if necessary, readdress policy choices and projects' selection.

The "theory" for introducing regional benchmarking was that each Region should have known the target for the context indicators to be reached in the macro-area (South) as a whole at the end of the CSF programming period, as well as its own target, given the regional current situation, planned strategies, effort planned to achieve targets (assessed by the percentage of investment and the actions planned in that sector). In reality, regional decision makers have rarely used benchmarks for context indicators to improve and, if necessary, to re-address their actions. The top-down nature of the process through which choice indicators and benchmarks were chosen did not help rising regional awareness. Furthermore, when choice was made regional administrations did not have the support of internal evaluation units, which were subsequently established. On the other hand, context indicators with their targets have been commonly used in official documents of the Ministry of the Economy and Finance.

Insofar, we have considered cases were context indicators cannot be used, being measures of long-term objectives influenced by many variables, as hard targets, to which sanctions and rewards are linked. We now move to this different case.

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[19]   Resources assigned for the CSF 2000-2006 can be spent until the end of 2008.

[20]   To obtain a balanced evaluation on how the sector strategies affect context indicators in different sectors, an iterative Delphi-like method has been used, through which the experts' opinions on the expected targets are assessed and then compared and revised in subsequent cycles.

[21]   When the targets were set the last available year was 1998.

3. Hard use of indicators: the case of measuring intermediate objectives

3.1 The task

A policy where institution building represents a pre-condition for policy effectiveness, as it is the case for Italian regional policy, calls for institution building to become an explicit target of policy. The case arises for institution building to be directly aimed at through a system of hard indicators, to which rewards and sanctions are linked. "Hard" indicators were indeed experienced in regional policies in a number of incentive schemes[22]; in what follows we focus on the experience of the *"6 per cent performance reserve"* where approximately 1.8 billion of EU Funds and national co-financing were distributed among the six Objective 1 Regions of the South of Italy[23].

The allocation of resources took place according to a competitive mechanism based on the performance achieved in a given period of time for ten indicators of "institutional enhancement" and two indicators related to the quality of programming (integration of projects and concentration of financial resources on a limited number of objectives), (see table 3). These are denominated "performance indicators". Six central administrations in charge of sector programmes included in the CSF were also competing on a similar mechanism based on a more limited number of indicators (four of institutional enhancement and one of integration of national with territorial strategies); their global endowment was around 0.8 billion[24].

In setting this policy the general problem of "incompleteness" raised in section 1 had first to be tackled. The appropriate institutions needed to implement regional policy are clear-cut but only in general terms : a rigorous evaluation unit; a good accountable control system; efficient and widespread one-stop-shops; well organized and competent Public Employment Services; well-functioning regional environmental agencies; good management of water and urban solid waste; (see table 3 with the complete definition of indicators and targets). However their effectiveness and efficiency can only be fully described with reference to a given context (location, time, etc.) and often only once the institution has been created and gears into action.

Setting up a "rigorous evaluation unit" can not by itself prevent the appointment of members through nepotism or isolating the unit in an "ivory tower" where it does not really play a role in the decision process; moreover, these and other negative features can not be prevented by fully describing the requirements, since verifiability can only be partial and, furthermore, they do change according to context. Some requirements of a good accountable system can be described as general standards, but many others depend on the specificity of organizations and local accounting systems: setting up regional environmental agencies does not by itself enable an improvement of Regions to deliver better policy, nor can many conditions for that to occur be stated in universal and verifiable terms.

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[22] The Department for Development Policies has so far implemented nine incentive schemes; a few of them are on national funds (to accelerate financial commitments and spending of national resources for public investment (see Delibera CIPE n. 36/02), to get more timely and complete information from regional budget units to Territorial Public Accounts, etc..) and two on structural funds -4% plus a 6% national reserve-for a total of 10% total CFS commitments. The amount of structural funds reserve including national cofinancing equals to approximately 4,6 billion euros. The endowments of the 4% and 6% performance reserves on structural funds were approx. 2 and 2,6 billion respectively (including national cofinancing equal on average to 50%). For a survey of the existing mechanisms see DPS (2004).

[23] European regulations for CSF 2000-2006 already required the implementation of a 4% performance reserve (for a total of 2 billion euros including national cofinancing) on a list of indicators (effectiveness of funds' management, quality of evaluation and monitoring activities, etc.) proposed by the European Commission. The 6% national performance reserve was introduced by Italy, thus enforcing the European proposal, on the basis of indicators and mechanisms chosen at national level. This paper therefore examines thoroughly the latter system which was an original initiative of Italy and where the degree of freedom in the overall design was very high. Results are presented in Table 4 also for the 4 per cent system.

[24] The paper focuses on regional experience. Similar conclusions however apply also for the six central administrations in charge of sector programmes. Results presented in Table 4 also include the performance of central administrations.

Table 3: Performance indicators and their targets for Regions

OBJECTIVE	INDICATOR	TARGETS
A. INSTITUTIONAL ENHANCEMENT		
Implementation of national legislation fostering the process of public administration reform	◆ Delegation of managerial responsibilities to officials (legislative decree n. 29/93) ◆ Set up and implementation of an internal control management unit (legislative decree n.286/99) ◆ Implementation of one -stop shops ◆ Implementation of Public Employment services	◆ Adoption of the decree 29/93 and managers' evaluation for the year 2002 ◆ Set up and proof of activity of the internal control management unit ◆ At least 80% of the regional population covered by the one-stop shops and at least 90% of papers processed on time ◆ At least 50% of the regional population covered by employment offices
Design and implementation of innovation to accelerate and make effective structural funds spending	◆ Set up of regional and central administration evaluation units (L. 144/99) ◆ Development of the information society in the P.A.	◆ Set up of the evaluation unit by April 2001, appointment of the director and experts by July 2001 ◆ Transmission of data regarding at least 60% of total expenditure
Implementation of sector reforms	◆ Preparation and approval of territorial and landscape programming documents ◆ Concession or management by a private-public operator of integrated water services (L.36/94) ◆ Implementation for urban solid waste within optimal service areas ◆ Set up and operational performance of regional environmental agencies	◆ Meet regional benchmarks of territorial landscape programming ◆ Approval of the concession or management by a private-public operator of integrated water services ◆ Choice of management mode and its implementation within optimal service areas ◆ Appointment of the director of the agency and approval of management rules, allocation of resources and personnel to the agency
B. INTEGRATION Implementation of territorial integrated projects	◆ Incidence of commitments of integrated territorial projects on the total amount of resources budgeted for integrated territorial projects in the operational program	◆ Incidence of commitments and disbursements of integrated territorial projects on the total amount of resources budgeted for integrated territorial projects in the operational programme higher than the average over all the regions
C. CONCENTRATION Concentration of financial resources	◆ Concentration of financial resources within a limited amount of measures	◆ Concentration of financial resources within a lower amount of measures than the average over all the regions

In general some standards can be described, but they are often not enough to guarantee effectiveness. Two opposite risks then arise: that targets are too heavily specified with reference to a non-existing general standard; that they are left completely open-ended. In the first case, agents' behaviour might even be biased towards a formalistic satisfaction of targets; in the second case, targets end up not being binding. A mix of tools has then to be introduced, by setting requirements and accompanying it with a

system of *interim monitoring* that allows to complete possibly open-ended requirements along the process. This system is described in section 3.2.

Two further problems had to be taken into account in setting the system.

There is a first problem of true responsibility. In order to attach a financial reward to the achievement of a target, the assumptions need to be made that the administration which benefits from the conditional incentive is also fully responsible for the actions needed to achieve the result. Note that being fully responsible does not necessarily mean to be directly responsible but at least to have the means to create an incentive for the agents that are directly responsible to perform their actions.

The third problem concerns credibility and the risk of renegotiation. If agents were to think that renegotiation, possibly at political level, were to take place before rewards and sanctions were assigned, then the whole mechanism would collapse. In order to reduce the risk of renegotiation a strong and widespread consensus has to be established, and a cost for attempting to renegotiate must be somehow enclosed in the incentive scheme.

All these problems were tackled as described below.

3.2   Dealing with incompleteness: choice and definition of indicators and targets, measurability

Once the set of general goals was defined, indicators had to be chosen that could describe the institutional goal by limiting the scope for the administration to fulfil the target only in formal terms or reducing the risk for the administration to achieve the true goal but missing the formal target. Only under these circumstances can rewards and sanctions linked to the targets be efficient. Furthermore, indicators needed to be measurable and easy to monitor.

It became immediately clear that the choice of indicators featuring those characteristics required an intense technical partnership with the regional level of government who had access to better local information and possessed private knowledge on its own preferences and on what would make institutions truly effective. This partnership had to be set both before and after the establishment of targets.

Through meetings, discussions, and then working documents, the agents (local administrations taking part to the mechanism) slowly revealed their preferences as well as part of their private information. The way to deal with information incompleteness was then to work together with the regional level and in this way to enact a "knowledge revealing mechanism" with the aim of filling with specific content the generic target. It was a learning process for all the subjects involved through which priorities were better defined during time.

When at the end of this ex-ante process targets were left relatively open-ended, the "knowledge revealing mechanism" worked so as to allow a meaningful and agreed interpretation to emerge, administration by administration, of what exactly the requirement to be fulfilled was. Interim monitoring entrusted to a Technical Group made up by two members of the Central Evaluation Unit and two members appointed by Regions participating to the incentive scheme; targets were to be assessed administration by administration, and Report had to be prepared and made available to all parties every six months. Both an understanding and a consensus slowly emerged of what the relatively open-ended targets really implied for regions or central administrations. In other words: contracts (by which sanctions-rewards were attached to the accomplishment of targets) were slowly completed. Reputation of members of the Technical Group helped making this process feasible.

This process was (as we shall see) definitely successful; but setting the appropriate standards was not an easy task and not always fully satisfactorily. Let's consider a few examples.

First, reform in the sectors of water and urban solid waste management was deemed to be essential. The selection of indicators and targets required the identification of all reform steps (design of optimal territorial areas; choice of private partners for the management of the services; definition of a threshold of regional population that had to be interested by the reform in the given, short period of time) necessary as preconditions for better services to be offered to citizens.

Second, in the case of the implementation of Regional Environmental Agencies it was not possible to set a standard that could homogeneously describe the variety of monitoring activities that the Agencies could carry out, nor quality standards. The requirements had then the scope of describing, beside formal institution, the correct functioning of the agencies: to have a manager with an adequate staff; to have an internal regulation; to have a constant assignment of resources. In the case of one region the compliance resulted later to be only formal (the agency was instituted on the very last day to meet the target by using emergency decrees) and could not be accepted as the achievement of the indicator.

Third, to enhance the diffusion of territorial landscape programming, a strong pressure was put by the central administration in charge of the issue (Ministry of Culture) to set specific targets for each region describing in detail the administrative acts and the specific territorial areas involved. However, those targets resulted to be too ambitious for almost every administration involved. The Ministry then decided to offer an additional option to regions to approve administrative acts assessing the compliance of regional legislation with some national standards. This new definition was quite general and somehow open- ended. The results were mixed: in those cases were the regions had already shown a commitment by starting substantial steps to meet the target in its initial definition, the process continued and was easy to monitor and evaluate. In the other cases instead, where the new option was taken, there was often the suspect that compliance was only formal but there was no real way to take the analysis further.

On the whole, the choice of indicators and targets was the result of a partnership process that lasted for a significant period from the second half of 1999 to April 2001[25]. Cooperation in the design of mechanisms also enhanced the commitment of regional and central administrations; they often ended up treating the objectives to be achieved as their own priorities[26]. As for the Regions they had a chance to contribute to the choice of objectives and regard them as (feasible) goals for which they wanted to be considered accountable to their political market.

To be used in a "hard" way, i.e. to allocate public resources, indicators, beside being precisely defined and clearly linked to policy, must be fully measurable. Given that the assignment of public resources was made conditional on an evaluation of the performance of local administrations, the information used to express the judgement had to be reliable, replicable and complete. In some cases, information with those requisites was already available: this is the case of managers' responsibilities or activity of internal control units or activity of regional investment evaluation units, where the information was produced as the ordinary output of the action of the administrative offices involved.

In a few other cases, information was also of administrative nature, but had to be produced on purpose in a standard way so as to comply with the requirements of the performance reserve system. This is the case, for example, of the diffusion of information society where Regions had to collect specific data on ICT connections between their offices in charge for managing structural funds and funds' recipients

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[25] When the document with indicators, targets and rules of assignment of resources was officially approved by CSF monitoring Committee.

[26] See Brezzi M. *et al.* (2004)

(provinces, municipalities, other local institutions, etc.) spread on the regional area. In the case of water and urban solid waste management, information on the percentage of population covered by different steps of the implementation of the ongoing reforms was not readily available and was the outcome of specific calculations.

In the case of implementation of Public Employment Services (PES) and one-stop-shops for enterprises, a formalised cooperation had to be established with other central administrations (the Ministry of Labour and the Ministry for Efficiency of Public Administration respectively) which had the specific knowledge to collect and to assess the quality of information. In the first case, the Ministry of Labour used its territorial network to collect data on the institutional setting of PES in each region on the basis of a specific list of items defined in partnership with DPS Evaluation Unit. In the second, a specific survey was launched to get information from each of the 1.870 municipalities of the southern Regions carried out also with the contribution of governmental offices at provincial level.

3.3 Enforcing the reward/sanction mechanism: responsibilities and risk of renegotiation

The second general problem that arises when using indicators in policy making – the problem of establishing a causality link between outcomes and policy actions – takes great relevance in the case of hard use of institutional indicators. In rewarding and sanctioning the achievement of given targets, it must be ensured that responsibility for the achievement of targets does actually fall onto the very agent that benefits for rewards and pays for sanctions.

This problem was addressed by identifying through partnership the true nature of responsibilities.

In a few cases, where clear identification of responsibility was lacking, specific devices had to be introduced. In particular, an incentive was introduced for other agents to cooperate towards the objective, thus "correcting" an inefficiency of the mechanism. One of those ways was precisely to put in place local incentive mechanisms rewarding agents at lower institutional levels. Another way, which was used for one-stop-shops, was to communicate very widely the importance of the indicator also signalling the initiative on websites, involving municipalities (with responsibilities for action) in specific workshops and events.

Some problems of mismatch between agents bearing sanctions and those bearing responsibilities remained. In the case of one region, the mechanism actually failed in correctly identifying the institution (the regional council-political level) that had to take steps to achieve the expected objective. For example in a number of cases the regional council had to produce legislation that could start reforms in specific sectors (regional environmental agencies, Public Employment Services, territorial and landscape programming, etc.) but did not have incentives to do so, thus affecting in the end overall regional performance.

A final problem was addressed by strongly relying on partnership and the intense role of interim monitoring: making sure that the mechanism was renegotiation-proof.

Even in presence of knowledge revealing strategies, precise definition, non controversial measurability of targets and indicators and clear identification of responsibilities, still the acceptance by administration of final evaluation results - according to rules that were put in place more than two years in advance -, required some additional devices to enhance the robustness of the system. Regional policy makers could be tempted to collude to obtain the prize without achieving the targets i.e. without respecting the rules previously accepted. How could the mechanism deal with this drive to renegotiate?

First of all, the mechanism included a degree of competition on resources based on the fact that if some indicators were not achieved by some Regions the corresponding amount of resources was to be redistributed among them, according to their performance[27]. The presence of this mechanism enhanced peer control among institutions at a level that was not accessible by the central administration.

In addition, the role of the Technical Group (see par. 3.2), composed of representatives of both the principal and the agents, in monitoring and finally evaluating results was crucial. During the years of implementation of the mechanism the Group "actively" monitored the progress of administrations, suggesting solutions for specific problematic issues, periodically meeting with the Regions to discuss the general progress. In a few cases, in presence of unpredictable unfavourable events affecting the possibility of achieving the targets, the group also implemented technical solutions to overcome the obstacles. (See for example the described case of one-stop-shops where the central level was actively involved in the diffusion of information given the inefficiency detected in the mechanism). At the end of the period, when the Group wrote the final Evaluation Report, it had acquired enough reputation of fairness and impartiality that no administration contested its judgment on the achievement of targets.

Furthermore, final evaluation was accepted since the process had always been very transparent and information was always available to the public. The document with indicators, targets, and rules of allocation was available on the web of the DPS. Each Region periodically wrote an assessment of its progresses on the basis of which the Technical Group prepared a general Monitoring Report that was publicly accessible every six months. A general assessment of the process was included in the most official documents of the DPS and the Ministry of Economy and Finance. Within this framework, the possibilities for Regions to put pressures on the evaluation were limited.

On the whole, the consensus-building process that accompanied the choice of indicators and targets was also extremely important in strengthening the commitment of regional administrators and politicians, making clear that attempts to renegotiate would have affected their image and credibility.

3.4   Regional performance and follow ups

Results must be assessed by the effectiveness of the hard use of indicators to actually enhance institution building in the targeted areas and by their capacity to effectively reward and sanction different behaviours. From both points of view, results are quite compelling.
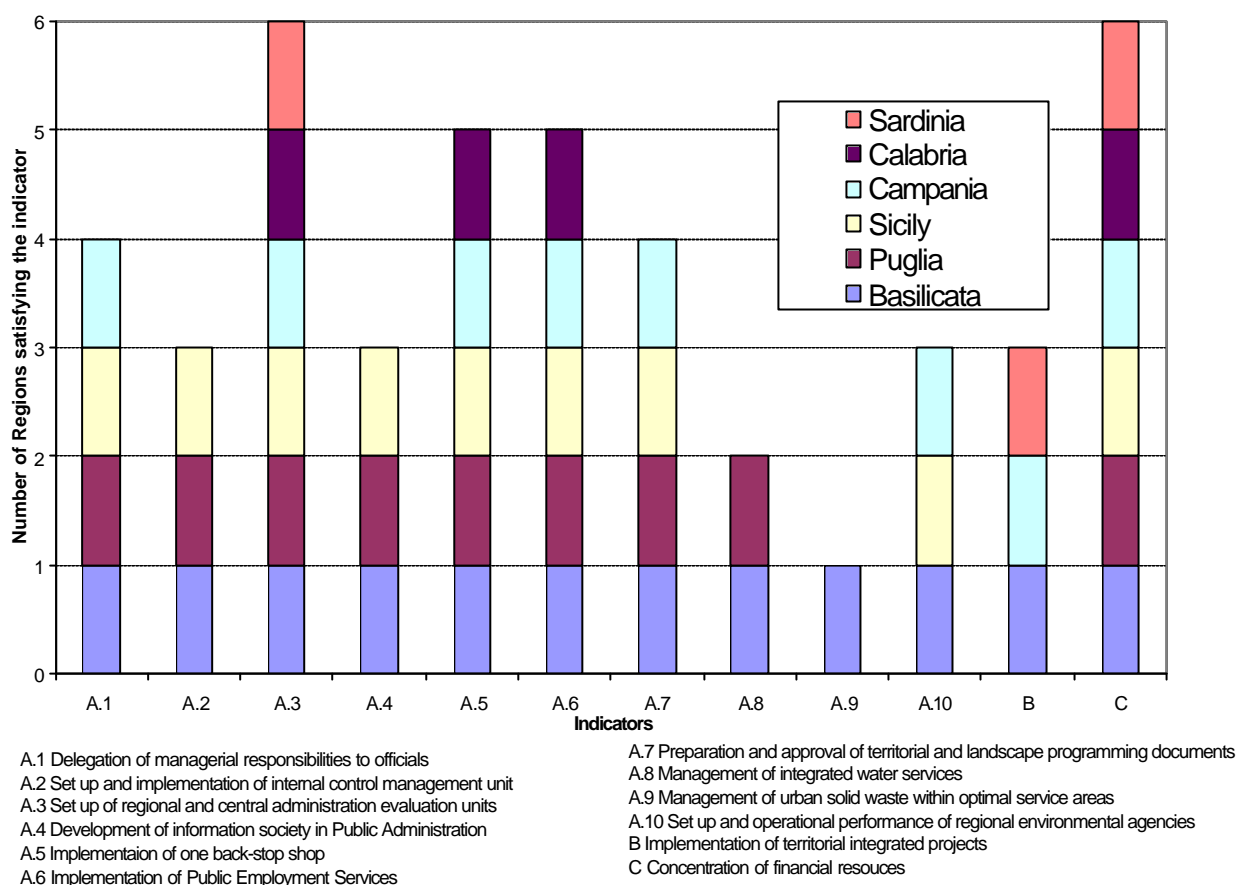
On the basis of the rules of allocation of financial resources and the targets on specific indicators officially stated in April 2001, more than 2 billion euros[28] of performance reserve resources were assigned to administrations in March 2003. Each administration involved had a potential endowment equal to six per cent of its original budget. The full amount could be gained if all targets were reached; otherwise resources were only partially assigned, according to the number of targets achieved.

Results first show that on average the performance of administrations in achieving the targets was very satisfactory since more than 60 per cent were achieved, reflecting significant progresses in the implementation of reforms in various fields and innovations in administrations; variance in the performance of participants was high (fig.6).

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[27]   This amount ended up to be consistent: the amount of money corresponding to the endowments of indicators that were not achieved that, according to this mechanism, was to be redistributed was higher than 20 per cent of overall initial budget. The amount was redistributed according to specific performance and increased the variance of performance among participants as measured in terms of final allocation on original budget.

[28]   The remaining amount of approx. 0.6 billion euros, was assigned by the CSF Monitoring Committee in March 2004. For a detailed description see http://www.dps.tesoro.it/uval_linee_premialita.asp

Figure 6: Performance indicators achieved by Region, March 2003

Legend: Sardinia, Calabria, Campania, Sicily, Puglia, Basilicata

Y-axis: Number of Regions satisfying the indicator (0–6)
X-axis: Indicators (A.1, A.2, A.3, A.4, A.5, A.6, A.7, A.8, A.9, A.10, B, C)

A.1 Delegation of managerial responsibilities to officials
A.2 Set up and implementation of internal control management unit
A.3 Set up of regional and central administration evaluation units
A.4 Development of information society in Public Administration
A.5 Implementaion of one back-stop shop
A.6 Implementation of Public Employment Services
A.7 Preparation and approval of territorial and landscape programming documents
A.8 Management of integrated water services
A.9 Management of urban solid waste within optimal service areas
A.10 Set up and operational performance of regional environmental agencies
B Implementation of territorial integrated projects
C Concentration of financial resouces

On the other hand, variability was very high. Regions participating to the mechanism received quite different rewards reflecting the number of targets achieved: one Region (Basilicata) got almost 135 per cent of its initial endowment[29], three Regions (Campania, Sicily and Puglia) got from 98 to 79 per cent, while two Regions (Sardinia and Calabria) got around 40 per cent[30] (see Table 4).

Differences in performance are also clear from the point of view of the indicators achieved: one outlier (Basilicata) satisfies all the indicators (12); a group of three Regions (Campania, Puglia and Sicily) who have achieved 8 or more targets, and two regions (Sardinia and Calabria) have achieved 4 or less targets.

[29] Note that, because of the mechanism of indirect competition that redistributes to each administration according to its performance the resources that are not assigned in the first run (if some indicators are not achieved by some administration), the best performer gets more than its 100%. Basilicata also got a special performance premium for its excellent performance. In addition indicators have different weights that influence the final allocation. For a detailed description of results also for central administrations involved see Anselmo I. et al. (2003).

[30] In March 2004 the European Commission officially assigned the 4 %performance reserve on the basis of the Italian proposal. The overall Performance of administration also on this different mechanism turned out to be quite satisfactory, with only one region and one central administration getting partial amounts. See Table 4 for results.

Table 4: Performance of Administrations as percentage of potential resources obtained [1]

Ranking	Resources assigned on the basis of the competitive mechanism /potential resources[2] (%)			
	6% Performance Reserve		4% Performance Reserve	
	Regions			
1	Basilicata	134,9	Puglia	108,6
2	Campania	98,2	Sicilia	107,6
3	Puglia	88,9	Campania	103,9
4	Sicilia	79,5	Basilicata	103,3
5	Sardegna	40,9	Sardegna	102,8
6	Calabria	38,6	Calabria	62,5
	Public Administrations [3]			
1	Econ. Competitiveness	129,8	Education	157,1
2	Education	77,0	Research and Dev.	130,0
3	Research and Dev.	70,6	Fishing	109,5
4	Law Enforcement	57,8	Econ. Competitiveness	109,5
5	Fishing	51,4	Technical Assistance	108,9
6	Transportation	49,2	Law Enforcement	107,9
7	—		Transportation	50,0

Source: Department for Development Policies, Ministry of Economy

[1] For the 6% mechanism allocation see March 2003 CSF 2000-06 Monitoring Committee; for the 4% see EC COM March 2004.

[2] Potential resources correspond to the original budget assigned to each Administration. Values can be greater than 100% since non-assigned resources are redistributed to Administrations that have shown good performance.

[3] Technical Assistance does not participate to the 6% mechanism.

But were sanctions and rewards always satisfactorily attributed? Do they represent a good picture of institutional advancement? On the whole the answer is positive, but there were problems.

In general, two possible mistakes can be made in evaluating the performance of administrations on the base of indicators that correspond to intermediate objectives. On the one hand, it is possible that because of non-compliance with formal accomplishments substantial results are not recognised. On the other hand, thanks to only formal compliance the reward can be given even if it does not correspond to real progress and improvement, for example, in the quality of services offered to citizens.

This second type of error is strictly connected to the intermediate nature of the indicators chosen who often only refer to the existence of the appropriate institutional setting for a service to be provided to citizens. This is the case for example of water and urban solid waste management where the mechanism was looking at the administrative implementation of the reforms and could not (since than the data would have not been available, reliable and complete to distribute public resources) look at if citizen were actually getting better services because of it. In addition, in some cases the administrative acts needed to achieve the indicators were produced in order to get the incentive but there were no follow ups in the reform process started and the indicator achieved, after the deadlines.

Actually, both in the case of one-stop-shops and PES some steps forward were already taken. In the case of one-stop-shops by looking not only at their diffusion on the regional area but also at the time length of the procedures; in the case of PES by looking not only at the institutional setting but also at the services

that were available in each employment centre. A further improvement would be to understand if those services match the needs of citizen and are then effectively used by them.

To address the issue of whether institutional progress was indeed effective, and such as to truly enhance the quality of policy-making, the decision was taken to make, after the "game" was over, a soft use of hard indicators.

A new monitoring initiative is today in place where additional information is asked to regions in order to understand what is happening after the end of the performance reserve mechanism. The aim is precisely to understand in which cases the initiative was successful in starting reforms. Indeed, in a few cases innovations spurred by the mechanism are now part of the ordinary regional activity; this is the case for example of regional evaluation units that in almost each region have acquired a very relevant role, of internal control units that are generally fully operational, or for Regional Environmental Agencies who in most case are carrying out a lot of different monitoring activities across regions. On the opposite side the new monitoring initiative helps in identifying situations of only formal compliance where the reform process was abandoned just after the achievement of the indicator. (Very strong difficulties were experienced by regional administration in the implementation of urban solid waste reform. The only region who succeeded in getting the target at a very early stage seems not to have proceeded to further steps after September 2002, while other regions are now more advanced). In the field of water management instead further steps towards the full implementation of the reform were taken by five out of six regions.

4.   Results and lessons: taking the process forward

The Italian experience in the development and use of territorial indicators to guide decision making offers an interesting ground for comparative analysis. This paper has reviewed the technical and political basis of the selection process of indicators - developed within the EU Community Support Framework and used to support the new strategies for regional development implemented since 1998 - and the implications for policy making.

A twofold approach has been adopted in the use of indicators – a soft and a hard use - in order to tackle the problems resulting both from the incompleteness of information, that prevents from turning desired outcomes into verifiable indicators, and from the fuzziness of causality link between policy actions and objectives.

A *soft use* of context indicators has been adopted for ultimate policy outcomes when both problems were very relevant and could not be overcome. Different aspects of the same phenomenon were captured by a variety of indicators that reflect the multi-dimensional aspects of regional development. Context indicators are aimed at three tasks: a) pinning down regional weaknesses and strengths; b) refining regional policy objectives; c) increasing the accountability of all the stakeholders involved in decision making.

The choice of territorial indicators involved all the relevant actors: central administrations coordinating and monitoring the implementation of the strategy, Regions with a fundamental role in the selection and promotion of projects, highly qualified public and private experts. This approach has contributed to identify regional needs and potential, to refine the objectives and coordinate policy actions, and to increase the responsibility of the administrations implementing the policies.

A *hard use* of indicators, to which rewards and sanctions are linked, has been adopted for intermediate policy objectives concerning institution building, - an essential precondition for the effectiveness of regional policies – when both problems could be more effectively addressed. While the causality link problem was addressed by matching outcomes with responsibilities, these process indicators were heavily affected by the problem of information incompleteness: it was often hard to describe ex-ante in a verifiable way, desired outcomes of institution building. This problem was then tackled by setting, both before and after the choice of targets, knowledge revealing mechanisms through effective partnership among principal and agents.

The use of partnership helped addressing an additional issue which arises when using indicators to assign rewards. A widespread consensus was created which strongly reduced attempts to renegotiate and indeed allowed no renegotiation and prevented legal disputes after rewards and sanctions were decided.

Though both experiences examined in the paper have been successful, the *hard use* of indicators has insofar proved to be more effective.

The *soft use* of indicators in the case of ultimate outcome for citizens and firms has certainly allowed a better focusing of some projects and of policy monitoring. But it must be underlined that the policy debate both at local and national level, is not yet influenced enough by the use of indicators. The strengthening of partnership with private actors is indeed required to make this method more effective.

As for the *hard use* of indicators, it has proved to be very effective both in terms of providing a strong politically-sensitive incentive to Ministers and, especially, to Region's Governors to care about institutional advancement, and of rewarding and sanctioning in a blunt way successful and unsuccessful behaviours: about 2.6 billion euros were allocated through this system and some administrations lost as much as 60 per cent of their potential resources.

Two main limits in using indicators for policy making have been pointed out in the paper. First, the risk exists for the hard use, and could not be fully eliminated through information-revealing mechanism, to interpret formal compliance as substantial achievement. Second, communication to the public and the mass media coverage was insufficient and therefore, the impact of the system of indicators on accountability was inadequate. In the case of institutional indicators, both these problems and the former have been addressed by launching a new initiative to monitor the implementation of the reform processes after the end of the performance reserve mechanism and by giving high visibility to these results through the DPS website.

This initiative stresses the strong role "political judgment" plays on the use of indicators. In a world where policy evaluation is important, there is room for a less ambitious, but fundamental role of indicators in terms of accountability: to enhance the general communication to the public of policy objectives, revealing policy makers' preferences and results in order to improve policy making.

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