



TRUSTWORTHY DIGITAL SOCIETY HUB

An Index for Trustworthy
Government in the
Digital Age

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UNSW
SYDNEY



A Global Trust Index

A proposal to link credit ratings assessments to the digital transformation of government service delivery: *essential utilities, education, healthcare, transportation, civil administration*

G1. Web Presence (1990s-2000s): Governments websites and portals for public information access

G2. Web Engagement (2000s-2010s): Social-media and interactive web platforms. Two-way communication between government and public. Systems are usually siloed between departments

G3. Digital-Native Government (2010s-Present): Integration across departments. High-performance cloud infrastructure. Mobile-first service delivery. Universal identification systems.

Digital public service platforms generate voluminous service quality data:

- **objective metrics** for processes and outcomes
- **subjective metrics** for user experience and trust

Measures of public service quality constructed from this data can proxy as indicators for credit-relevant institutional credibility at the national, regional, and local levels of government.

A Global Trust Index

A statistic for **sovereign and sub-sovereign credit assessments** summarising quality and performance metrics across public-service portfolios of debt-issuing governments

- Standardising the measurement of **government service quality**, leveraging data on user experience and public trust
- Incorporating formal assessments of the **trustworthiness of digital systems** underlying government service provision

Outline

- Existing Credit Assessment Methodologies
- The Worldwide Governance Indicators
- Measuring Public Sector Output and Service Quality
- Institutional Demand for a Global Trust Index

Assessment Frameworks

Three agencies account for 95% of credit ratings market share.

- **Moody's**
- **Standard & Poor's**
- **Fitch**

Sovereign (central government) debt is classified into various **Investment** and **Speculative** grades, with positive or negative **outlooks**.

Debt instruments issued by regional and local (sub-sovereign) government are also rated.

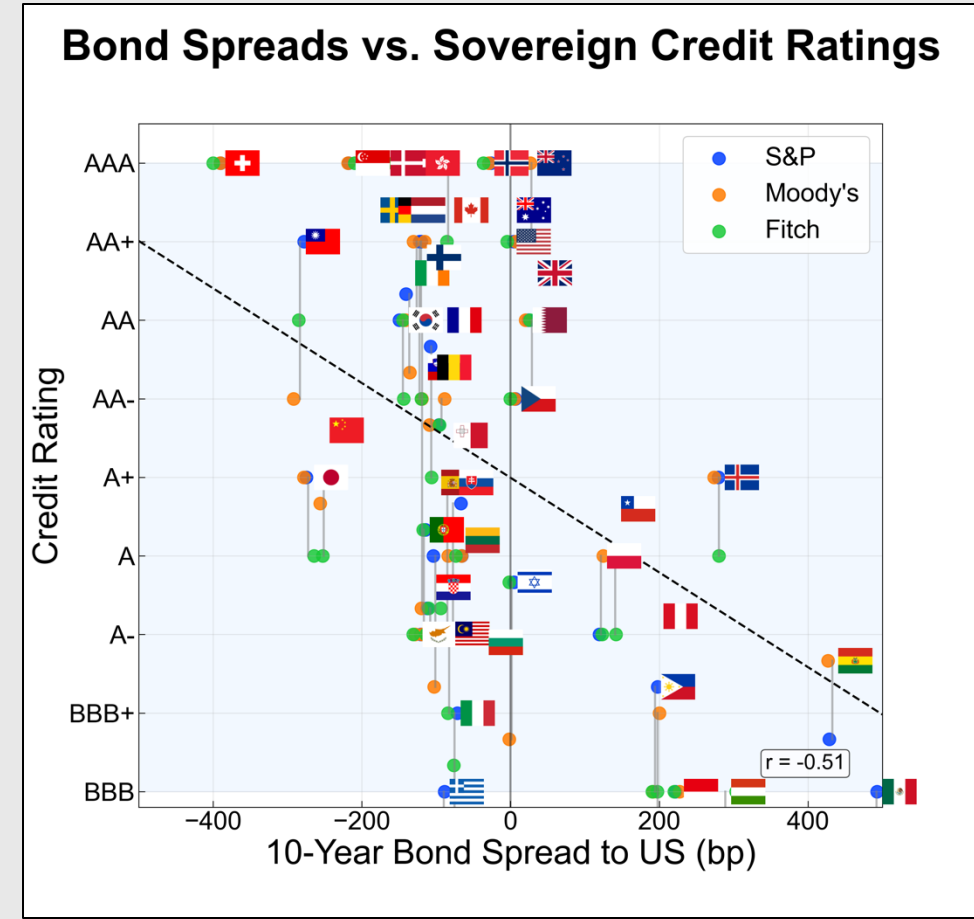
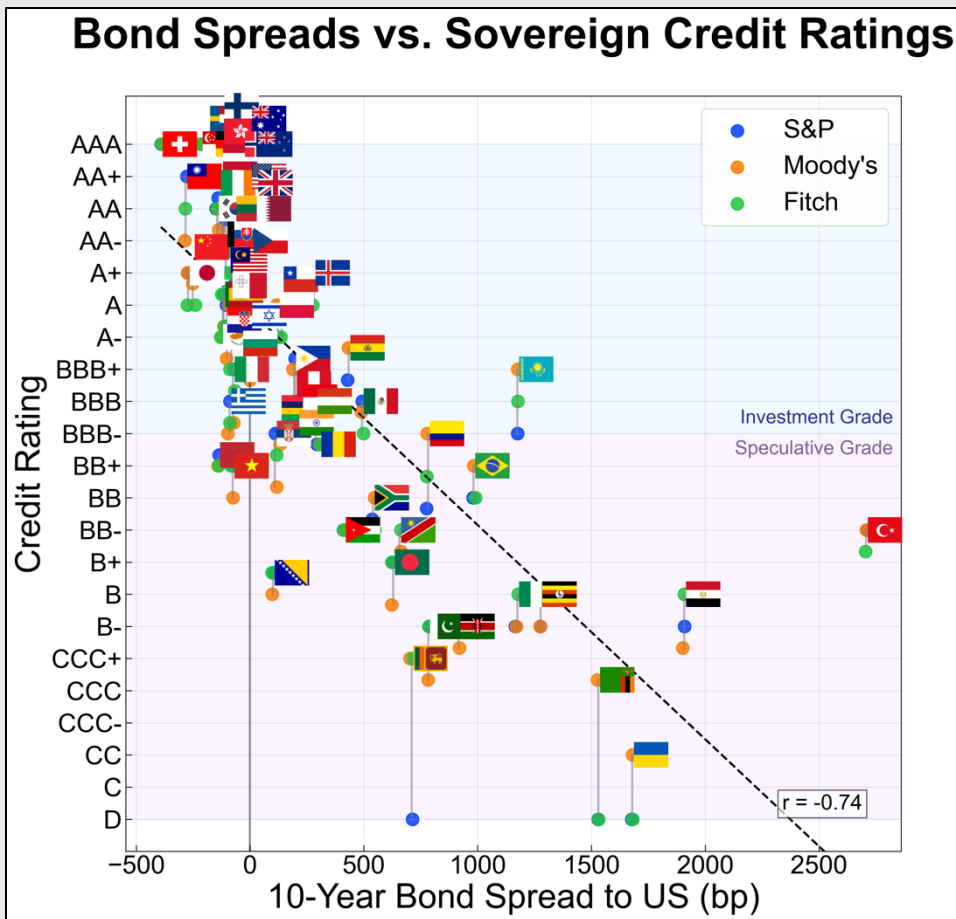
Table 1. Ratings Agency Grades

Grade	Description	S&P / Fitch	Moody's	Countries (Averages)
Investment	Prime	AAA	Aaa	
	High Medium Grade	AA+	Aa1	
		AA	Aa2	
		AA-	Aa3	
	Upper Medium Grade	A+	A1	
		A	A2	
		A-	A3	
	Lower Medium Grade	BBB+	Baa1	
		BBB	Baa2	
		BBB-	Baa3	
Speculative	Speculative	BB+	Ba1	
		BB	Ba2	
		BB-	Ba3	
	Highly Speculative	B+	B1	
		B	B2	
		B-	B3	
	Substantial Risk	CCC+	Caa1	
		CCC	Caa2	
		CCC-	Caa3	
	Extremely Speculative	CC	Ca	
	In Default	D	C	
No Rating				

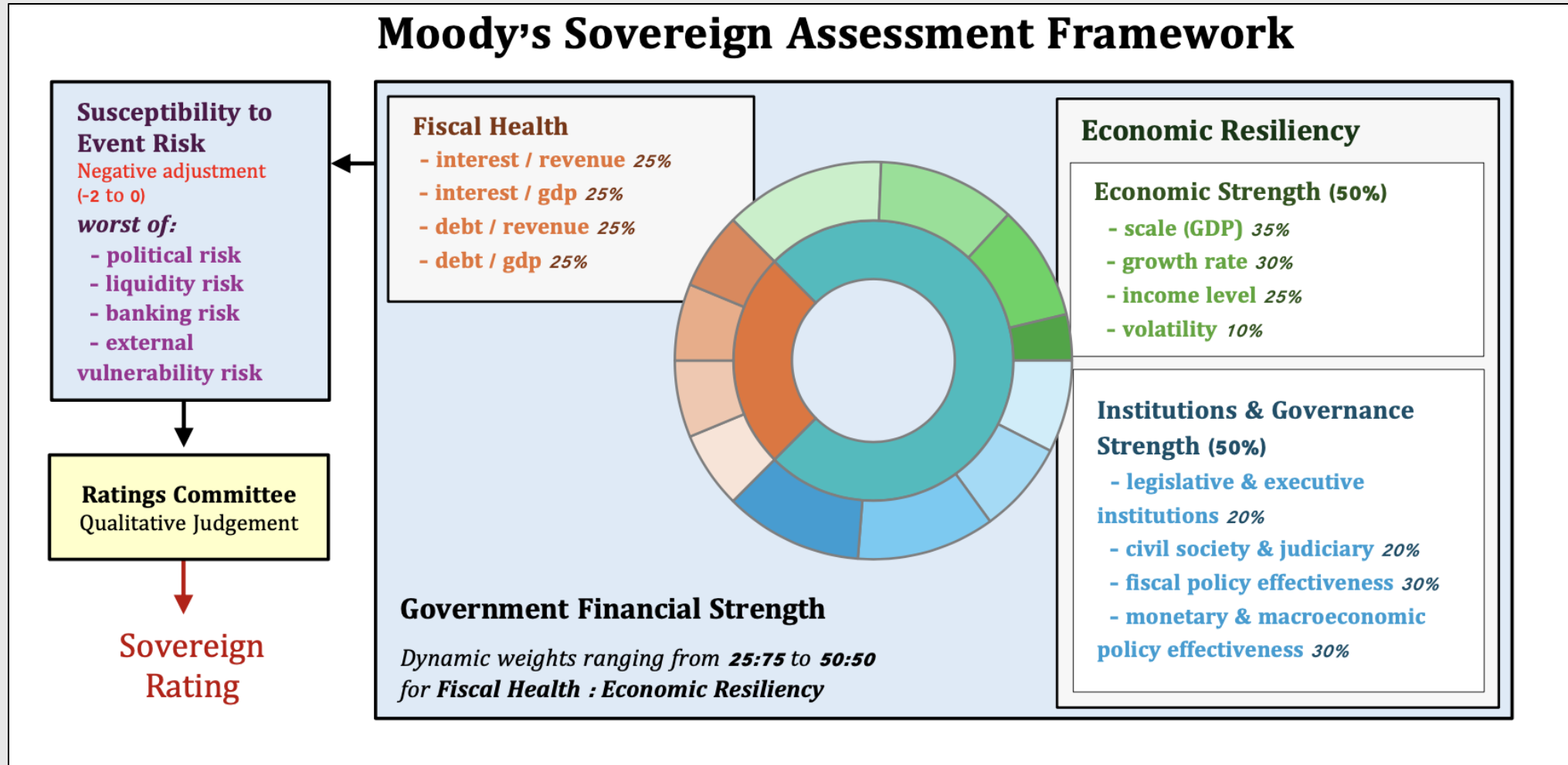
Assessment Frameworks

Agencies combine similar primary & secondary data in assessment frameworks

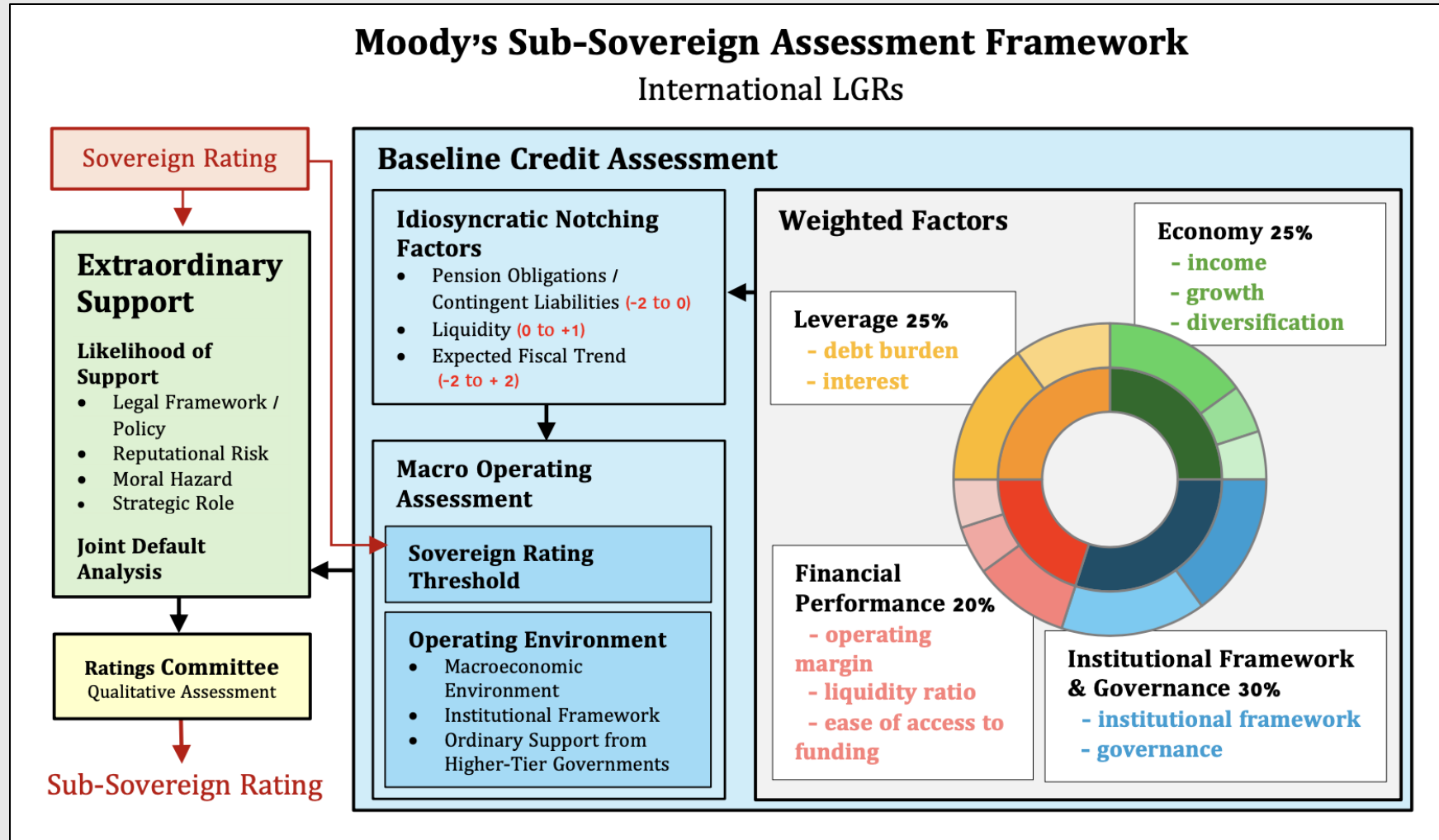
Major ratings changes significantly affect governments' financing costs



Assessment Frameworks: Moody's



Assessment Frameworks: Moody's



Assessment Frameworks: Qualitative Factors

- Evaluations of **institutions & governance quality** are assigned substantial importance
- Stable and transparent systems for **law-making, judicial integrity, and professional public administrations** are important elements of creditworthiness, but resist direct measurement
- Components representing **intangible factors** are used to differentiate the creditworthiness of borrowers with similar economic and financial profiles.
- Agencies cannot rely on primary data sources to quantify these institutional qualities in their assessment frameworks.

Assessment Frameworks: Qualitative Factors

	Moody's	S&P	Fitch
Framework component	Institutions & Governance Strength scorecard factor; Political risk scorecard sub-factor	Institutional Assessment factor in Institutional and Economic Profile	Composite Governance Indicator in Structural Features factor of Sovereign Rating Model
Direct Weighting	~20-30% Varies due to dynamic weights	~25% Varies due to risk matrix	~22% Varies due to Qualitative Overlay
Sub-components	<ul style="list-style-type: none"> - Legislative & Executive Institutions (20%) - Civil Society & Judiciary Strength (20%) - Fiscal Policy Effectiveness (30%) - Monetary Policy Effectiveness (30%) - Political Risk within Event Risk assessment 	<ul style="list-style-type: none"> - Policy effectiveness and predictability - Transparency and accountability - Debt payment culture - Security risks assessment <p>Specific weights not publicly disclosed</p>	<p>Single composite score incorporating:</p> <ul style="list-style-type: none"> - Governance quality - Rule of law - Political stability - Corruption control
External data sources	<ul style="list-style-type: none"> - World Bank Worldwide Governance Indicators (WGI) and Country Policy & Institutional Assessments - World Economic Forum Global Competitiveness Index - IMF data adequacy assessments 	Specific indicators not publicly disclosed but documentation suggests similar sources to other agencies	Composite governance indicator directly incorporates simple average of six World Bank WGI scores

World Bank Worldwide Governance Indicators (WGI)

Composite indices published annually since 1996:

- ***Rule of Law***
- ***Control of Corruption***
- ***Government Effectiveness***
- ***Political Stability & Absence of Violence/Terrorism***
- ***Voice & Accountability***
- ***Regulatory Quality***

Aggregate information from around 35 existing third-party sources, including representative surveys of citizens, households, and firms, and structured evaluations by subject-matter experts.

Source indicators combined and scaled using an Unobserved-Components Model (UCM) that determines weights according to source covariance

Aggregate scores (in standard deviations from annual mean) and percentile ranks are published, along with confidence intervals that reflect data coverage and inter-source agreement.

World Bank Worldwide Governance Indicators (WGI)

Sources:

- *Gallup World Poll*
- *World Economic Forum's Executive Opinion Survey*
- *IMD World Competitiveness Yearbook (WCY) survey*
- *PRS International Country Risk Guide (ICRG)*
- *World Justice Project (WJP) Rule of Law Index*
- *Institutional Profiles Database*
- *World Bank's Enterprise Surveys and Country Policy and Institutional Assessments (CPIA)*
- Other surveys including Eurobarometer and Afrobarometer

Expert assessments provided by:

- Freedom House
- Reporters Without Borders
- Bertelsmann Transformation Index (BTI)
- Economist Intelligence Unit (EIU)
- Varieties of Democracy (V-Dem) Project
- Political Risk Services (PRS) International Country Risk Guide
- Asian and African Development Banks

WGIs in Moody's Sovereign Assessments

	Inclusion in Framework	Factors Measured	WGIs Used
Quality of Legislative and Executive Institutions	20% of Institutions & Governance Strength scorecard factor; 10% of Economic Resiliency Score; 5-7.5% of Government Financial Strength assessment	Quality of public actions at legislative and executive levels; efficiency of government and public administration; institutional capacity; policy implementation effectiveness	<ul style="list-style-type: none"> Regulatory Quality Government Effectiveness
Strength of Civil Society and the Judiciary	20% of Institutions & Governance Strength scorecard factor; 10% of Economic Resiliency Score; 5-7.5% of Government Financial Strength assessment	Rule of law strength; judicial independence; corruption control; capacity of civil society to check government power; predictability of enforcement	<ul style="list-style-type: none"> Voice and Accountability Rule of Law Control of Corruption
Political Risk	One of four components of Susceptibility to Event Risk Factor, aggregated using minimum function and used to downwardly adjust Government Financial Strength assessment	Domestic political stability; social tensions; policy continuity; geopolitical tensions and conflicts	<ul style="list-style-type: none"> Voice and Accountability Political Stability & Absence of Violence / Terrorism

WGs: Criticism

Complex computational derivation, significant time lag, low frequency, reliance on opinion-based sources with unsound methodology and non-transparent funding / agendas

Chief Economist of India (2023):

*Over-reliance on non-transparent qualitative factors, including **perceptions, value judgements, views of a limited number of experts, and surveys with loose methodologies** in sovereign rating, results in unacceptable outcomes from a global point of view.*

*It makes the rating of developing countries almost invariant with respect to even sizeable movements in relevant macroeconomic fundamentals. This happens because **the base rating, estimated through quantitative scoring of macro-fundamentals, is overridden by qualitative considerations while finalising the published ratings.***

The set of loose qualitative information fed into the quantitative scoring of countries and the final qualitative overlay, based purely on the agency's subjective assessment of the countries' ability and willingness to pay, become heavily loaded against the developing countries.

WGIs: World Bank Advisory

Findings of external review (September 2024):

Methodological limitations and the wide-spread use of the WGI for real-world decision-making [has] been the source of misgivings for [Lower Middle Income Country] governments... concerned that the WGI is based on perceptions, which may reflect biases of high-income country respondents, and could result in higher costs of capital for them (compared to a greater focus on objective measures such as default history and risk). This concern is non-trivial given the high concentration in the ratings industry and the associated risk of ‘herding’ of perceptions-based ratings.

Formal advisory (November 2024):

WGI data are not intended to serve as definitive criteria for use in credit assessments, credit ratings, investment risk, or other critical financial decisions

An Alternative to the WGI

Institutional Observability

Service quality signals a range of credit-relevant institutional properties that resist formal measurement: **administrative efficiency, technological competence, reliability of systems and processes, workforce skills and managerial capabilities, organisational initiative, regulatory and legal clarity, and data-driven decision-making.**

Measures of service quality are likely to capture the broad collection of intangibles represented in the institutional and governance factors of credit assessments. A purpose-designed index for **standardised and verifiable measures of government service quality** would offer a superior proxy for institutional and governance factors than any currently available statistic, and would be **available at the subnational level.**

The Government Effectiveness (GE) Index

- **Annual national level aggregate statistic** including measures of service quality
- Combines **slow-moving indicators** from various sources varying in rigour
- Derived from **infrequent, subjective appraisals of bureaucratic competence by external analysts**, along with results of **perception-based citizen and business surveys**.
- Subject to **wide variability, attribution bias, and substantial delays** in capturing improvements or deteriorations in service quality
- May also be influenced by **media coverage, political polarisation, pro-cyclical sentiment**, and other factors that are unrelated to observable service delivery.
- Complexity of the statistical techniques used to produce the GE Index, along with the broad scope of its definition, make **specific aspects of governance that drive its impact on credit assessments difficult to identify**.
- **Unsuitable for measuring changes over time**, as its scores are calculated relative to the global distribution for each specific year.

Correlation of WGI

Statistical analyses of the WGI suggests that they do not actually measure six meaningfully distinct aspects of governance but are simply variations on the measurement of the same latent factor “good governance” factor

Table 6. *Worldwide Governance Indicator Correlation Matrix*

	VA	PSV	GE	RQ	RL	CC
Voice & Accountability (VA)	1					
Political Stability & Absence of Violence (PSV)	0.51	1				
Government Effectiveness (GA)	0.46	0.81	1			
Regulatory Quality (RA)	0.66	0.80	0.87	1		
Rule of Law (RL)	0.63	0.82	0.89	0.87	1	
Control of Corruption (CC)	0.52	0.79	0.86	0.87	0.88	1

Digitisation and Service Quality Measurement

Granularity of service-quality data produced by digital service platforms can highlight local and regional differences in governance performance

- Could track relevant observables at a high frequency, including:
 - *reliability of essential utilities and infrastructure*
 - *process and outcome achievements in social service delivery (e.g. public health and education)*
 - *speed and transparency of core administrative processes*
- Would allow credit-relevant risks to be identified at a much earlier stage than current methodologies allow.
- Could incorporate measures of **digital trust**, reflecting the growing dependence of institutional credibility on the technological systems that underpin the critical functions of government

Service Quality Measurement

Government service quality metrics are necessary to measure productivity
Few countries (UK, the Netherlands, Nordic Countries) publish systematic measures of government service quality

Healthcare	Education	Social Care	Public Order & Safety
<ul style="list-style-type: none">• 30-day survival rates;• PROMs (Patient-Reported Outcome Measures);• QALYs (Quality-Adjusted Life Years);• GP clinical outcomes;• Waiting times;• Patient-experience surveys	<ul style="list-style-type: none">• GCSE (General Certificate of Secondary Education) / Level-2 attainment;• Average grades;• Qualification completion rates• Prevalence of bullying	<ul style="list-style-type: none">• ASCOF (Adult Social Care Outcome Framework) quality-of-life index;• Re-referral rate;• Re-registration rate;• Placement stability;• Service-user satisfaction	<ul style="list-style-type: none">• Severity-adjusted recidivism;• Prison-safety index;• Custody-escape rate;• Court-timeliness

Real-time Quality Measurement

A few countries have implemented systems enabling real-time measurement

- **South Korea's Government 24:** government services portal tracks real-time service delivery metrics – e.g. processing times, success rates, and user volumes – across over 4,000 administrative services. Performance dashboards enable identification and resolution of service problems.
- **Singapore's Whole-of-Government Application Analytics (WOGAA):** centralized system providing live monitoring of user interactions, service completion rates, system performance, and integrated post-transaction satisfaction surveys across all major government digital services.
- **Estonia's X-Road Infrastructure:** secure data exchange layer used across government mandates signed logging of every transaction and generates continuous performance data, which feeds into monitoring systems that track service availability and response times, enabling real-time oversight of delivery.

A Global Statistical Initiative

The construction of this index on an international scale would require an ongoing, large-scale research program and significant collaboration and investment by governments.

World Bank External Review Recommendation:

the Bank invests in new measures of the absolute quality of governance, that can both guide efforts by countries to improve governance and serve as a data source for rating agencies and other users of WGI. However, this process is likely to take both time and resources (in our estimate 3-5 years at a minimum).

A timely, granular, outcome-driven metric for institutional evaluation would serve to justify investments in service improvement and digital infrastructure, linking lower borrowing costs directly to tangible improvements in governance.