



Knowing the FIELD for water regulation at local level: actors, information, incentives *Daniele Russolillo, Turin School of Local Regulation*

*Workshop on Institutions, markets, regulation and local
development, 15 October, 2015, Torino*

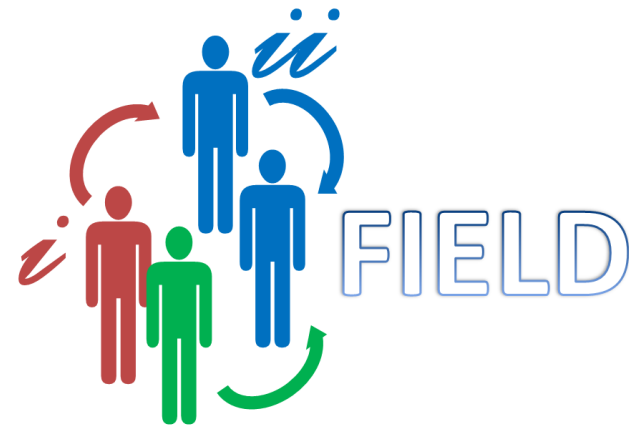
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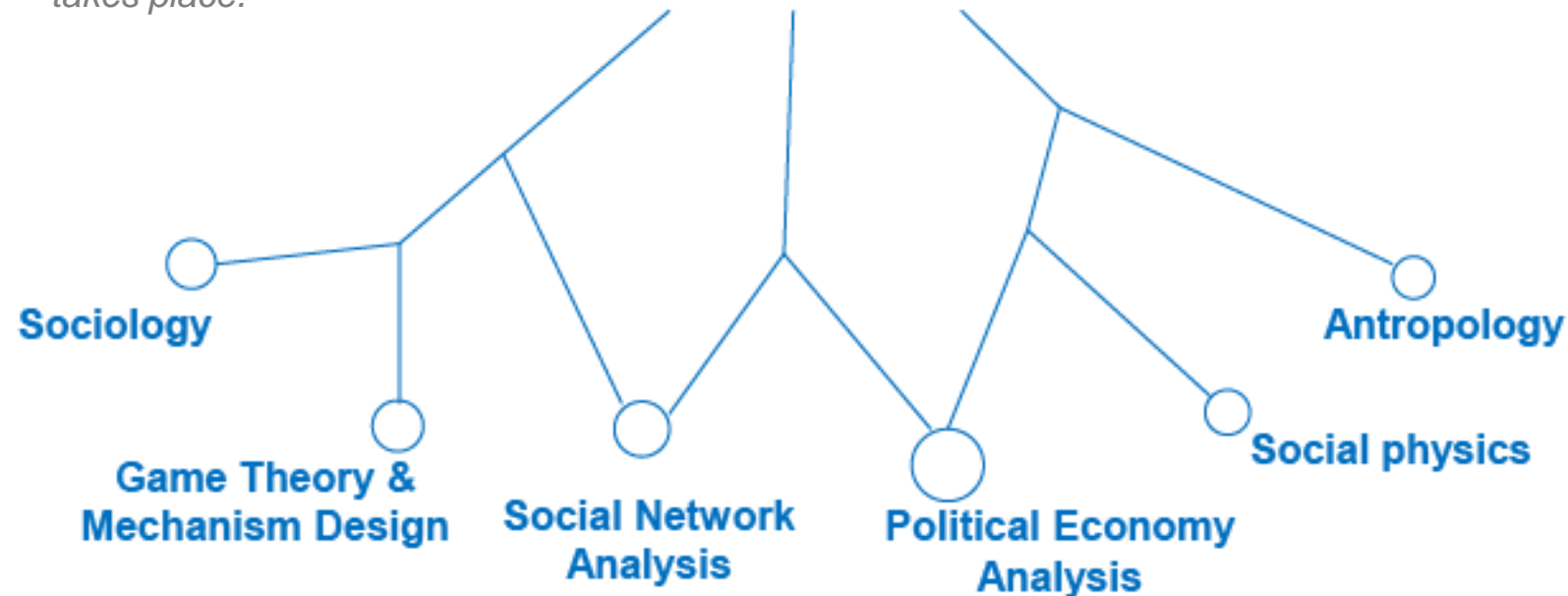


- What is the **local dimension** and is it relevant for infrastructure/service regulation? (national vs. local)
- Are there **peculiar critical aspects** in local regulation?
...denser networks, greater info asymmetry for the lack of level playing field, improper costs of sanctioning due to osmosis, lower capacity building than in national agencies, difficulty to split the local level from the political cycle, greater difficulty to establish personal incentives on the workplace...
- How to prepare the playing level field for **better regulatory framework** at local level?
- From **information to knowledge to awareness** for strategic decisions making ... through the analysis of relationships, actors/players, incentives, information endowment and information exchange



Framework of Incentives to Empower Local Decision-makers

A multidisciplinary methodology for the analysis of local actors, incentives and information endowment that surround and lie behind the success or the failure of local services, infrastructures and projects, defining the playing field where their implementation and regulation takes place.



Local Regulators Network Table

| | Water and sanitation | | |
|--|---|--|---|
| | Bulgaria | India | Serbia |
| Who has the ownership of networks and plants? | State; Local governments | Local governments | State; Local governments |
| | PUBLIC | | |
| How is the service assigned ? | Public tender | In-house providing | Direct assignment |
| If applicable, who is in charge of tendering the services? | Local governments State Government | Only the capital works are tendered. The utility tenders the work on behalf of the local governments | Local governments |
| What is the average duration of concessions ? Can they be re-negotiated? | <u>On average</u> : 25 years <u>Renegotiation</u> : possible | N/A | <u>By law</u> : up to 99 years. <u>Renegotiation</u> : possible <u>In practice</u> : no experience in the water sector. |
| Who operates the services? | Generally public companies. 1 case of PPP | Local governments | Local governments and public companies |
| Is PPP a common practice in the sector? | No. It exists, but this model is not common. | No | No |
| Who regulates tariffs, profits/revenues and so on? | The State Energy and Water Regulatory Commission | Local governments | State Government sets a reference price; Local governments set tariffs. |
| Who plans investments? | Service operators with approval by the regulator | Local governments | State Government (Directorate for Water of the Ministry of Water Management); Local governments |
| What is the structure of revenues ? | Customer bills (+) EU funds (-) | Customer bills State subsidies | Customer bills (+) State subsidies (-) |



<http://turinschool.eu/lorenet/table>

Categories of players



Players' incentives



Information endowment
Information exchange



Types of relations



FIELD : THE MATRIX



PLAYERS

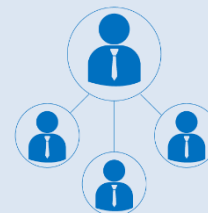
- Politicians
- Public officials
- Market actors (financial and non-financial, local or national or international)
- Lobbies
- Consumer organizations
- Administrative tribunals
- Consumers / final users



INCENTIVES

(institutional/shadow)

- Efficiency in provision of the service
- Profit
- Market share
- Effectiveness and quality
- Equity / redistribution / accessibility
- Electoral consensus
- Consensus
- Political control
- Religious control
- Ethnic control
- Maintaining / increasing own budget
↔ bureaucracy
- Financial public budget constraints
- Legacy



RELATIONSHIP

- Appointment
- Election
- Lobby pressure
- Strong political influence: political influence
- Corruption
- Command
- Control
- Regulation: price, quantity, quality, accessibility, distributional
- Rule of law / judicial enforcement
- Assignment
- Business relationship
- Market power

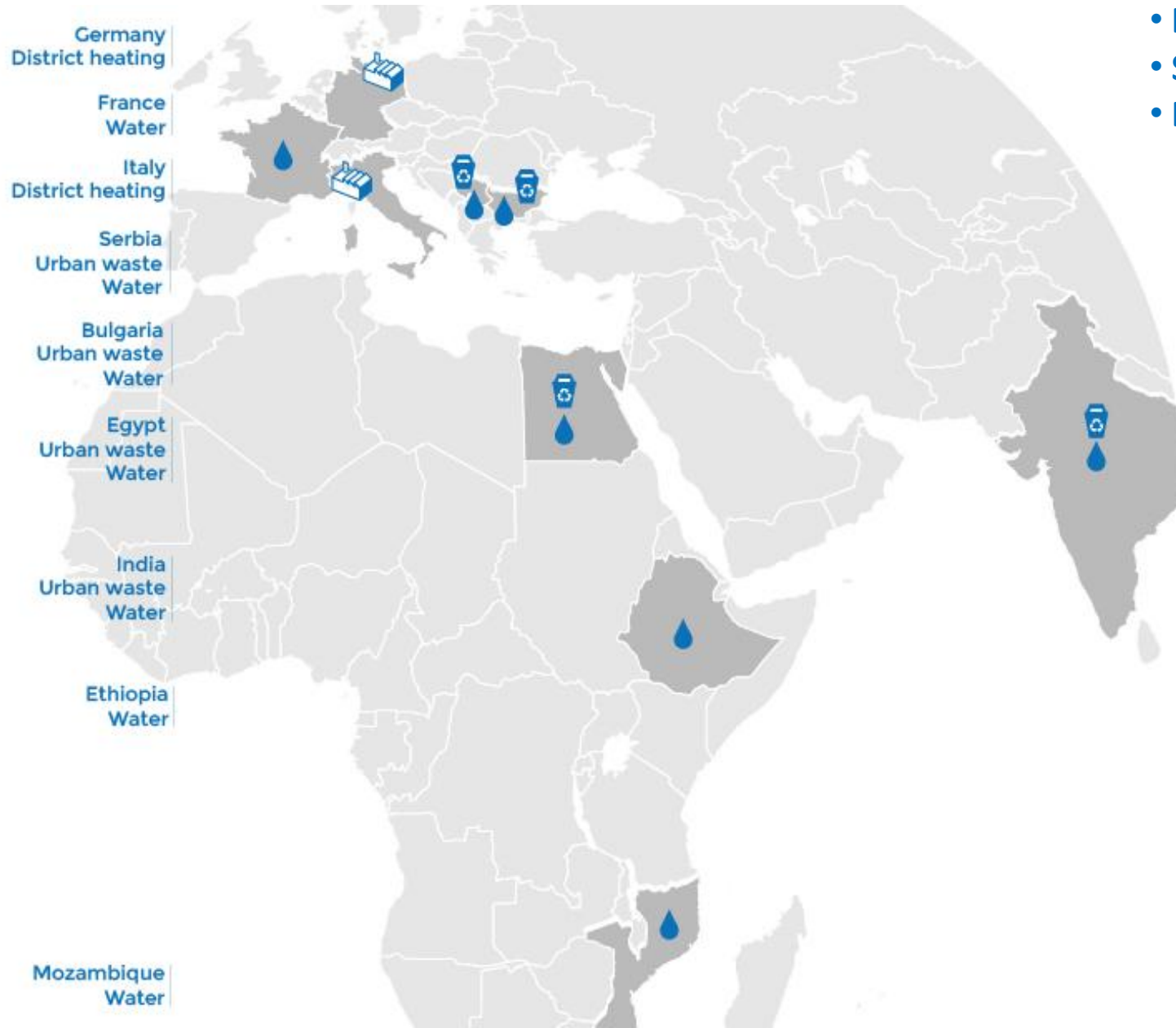


INFORMATION

(in house/transmitted)

- Information on industrial costs of the service
- Information on Investment costs
- Information on physical assets (length of network, buildings, geolocation, equipment, ...)
- Information on revenues
- Information on demand side

THE CASE STUDIES ANALYZED SO FAR



THIS PRESENTATION FOCUSES ON:

- **Belgrade (Water)**
- **Sofia (Water)**
- **Bangalore (Water)**



SOFIA: PLAYERS & INCENTIVES

Sofia | Water sector - Players



Public bodies



Market operators



Int. financial institutions
and donors



Consumers and their
organisations



Consumers



EBRD



Sofiyska Voda

*PPP operator. Now Municipality
of Sofia (22.9 %) and the French
company Veolia Water (77.1 %).*



**Veolia Water
International
operator**



**National
Regulator**



**Central
Gov.**



**Local
Gov.**



**Political
Parties**



**Consumers
Org.**

Sofia | Water sector – Players' Incentives



Public bodies



Market operators



Int. financial institutions
and donors



Consumers and their
organisations



1. Profit
2. Market share
3. Efficiency

Sofiyska Voda

*PPP operator. Now Municipality
of Sofia (22.9 %) and the French
company Veolia Water (77.1 %).*



1. Profit
2. Market share
3. Efficiency

**Veolia Water
International
operator**



1. Profit

EBRD



1. Equity
2. Political control
3. Bureaucracy

**National
Regulator**



1. Political control
2. Electoral consensus
3. Public budget constraints

**Central
Gov.**



1. Political control
2. Electoral consensus

**Political
Parties**



1. Efficiency
2. Efficacy
3. Equity

Consumers



1. Efficiency
2. Efficacy
3. Equity

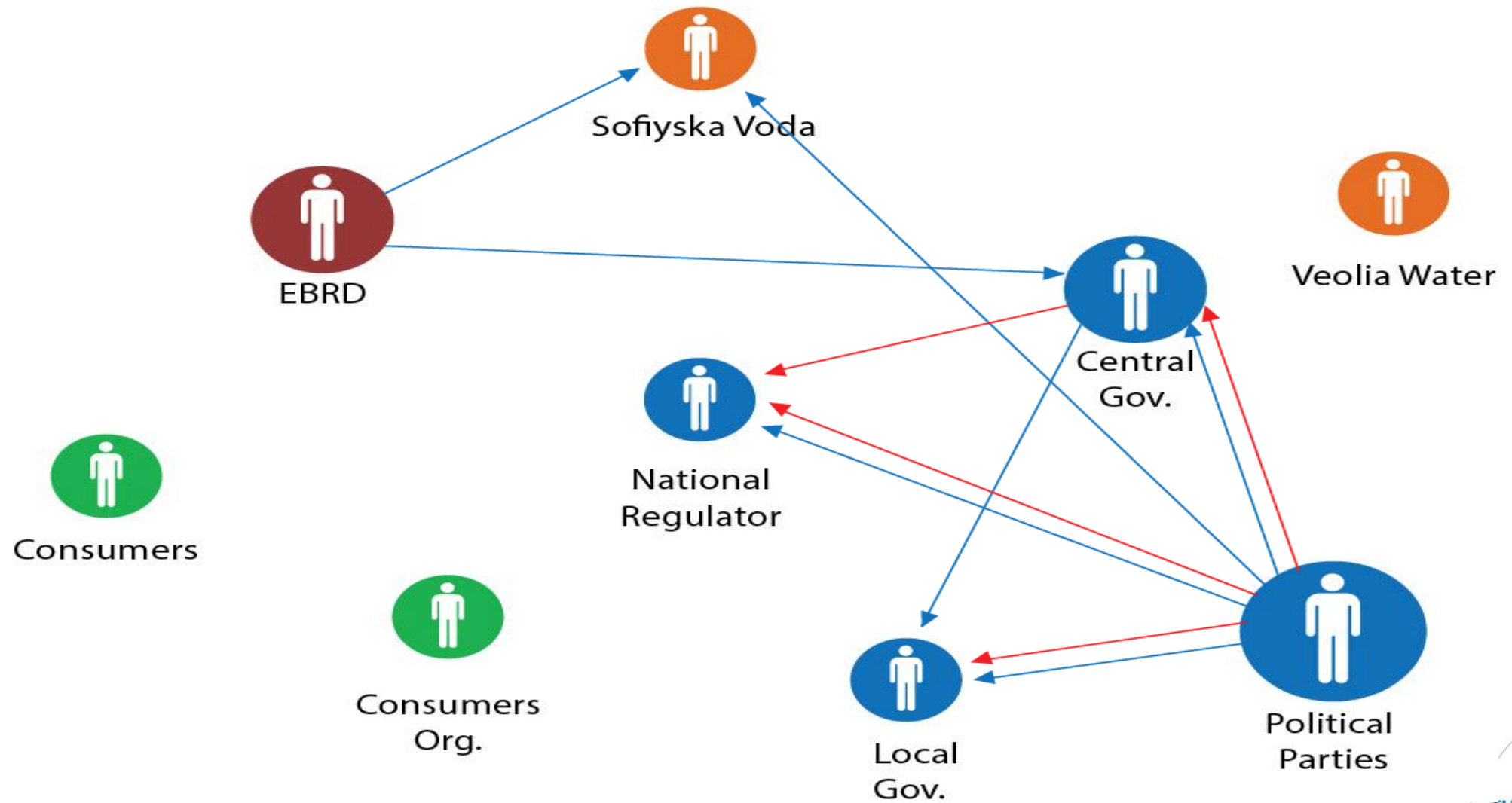
**Consumers
Org.**



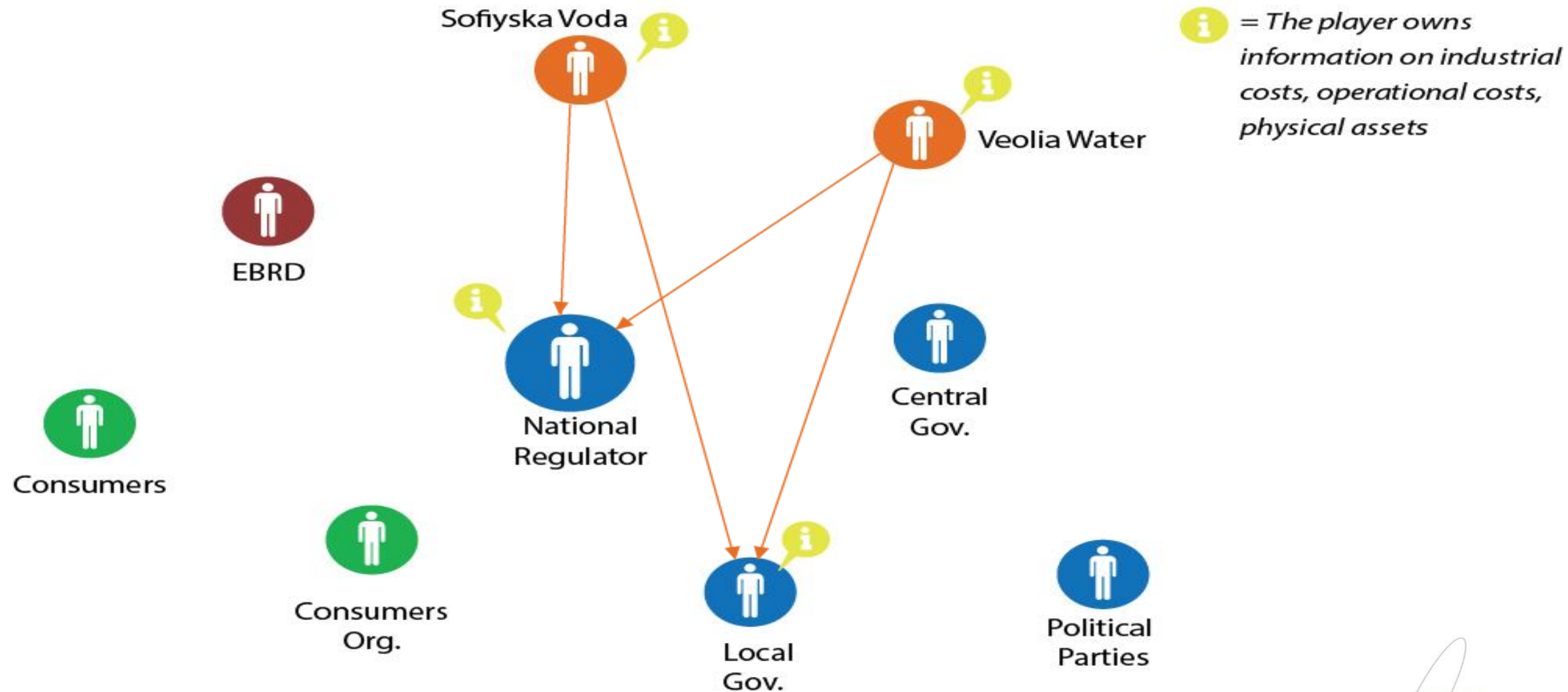
1. Electoral consensus
2. Public budget constraints
3. Efficacy & quality

**Local
Gov.**

Sofia | Water sector: Relationship of Strong political influence; Appointment

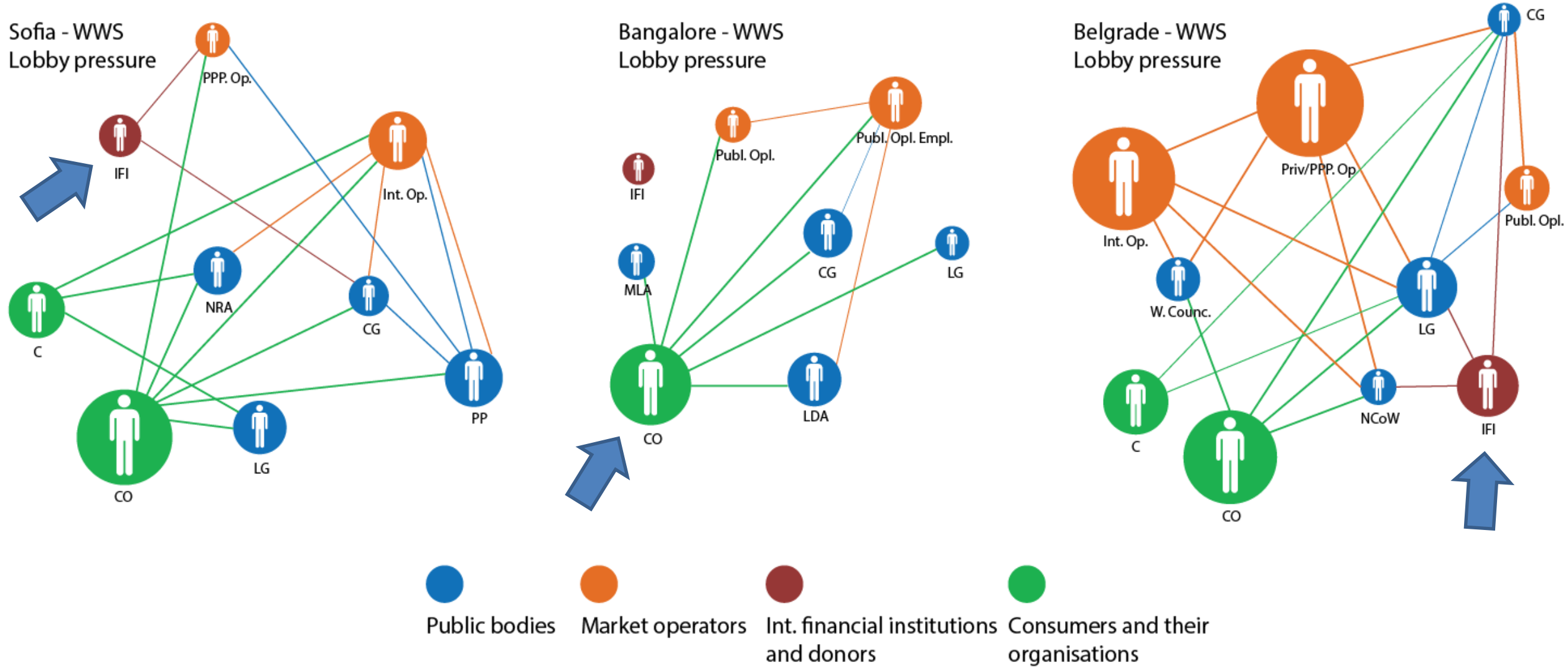


Sofia | Water sector: Data transfer

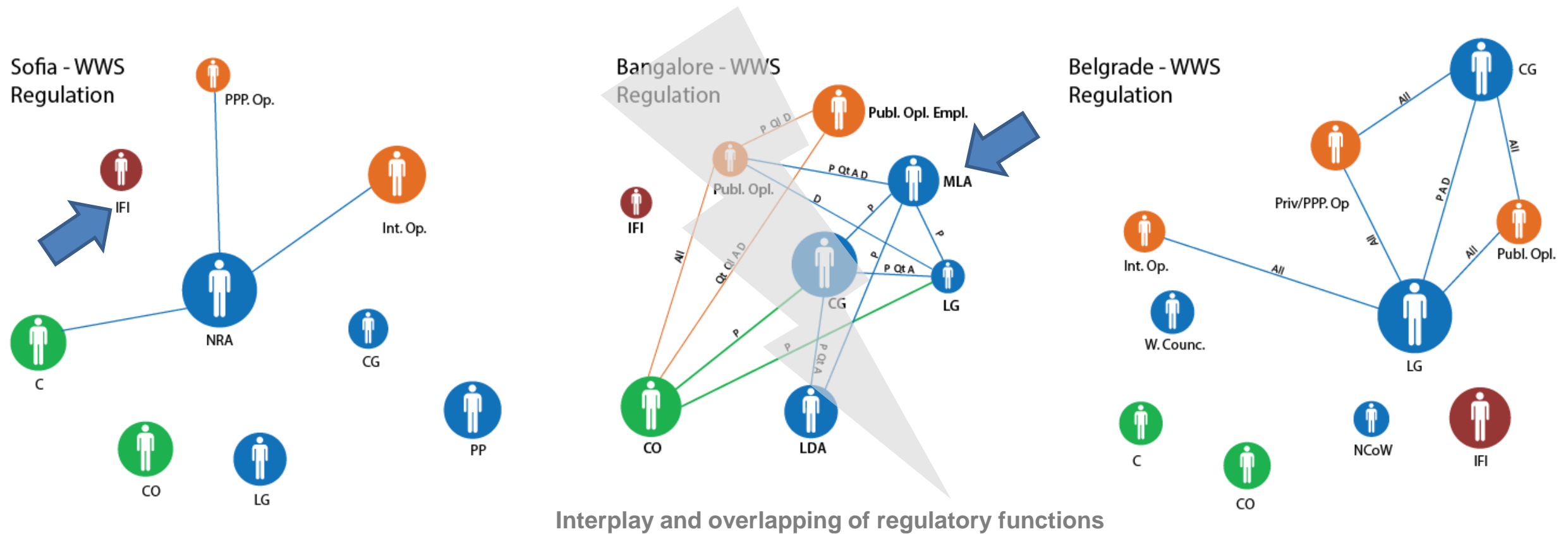


Comparative results

RELATIONSHIP IN THE WATER SECTOR: LOBBY PRESSURE



RELATIONSHIP IN THE WATER SECTOR: REGULATION



Interplay and overlapping of regulatory functions

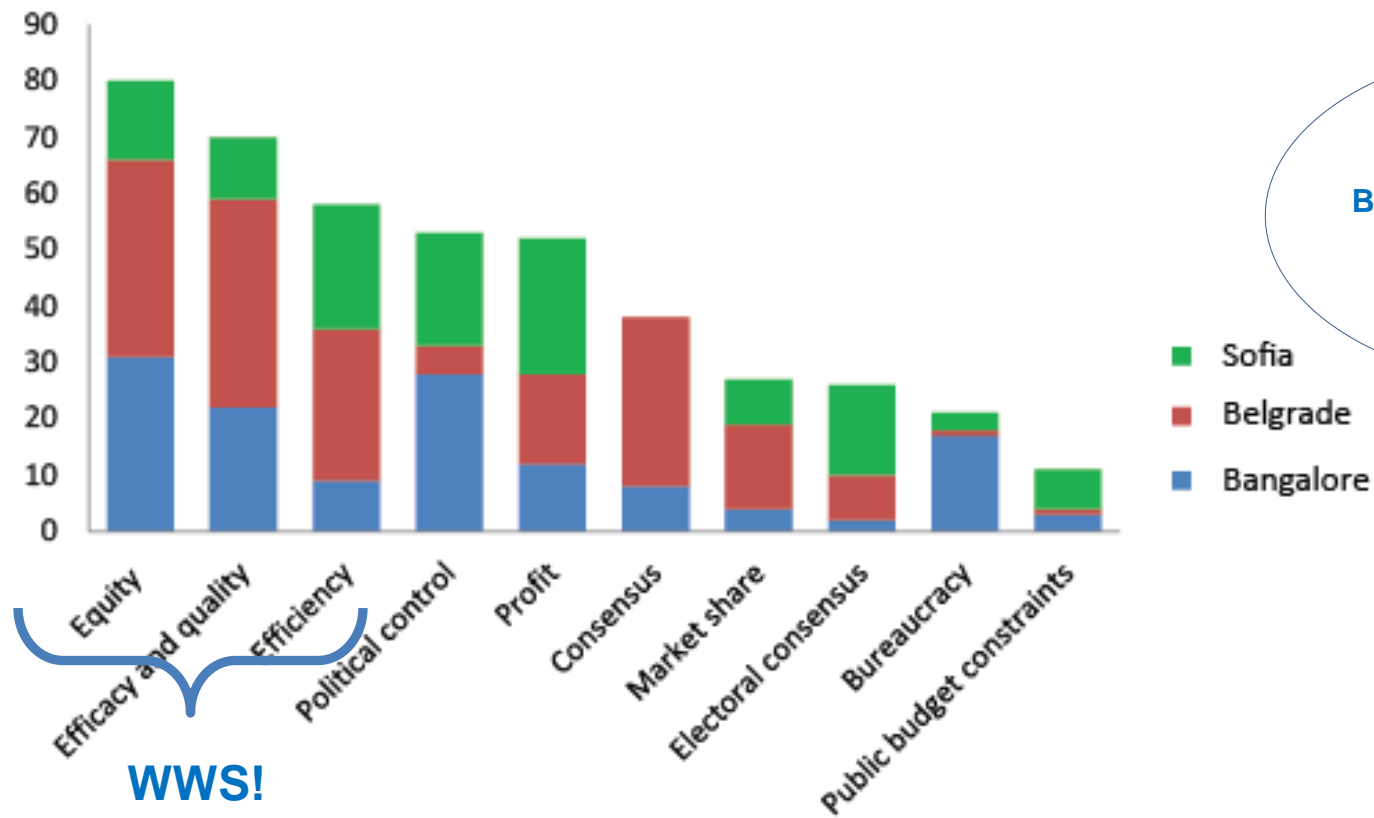
P: Price
Qt: Quantity
Ql: Quality
A: Accessibility
D: Distributional aspects
All: all types

Public bodies Market operators Int. financial institutions and donors Consumers and their organisations

SOME PRELIMINARY RESULTS: INCENTIVES

WWS Sector – Players' Incentives

Weighted Total summing the results in the 3 Cities analyzed



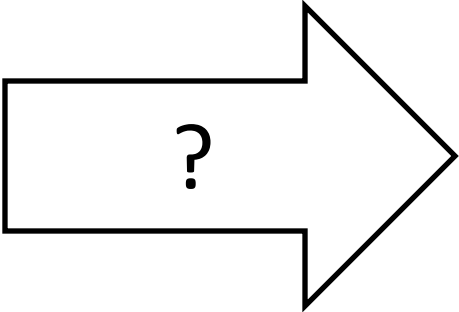
In the *urban waste* sector the first 3 incentives are: profit; efficiency and efficacy and quality

In the *DH sector*: efficiency; efficacy; profit

Sofia: Profit (1°)
Bangalore: Political control (2°) and Bureaucracy (4°)

INCENTIVES ALIGNMENT...

- Public bodies
- Market operators
- Int. financial institutions and donors
- Consumers and their organisations





“**outbound**” and “**inbound**” relations registered for each player were calculated, according to who is the agent of the relation and who is the passive target.

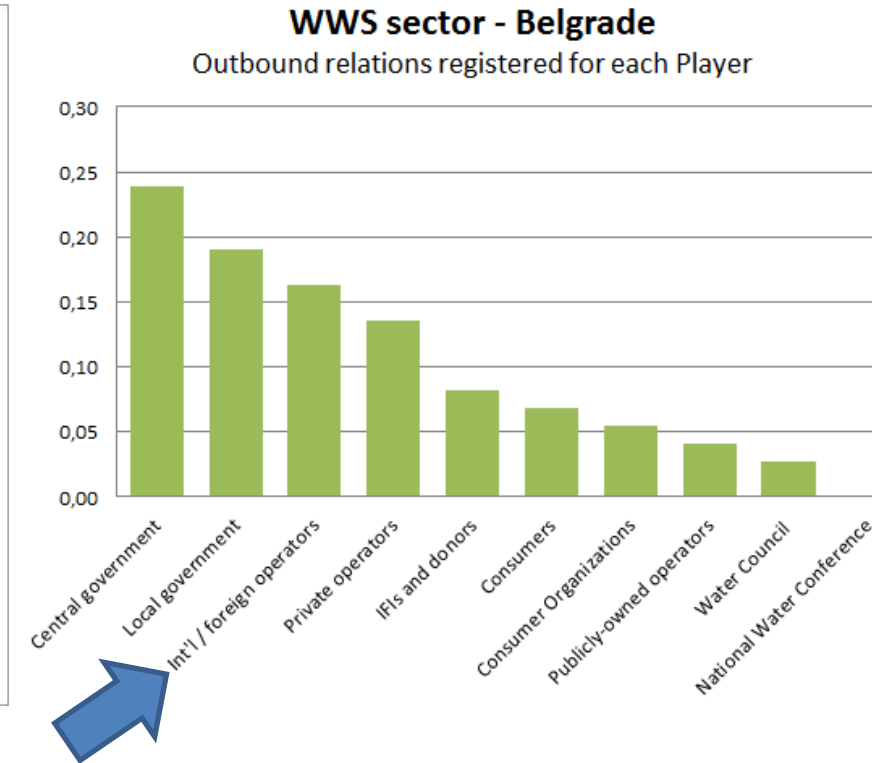
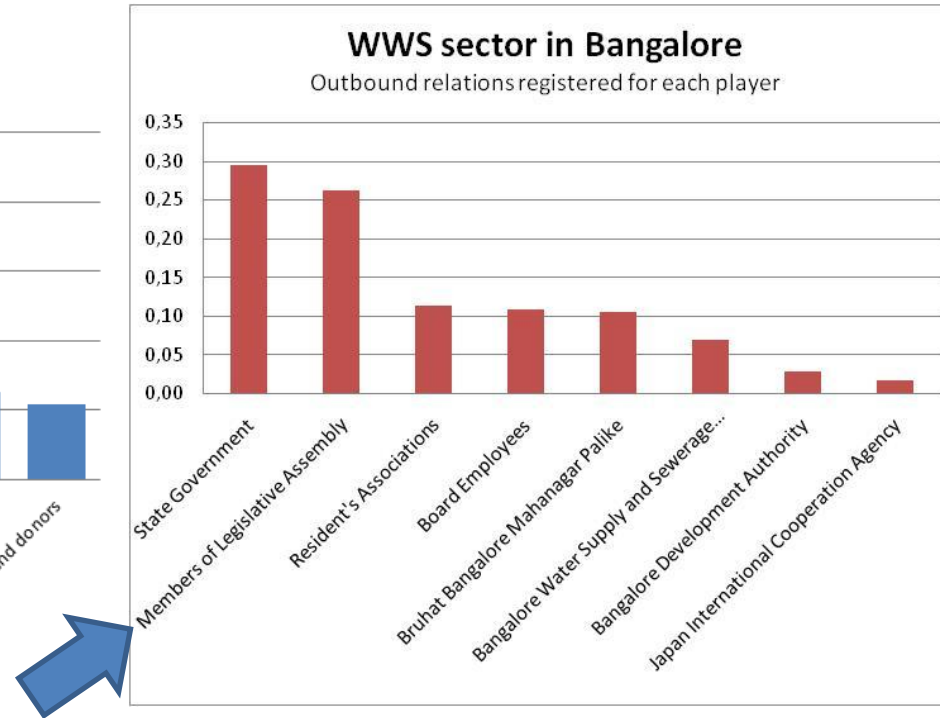
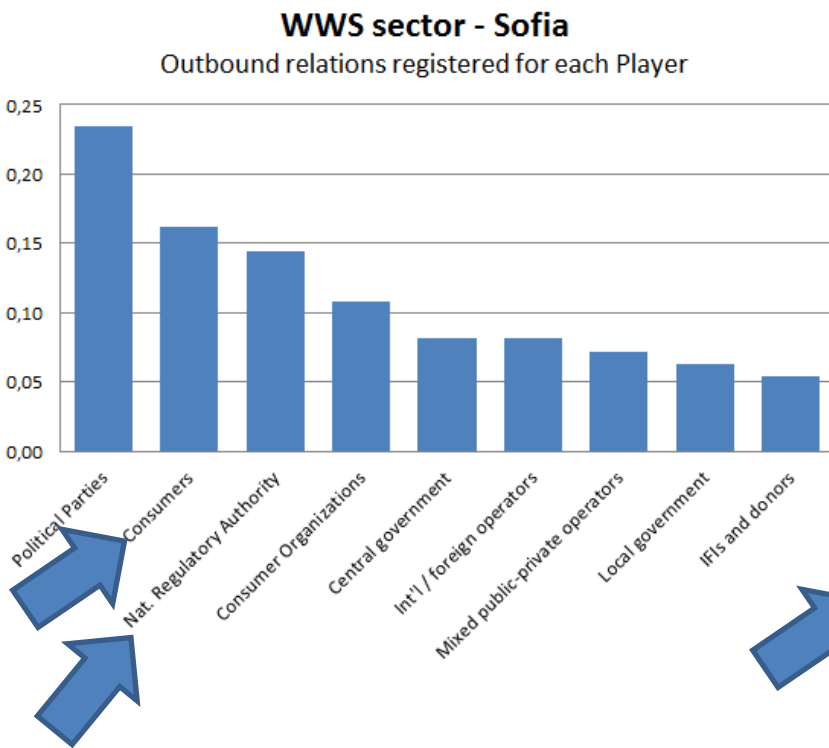
An **index** was created to assess the “influence” of each player in the context analyzed, based on the number of outbound relations that the player exerts. The index has been calculated dividing the sum of outbound relations registered for a single player by the total sum of outbound relations registered in that city (Outbound relations ratio).

The same procedure has been adopted for inbound relations (Inbound relations ratio).

$$\frac{\text{Outbound relations of Player X}}{\text{Total outbound relations of the city players}} = \text{Player X's Outbound RRI}$$

Outbound Relation Ratio Index: a demonstration

11/13



$$\frac{\text{Outbound relations of Player X}}{\text{Total outbound relations of the city players}} = \text{Player X's Outbound RRI}$$



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FINAL CONSIDERATIONS

Areas of risk of failure:

- ☐ **Truth-revealing techniques**
- ☐ **Engagement of all relevant stakeholders**
- ☐ **Subjectivity of the analysis when provided by one single expert**

POWER QUESTIONS & NEXT STEPS

- Did we pose the right questions?
- Are there other institutions that are asking the same questions in other contexts ? → enlarging literature survey ?
- Are questions suitable for a quantitative representation? are we really leaning towards this objective? Can econometrics give answer to complex socio-economic phenomena and relationships ?
- How to reduce subjectivity? → pools of referees (see the case in Turin) ... workshop with local stakeholders/players to test data and results?
- Is it possible to transform the Outbound/Inbound Relations Ratio Index into something more than a purely descriptive tool?

...currently under development:

Build a large portfolio of case studies to further test it:

- ☐ Local welfare (Italy)
- ☐ Bioenergy power station (Italy)
- ☐ Local public transport (Turkey)
- ☐ Water services (Ethiopia, Mozambique, France)

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THE POLITICAL ECONOMY OF LOCAL REGULATION
The impact of the local level on economic regulation
according to the Turin School of Local Regulation

25 chapters, 30 authors

Currently under development....ready **in 2016 Q3**

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