



Framework of Incentives, information Endowment and exchange for Local Decision-making

(last update February 2015)

R **RATIONALE**

The design of institutional mechanisms and individual incentive schemes is a crucial task to implement effective policies at local level, where relations are so much intertwined that the enforcement of the hardest part of regulation (investments planning, tariff and price setting, rent control, sanctions) is extremely challenging. Indeed, when either designing policies or investing in public services and infrastructures, an important issue to consider is the tangled web of complex and asymmetric relationships among actors. The nature of these actors (players), their information endowment and the information flow amongst them, the incentives that lead their choices, the type of relationships established, are all features that influence the outcome of policies and projects. This is why a preliminary analysis built on FIELD methodology (an acronym of Framework of Incentives to Empower Local Decision-makers) appears to be necessary before setting up any mechanism design.

“Understand first, then take action” is FIELD’s motto.

M **METHODOLOGY**

FIELD is a multidisciplinary methodology for the analysis of local actors, incentives, information endowment and transfer, relationship and pressures among actors. Understanding this scenario can help to understand some reasons behind the success or failure of local services, infrastructures and regulation.

The rationale of the instrument is that people as individuals and people in organizations behave following incentives and use information endowment in their relationship with other to pursue goals. Information endowment is a key part in the regulatory game; without reducing the complex social interaction to a simple sequence of strategic moves among robots/actors, it can be useful to design the main feature of regulatory relationship at local level detailing different typologies of actors, incentives, information, relationship to anticipate unintentional consequences, breaking points, misaligned incentives or counterintuitive outcomes, all factors that can cause policies/investments’ failures.

The methodology is deeply rooted in a domain of interdisciplinary knowledge and literature, mainly from Game Theory to Social Network Analysis, Political Economy Analysis passing through sociology, social physics and anthropology. Interesting contact points have been identified with the theory of conflict management/resolution and of alternative dispute resolution, as well as market-mapping and stakeholder-mapping methodologies. It also aims to narrow the gap between the result of academic research and daily decisions making process in relevant context as local public service regulation, project life cycle, local welfare policies.

OBJECTIVES

The general objective of FIELD methodology is to help local policy- and decision-makers to tackle local governance with a richer information basis.

More specifically, the methodology aims to:

- strengthen awareness in public and private choices
- increase effectiveness of local policies and projects
- fully exploit local potentials for instance by recognizing the value of informal actor groups and involving them
- prevent or manage conflicts amongst stakeholders
- set the basis for future mechanism design.

ACTORS

Two main categories of actors may be identified when analyzing local contexts: collective actors (public and private institutions, corporations, organizations, ...) and individual actors (acting on an individual basis or within an institution).

The TSLR is more focused on the analysis of collective actors, even though the inclusion of individual players may be particularly relevant and shall be taken into consideration when individuals acting within an institution have incentives hardly aligned to those characterizing the institution itself. This divergence in fact might influence the decision process, particularly when the individual actor is a very influential leader of a group or an organization.

SECTORS

The methodology is potentially applicable to all contexts where the design or the reform of local service, infrastructures and projects is in place. The TSLR has tested it into three sectors so far: water and sanitation services, urban waste collection and disposal and district heating in different cities in the world.

HOW IT WORKS

The methodology is based on an *ad-hoc* survey for individual experts, invited to provide insights and data for a specific sector in a certain local context. A single case-study (local policy implementation, project, ...) generally requires the involvement of a group of minimum 2-3 experts with different background so as to fill out the survey with different points of view. As known, there can be a trade-off between knowledge and independence: being strictly embedded in a particular context provides comparative advantages in extracting sensible information but at the same time imply the emergence of personal incentives that could hinder a truth-revealing behavior in answering the questions.

Concerning the structure of the survey, information is collected through a **specific MATRIX**. Firstly, the most relevant players (those who have real influence) are analyzed. It is possible to identify more than one player for each category. Secondly, for each player identified the incentives that drive their choices are categorized, making a distinction between institutional incentives (directly linked to their mission or mentioned in the statute or in other institutional act) and shadow / improper incentives and ranking them according to their priority. Third, relations between the players are identified. Both institutional relations (established by law, *de jure*) and real relations (*de facto*) are taken into account. Finally, the information endowment of each player is explored as well as the nature of information exchange. The options for each of the fields of the matrix are briefly presented in the following boxes:

Categories of players

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

Players' incentives

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

Information endowment

Information on:

- Operational costs
- Investment costs
- Physical assets
- Revenues
- Demand side

Direct ownership (resident) vs indirect ownership (non-resident, through transmission) of information?
In case of indirect ownership, what are the costs to obtain information?

Types of relations

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

Information exchange

Nature:

- mandatory (check, sanctions)
- control
- voluntary
- uses

Truth revealing incentive compatibility (Yes / No)
Truth revelation mechanisms?

Once the matrix is filled-in, some more general questions are investigated, and in particular:

- is the *status quo* a sustainable equilibrium? what forces are at work to change it and by what means?
- who is in charge for possible policy design and can have an important role in a mechanism design?
- what are the most relevant obstacles to the implementation of the regulatory framework / new policy / new project?

NEXT POTENTIAL APPLICATIONS

Some promising sectors for forthcoming testing have been identified within the Turin School of Local Regulation, and in particular:

- local public welfare services and private charitable activities
- promotion of sustainable forestry management
- renewable energy projects in local contexts.



ABOUT US

The **Turin School of Local Regulation** (TSLR) is a network initiative that intends to offer an international high-level research, education and capacity-building experience. The School adopts a **policy-oriented approach**, with the aim of **spreading the culture and instruments of regulation and regulatory reform at local level**, connecting academic research with local policy-makers, public officials, professionals, local regulatory agencies, NGOs, consumers' associations, chambers of commerce.

TSLR is an initiative of **Foundation for the Environment**, built on 15-year experience on training and capacity building on regulation of local public services.

To know more: www.turinschool.eu