Discussion of
“Renegotiation of Concession Contracts: Empirical Evidence for Public Transport Infrastructure in Peru” by Eduardo Saavedra

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Summary

• This paper
  – exploits a rich database of contracts in a common institutional framework: Peru is an interesting country (it combines political change, economic reforms, legally independent regulators)

• 18 out of 21 were renegotiated (69 changes).
• “Alarming” effect of the renegotiations of concession contracts in transport infrastructure in Peru.
• Number of bidders, type of bidding variable, regulatory and macroeconomic variables significantly affect the probability of renegotiation.
Key types of determinants

• **Contract Characteristics**: financing and investment guarantees.
• **Bidding Process**: bidding variable as dummy variable *facom*, experience as continuous variables *exepost* and *contradju*, nationality as dummy variable *origen* (too many dummies?), and number of bidders (*postores*).
• **Regulatory Environment**: presence of X, experience and financial dependence of the regulator.
• **Economic and political environment**: GDP per capita, inflation, exchange rate (perhaps it should consider the interaction of these with contract indexation), dummy variable for electoral year.
Suggestions

• Section 2 and 3: organize better the groups of potential determinants identified by the literature to avoid repetition and clarify the hypotheses.

• Exploit more in depth the electoral cycles (impact of electoral news on stock prices?). Figure 3 very interesting:
  – Drammatic impact of political instability (apparently not confirmed in the regressions)
  – Huge increase of renegotiation when government (A. García) is not identified with the institution

• Address potential endogeneity problems: more renegotiation may potentially affect number of bidders, type of bidding process, regulatory independence, GDP (?).
Suggestions

• Provide a better characterization of regulatory and political weakness or proclivity to opportunism
  – Difficult because all contracts are in the same country, but political instability probably changed over time, not only due to elections.
  – Try to construct the variables on institutional design in a way that makes it possible to give policy advice (is more regulatory independence good or bad?)

• Give an idea of the relative importance in magnitude of macro-economic and macro-political determinants vs. microeconomic determinants.
Suggestions

• Aspects that do not vary in this sample but that are important internationally could be discussed: the judiciary.

• More generally, find recommendations that are compatible with a political equilibrium in a democratic society with scarce resources (also scarce in financial and human capital: do not demand a good independent regulator in all sectors).
Conclusions

- Good paper illustrating that developing countries with huge social problems face huge commitment challenges.
- In more than 50% of the renegotiated contracts there was only one bidder.
- Number of bidders very robust determinant.
- Public financing reduces the probability of renegotiation.
- Good analysis of the determinants of renegotiation in Peru.
- But is the objective to minimize renegotiations or to provide a good institutional framework for renegotiation?