Discussion of the paper:
“RISK ALLOCATION AND THE COSTS AND BENEFITS OF PUBLIC-PRIVATE PARTNERSHIPS”
by Iossa and Martimort

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Purpose of the paper I

What is best: BUNDLING (PPP) or UNBUNDLING for long-term service contracts?

Planning (design + build) stage

Planning and Operation in the same contract

Implementation (operation) stage
Approach of the paper

- Theoretical approach
  - Literature review to confirm the research gap
  - Hypothesis to frame the problem
  - Mathematical solution based on:
    - Principal-agent theory
    - Dynamic multitask moral hazard environment

- Selection function based on social welfare
Key findings

• BUNDLING produces important efficiency gains when
  – There is limited uncertainty
  – There is symmetric information about “productive shocks”
  – Enough experience is available to better allocate risks

• UNBUNDLING may be better when operation risks are high and there are big asymmetries of information

• BUNDLING is less likely to deliver efficiency gains for highly innovative services where uncertainty is big
General comments I

• Positive aspects
  – Very interesting topic at the core of the economics of PPPs
  – Well written
  – Great job of the authors to communicate the results
  – Interesting conclusions in line with “common sense” and “intuition”
General comments II

• Improvable aspects
  – Greater connection with practice would have been useful (only some references to the UK)
  – Greater empirical evidence would have reinforced the strength of the results
  – Some of the hypotheses adopted are arguable
  – Results not easy to understand by decision makers
  – Some terminology confusion over the paper
    • BUNDLING vs. PPP
    • Planning vs. Design + Build
    • Implementation vs. Operation
Specific comments I

• Why did not you introduce the evolution of uncertainty over time in the Revenue function?

• A deeper definition of productivity shock $\theta$ would have been useful.

• In construction contracts builders are not usually rewarded in terms of quality. Why did you adopt this hypothesis?
Specific comments II

• Why is the operator paid a fixed amount plus a variable amount? This hypothesis is not common in operation contracts

\[ \text{cost} = \text{fixed} + \text{variable} \]

• Why is the BUNDLED company paid on the basis of the construction quality? This is not common practice in PPPs

\[ \text{cost} = \alpha + \text{construction} + \text{cost} \]
Questions to the authors I

• How is the influence of uncertainty over time? How can you model it? What is its impact on the decision of BUNDLING / UNBUNDLING?

• Is it possible to design a mechanism that takes advantage of the benefits of both BUNDLING and UNBUNDLING? What about a “call option” on the operation of the infrastructure once construction has been finished and uncertainty becomes lower?
Questions to the authors II

• Can we rely on the government as a social welfare optimizer? Will the government take the decision of either BUNDLING or UNBUNDLING on the basis of social welfare?

• In demand-based contract such as highway concessions the influence of the operator effort (e) on the ultimate revenue is very small. What conclusion can we get from your paper about this case?