“Agency problems in public-private partnerships investment projects “

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“This paper examines concession contracts between a private firm and a government in the presence of moral hazard within a real-options framework. The design of optimal contracts to provide incentives to the private firm to exert effort is analyzed. We show that although first-best investment timing can be implemented, contracts often do not provide firms with proper incentives to exert effort, resulting in low-quality projects being undertaken. This problem can be alleviated through the use of a monitoring technology that imposes a penalty on the shirking firm. Although monitoring distorts the investment timing leading to a delayed investment, it increases the government’s profits at the expense of the firm, so that the government finds it optimal to induce effort exertion, increasing the likelihood of high-quality projects. Considering jointly incentives and an exit option, we show that the regular compensation of firms and their compensation upon termination act as substitutes in providing incentives. Governments should set these remunerations jointly in order to minimize the cost of a bailout option for the society.”

Tutti gli interessati sono invitati a partecipare