

Abstract

This paper looks at the use of institutionalised public-private partnership (PPP) arrangements by local governments for the delivery of different types of infrastructure. It starts by analysing the mixed company model from a theoretical point of view, in particular the potential for internal regulation and the achievement of relational agreements. Then, after discussing the practicalities of crafting this type of governance structure, the examination of four Portuguese case-studies is provided. The empirical evidence on mixed companies operating in the water, waste, transportation and education sectors shows that the extreme complexity involved in the whole life-cycle management of these companies, usually leads to poor outcomes from a social welfare point of view.

Keywords: infrastructure services; local governance; mixed companies; public-private partnerships.

JEL codes: H11; L32; L97.

Policy Implications

Mixed companies appear when local decision-makers wish to retain some degree of control over the services while keeping them at arm's length. However, these complex governance structures should only be confined to very special infrastructure investments (framed by singular uncertainty and asset specificity). Conversely, it makes no sense to use a mixed company when a public infrastructure can 'easily' be delivered through a simple 'transactional contract'. When a local government opts for partial privatisation it assumes that there is a welfare loss inherent the pure public provision and that the market failures that justified pure public management are too severe to opt for a purely contractual agreement.