



# **To bid or not to bid, this is the question: the Italian experience in competitive tendering for local bus services**

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## **Abstract**

Competitive tendering is a popular mechanism for the provision of local bus services when a major objective is subsidy savings. Despite uncertainties in the legal framework some competitive tendering was implemented in Italy since 1998. The evidence so far is that participants were limited in number, the incumbents were almost everywhere able to gain the franchise, whilst subsidy savings were in many cases negligible. If some “political” conditions favouring more effective tendering procedures are not fulfilled, other regimes should be considered in order to obtain substantial subsidy savings.

*Keywords:* Local bus services; Tendering.

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## **1. Introduction**

In the last century many local bus companies in Italy (as in many European countries) enjoyed monopoly protection by means of non-tendered concessions or public ownership. The financial performance of these firms has deteriorated for more than thirty years. Financial distress is only partly explained by declining patronage (lower shares in the private – public transport split) and fares permanently lower than average costs. An important role is also played by low and stagnant productivity, due to weak incentives for efficiency. Weak incentives, in turn, are not surprisingly related to cost-plus contracts, based on individual negotiations between local governments and the (local) monopoly firm. Incentives are even weaker when the firm is publicly owned and the local government can not credibly commit to let the firm go bankrupt in the presence of high and/or increasing deficits (Boycko, Shleifer and Vishny, 1996).

Competitive tendering is held to be the most effective instrument to create competitive pressure in a market in which an open competition among firms is not

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