

# **Regulatory Design and Capital Structure: Theory and Evidence from Latin American Transport Concessions**

## **ABSTRACT**

We present a model analyzing the role of regulatory design in the capital structure of a regulated firm. We show that leverage increases as regulation becomes less “high powered”, as the opportunity to influence regulatory outcomes is greater. The model is extended to cover imperfect commitment on the part of the regulator. We show that leverage is higher when commitment is weaker. The model is tested using a unique dataset of over 100 transport “concessionaires” in Brazil, Chile, Colombia and Peru. Annual financial data covers the period 1995-2011 and totals 1,104 firm-year observations. Regulatory design details are taken from bidding documentation, contracts and renegotiation agreements. We find some support for the claim that leverage is higher when regulation is less high powered and regulatory commitment is weaker.