

Abstract

Enforcement, Regulation and Development

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After discussing examples of enforcement failures for regulatory contracts in Africa, we develop a regulation model with asymmetric information and imperfect enforcement. Either the regulator succeeds in forcing the regulated firm to fulfill the contract or renegotiation takes place. The probability of renegotiation decreases with the level of enforcement expenditures which is also chosen by the regulator. We show that the endogenous level of enforcement decreases with the proneness to corruption and document empirically this relationship.

JEL Classification: D8, L5, 01.

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