

Online Appendix for  
Democracy and Credit

**Abstract**

This online appendix includes additional information on the sample and empirical results of the paper “Democracy and Credit.” The first section includes additional information on the construction of the sample and summary statistics. The second section discusses in detail the construction of the instrumental variables (IVs). The third section provides more results from the IV method. The last section examines the sensitivity of our results from econometric and sample-selection viewpoints.

### **A.1. Sample construction and additional summary statistics**

We begin with the full set of loans in DealScan. This sample includes 86,198 loan facilities, corresponding to 65,042 loan packages. The unit of our analysis is still the loan facility. The difference between the two is that the loan facility refers to each individual portion of a deal, whereas the deal itself possibly (but obviously not usually) comprises more than one loan facilities and covers the full amount of credit granted to the firm on that occasion. A loan-facility analysis is appropriate for the following reason. Loan facilities may have different starting dates, maturity, amount, and loan type. Hence, multiple loan facilities, even when in the same loan deal, are not fully dependent observations (e.g., simply adding facilities and ignoring their differences, may therefore introduce a bias in the estimates). However, all results presented in this paper are robust to a loan-package analysis.

From this initial sample, we exclude loan facilities that do not report an *AISD*. This excludes specific loan categories, such as loans given by Islamic banks. We then match the sample of borrowers with data from Compustat and other macroeconomic sources. The matching process between DealScan and Compustat is done using the link-table provided by WRDS (facility and gvkey). For each and every one of the measures of democracy and the control variables included in our baseline specifications there are some missing observations, which lower the number of observations to the numbers shown in the lower part of each table. For replication purposes the data set with the full set of observations and Stata codes (do file) is available to editors and referees under the understanding that it will not be publicly available due to restrictions from DealScan and Compustat.

In Table A.1 we provide summary statistics for the country-year sample only (i.e., when we collapse all variables in our sample by country and year). These statistics provide a better

reflection of the averages and variability of the variables observed at the country-year level. In Table A.2 we provide the number of loans by country in our sample, as well as the mean and standard deviation of the democracy indicators used in the empirical analysis. Note that this table is important to view for the analysis that includes country fixed effects in the estimations, because only countries with a positive (non-zero) standard deviation in the democracy indicators affect the results. The table also includes the number of changes in *Democracy* in each country.

Last, Table A.3 reports the pairwise correlation coefficients between the loan characteristics and two indices of financial development (stock-market capitalization and financial freedom as defined in Table 1). This is important to view when discussing the role of financial development in the relation between democracy and loan pricing (mainly the discussion of results reported in Table 10).

[Please insert Tables A.1, A.2, & A.3 about here]

We should note that Polity is a reliable index of democracy used in several studies. We searched the literature for problems regarding coding and timing of changes, we looked into the Polity IV manuals, and contacted Polity IV. We did find a study in the literature suggesting that there are some flaws in Polity IV database in Latin American countries (Bowman, et al., 2005). This study is also mentioned in the V-Dem's website (<https://www.v-dem.net/en/>), which is another source of data for Democracy-related indicators). However, we should mention that the flaws identified by Bopwman et al. (2005) are in Costa Rica, Nicaragua, and El Salvador and only concern the early 1900s. We did not find concerns on earlier years, as regards the reliability of changes in the Polity IV Democracy measure.

We then read the Polity IV manual (<http://www.systemicpeace.org/inscr/p4manualv2016.pdf>). In page 5-8 of that manual, Polity IV discusses reliability of the indices. To summarize this

document, we can say that there were revisions and improvements every time a new version of Polity became available. Polity IV is the latest outcome of this process and the conclusion is that: “In summation, the Polity project’s data collection and updating procedures contain periodic coding review and revision mechanisms that maintain a high degree of reliability and consistency in the dataset.”

There is one final issue worth noting. Studies criticizing Polity IV mainly criticize the one-measure for all aspect and not accuracy issues. The V-Dem measures are an example, where many different dimensions are brought into place, without converging to a single indicator. Our paper, however, aims to introduce a starting point in the literature between democratic development and finance; thus we need a general indicator of democracy. Constructing one on the basis of V-Dem, might be an unconvincing exercise at this point. In contrast, these measures might be excellent for future studies further pinpointing the channels. As we suggest in our conclusions, working in this direction in the current version will simply produce an even larger paper, deviating the focus from our main message.

## **A.2. Discussion of instrumental variables’ construction**

In this section, we more or less replicate the discussion in Acemoglu et al. (2017) with respect to the construction of the main IV used in our empirical analysis. For each country  $c$ , let  $D_{c,t0}$  denote whether the country was a democracy or nondemocracy in 1960, and  $R_c$  denote the geographic region in which the country lies. These regions are Africa, East Asia and the Pacific, Eastern Europe and Central Asia, Western Europe and other developed countries, Latin America and the Caribbean, the Middle East and the North of Africa, and South Asia. We assume that democracy

in country  $c$  is influenced by democracy in the set of countries in the same region that also share a similar political history, meaning an equal value for  $D_{c't}$ .

This approach defines the regional influence to democratize that a country  $c$  faces,  $Z_{ct}$ , as

$$Z_{ct} = \frac{1}{|I_c|} \sum_{c' \in I_c} D_{c't}. \quad (\text{A.1})$$

In (A.1),  $I_c$  is the set of countries  $c'$  influencing democracy in country  $c$ .  $Z_{ct}$  is the jack-knifed average of democracy in a region  $\times$  the initial regime cell, which leaves out the own-country observation. We name this instrumental variable *Regional democratization*. We use the exact same procedure to construct the variable *Regional unrest*, using the variable *Social unrest* as the starting point of the construction process.

### **A.3. Additional results from the IV method**

Table A.4 reports additional results from the IV method described in equations (2) and (3). In the first four columns, we measure democratic development using variables other than *Democracy*. In the rest of the columns, we conduct the sensitivity tests mentioned in the notes of the table. Perhaps the results in column 9 need some additional discussion. We use the fitted values directly obtained from the baseline instrumental variable model of Acemoglu et al. (2017). This measure controls, *inter alia*, for lags of regional waves of democratization and the country level controls  $C$  to capture possible regional dynamics. In this way, we further exclude the possibility of a three-way correlation between regional waves of democratization, average lending rates, and unobserved regional characteristics. The only difference from Acemoglu et al. (2017) is that we use *Democracy*, as this is the main variable of our study to better capture democratic development and transition. The results are economically stronger and thus, if anything, unobserved regional variables downward bias our baseline estimates.

[Please insert Table A.4 about here]

We consider other models in which we include in the vector  $C$  numerous other country-year control variables. We experiment with more than 100 variables (from numerous sources) describing economic and social development (e.g., literacy, educational attainment, life expectancy, infant mortality, R&D expenses, government expenditure, capital and income tax rates, bank competition, etc.). We also use variables describing economic and financial freedom, freedom from corruption, trade freedom, and interest rate liberalization. We list these variables at the end of the Appendix. We find that using country fixed effects, takes away any statistical significance of the economic variables as determinants of democracy, a result in line with Acemoglu et al. (2017). The only set of variables that does explain democracy independently from regional democratization and unrest and country fixed effects is educational attainment in the 15-25 age group (variable from Gender and Education Association) and other education-related variables. Thus, we use this variable in the first stage of the IV model. We find that our results are economically a bit more potent.

#### **A.4. Additional sensitivity tests**

In Table A.5 we further consider the role of creditor rights as per our discussion in the main text. In Table A.6 we first report robustness tests for different clustering of standard errors. In columns 1 to 4 we confirm that all our democracy indicators are robust to the double clustering of standard errors by loan *and* year. We must note that results are also robust to the clustering of standard error by country *and* year (results available on request). In columns 5 to 8 we use weighted least squares with sampling weights to further reduce heteroscedasticity concerns originating in imbalances in the number of loans issued by country-year. The weights are the number of loans issued in the

borrowers' country in a given year over the total number of loans issued in all countries in that year.

[Please insert Tables A.5 & A.6 about here]

In Table A.7 we report sensitivity tests from a sample-selection viewpoint. We conduct the tests using specification 2 of Table 3, on which we base most of our inference. In specification 1 of Table A.7 we only include observations where collateral is non-missing (i.e., we do not impute zero collateral when collateral is missing). In specification 2, we strictly include term and revolver loans and exclude other specialized loan facilities. In specification 3 we exclude loans for LBOs and M&As. In specification 4, we do not exclude the participant (non-lead) banks from the sample, which results in a significant increase in sample size. Evidently, results are very similar to our baseline.

[Please insert Table A.7 about here]

In Table A.8 we replicate our baseline results when using additional fixed effects. In specification 1 we add country-time trends for firm's country and each bank's country and in 2 we add country-pair fixed effects between the country of the firm and the country of the lead bank. Again, results are similar to the baseline. We avoid using these fixed effects in our baseline specifications because we oversaturate the model with fixed effects, without observing any substantial effect on our estimates.

[Please insert Table A.8 about here]

**Table A.1. Summary statistics of main variables by country-year**

The table reports the number of observations, mean, standard deviation, minimum and maximum obtained from collapsing the loan-level sample by country and year.

	Obs.	Mean	Std. Dev.	Min.	Max.
AISD	1,112	148.61	123.53	-212.50	1,555.00
Democracy	1,462	7.59	3.40	0	10
Polity	1,462	6.57	5.63	-10	10
Competitiveness of executive recruitment	1,462	2.60	0.76	0	3
Openness of executive recruitment	1,462	3.79	0.78	0	4
Executive constraints	1,462	5.94	1.66	1	7
Competitiveness of participation	1,462	3.99	1.32	0	5
Democracy (BMR)	1,194	0.82	0.39	0	1
Democracy (Freedom House)	3,040	0.48	0.50	0	1
Democracy (Acemoglu et al.)	3,059	0.61	0.49	0	1
Regional democratization	3,069	0.55	0.40	0	1
Regional unrest	3,069	0.21	0.16	0	1



**Table A.2. Number of loans by country and mean and standard deviation of *Democracy***

The table reports the number of observations, and the mean, standard deviation and number of changes (if there is a change) in *Democracy* by country. The total number of loans is 280,357 and the number of loans from countries that experience a change in *Democracy* is 33,357.

Country	Obs.	Mean of Democracy	Std. dev. of Democracy	Number of changes
Albania	10	8.00	1.41	1
Argentina	656	7.68	0.48	1
Armenia	12	5.00	0.00	
Australia	11,146	10.00	0.00	
Austria	390	10.00	0.00	
Bahrain	183	0.10	0.32	2
Bangladesh	52	5.50	0.71	1
Belarus	54	0.00	0.00	
Belgium	790	9.24	1.00	1
Brazil	1,286	8.00	0.00	
Bulgaria	143	9.00	0.00	
Cambodia	11	3.00	0.00	
Canada	8,727	10.00	0.00	
Chile	548	9.14	0.85	2
China	4,133	0.00	0.00	
Colombia	225	7.13	0.52	1
Cyprus	102	10.00	0.00	
Czech Republic	321	9.69	0.48	1
Denmark	506	10.00	0.00	
Egypt	250	0.38	0.51	2
Estonia	58	8.00	1.00	2
Finland	849	10.00	0.00	
France	7,320	9.00	0.00	
Gabon	10	2.00	2.83	1
Germany	6,271	10.00	0.00	
Ghana	94	4.80	2.49	2
Greece	632	10.00	0.00	
Hungary	358	10.00	0.00	
India	3,271	8.91	0.29	1
Indonesia	2,723	5.39	3.68	3
Ireland	921	10.00	0.00	
Israel	160	9.71	0.47	1
Italy	2,988	10.00	0.00	
Japan	26,054	10.00	0.00	
Kazakhstan	263	0.13	0.35	1
Korea	5,625	7.74	0.45	1
Kuwait	163	0.00	0.00	
Latvia	64	8.00	0.00	
Liberia	68	6.00	2.00	1
Lithuania	65	10.00	0.00	

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Luxembourg	763	10.00	0.00	
Malaysia	2,945	4.73	0.94	2
Mauritania	7	0.00	0.00	
Mauritius	63	10.00	0.00	
Mexico	1,309	6.25	2.38	3
Mongolia	44	10.00	0.00	
Morocco	55	0.00	0.00	
Netherlands	3,440	10.00	0.00	
New Zealand	1,588	10.00	0.00	
Nigeria	125	4.00	0.00	
Norway	1,419	10.00	0.00	
Oman	147	0.00	0.00	
Pakistan	193	4.88	3.26	6
Panama	342	9.00	0.00	
Papua New Guinea	39	4.08	0.29	1
Peru	182	7.00	2.93	3
Philippines	1,153	8.00	0.00	
Poland	430	9.68	0.48	1
Portugal	426	10.00	0.00	
Qatar	236	0.00	0.00	
Romania	251	8.43	1.09	2
Russia	1,796	5.25	0.68	2
Saudi Arabia	439	0.00	0.00	
Singapore	2,736	2.00	0.00	
Slovak Republic	130	8.90	1.10	2
Slovenia	168	10.00	0.00	
South Africa	496	9.00	0.00	
Spain	4,522	10.00	0.00	
Sri Lanka	80	5.56	1.24	2
Sweden	1,568	10.00	0.00	
Switzerland	1,266	10.00	0.00	
Taiwan	6,680	9.18	1.05	3
Thailand	2,233	7.13	2.94	5
Turkey	1,348	8.36	0.49	2
USA	139,876	10.00	0.00	
Ukraine	285	6.36	0.50	2
United Arab Emir	781	0.00	0.00	
United Kingdom	12,837	10.00	0.00	
Venezuela, Rep.	149	7.25	0.96	2
Vietnam	308	0.00	0.00	

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**Table A.3. Correlation matrix between financial development and loan characteristics**

The table reports pairwise correlation coefficients between variables related to financial development and loan characteristics. The \* mark denotes statistical significance at the 1% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Loan amount	1							
(2) Collateral	0.0645*	1						
(3) Number of lenders	0.4033*	-0.0224*	1					
(4) Performance provisions	0.2728*	0.2359*	0.2315*	1				
(5) General covenants	0.2186*	0.4008*	0.1459*	0.5494*	1			
(6) Stock-market capitalization	0.2465*	0.1562*	0.0363*	0.2537*	0.2533*	1		
(7) Financial freedom	0.4211*	0.1743*	0.0266*	0.2627*	0.2271*	0.4352*	1	
(8) Systemic risk	0.1756*	0.1518*	0.0092*	0.1138*	0.1139*	0.0203*	0.2023*	1

**Table A.4. Sensitivity tests using the IV method**

The table reports coefficients and t-statistics (in brackets). Dependent variable is *AISD*. All variables are defined in Table 1. Estimation method is the IV procedure of equations 2 and 3 with standard errors clustered by borrower's country. The instruments used are *Regional democratization* and *Regional unrest* (also defined in Table I), except from specification 7 where *Regional democratization* is the only instrument. In specification 5, we include four lags of GDP growth and regional GDP growth in both stages of the IV model. In specification 6 we use country-year averages of all the loan-level and the firm-level controls in both stages of the IV model. In specification 7, *Regional democratization* is the only instrument. In specification 8, we use all the control variables in both stages of the IV model (pure two-stage least squares). In specification 9, we use directly in equation (3), the fitted values from the baseline instrumental variable model of Acemoglu et al. (2017), as further discussed in Appendix A.3. The lower part of the table denotes the type of fixed effects used in each specification. The regressions include the control variables of column 2, Table 3. The \*, \*\*, and \*\*\* marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	1	2	3	4	5	6	7	8	9
Democracy					-22.827**	-21.752**	-34.758**	-40.321**	-26.460**
					[-2.160]	[-2.155]	[-2.306]	[-2.258]	[-2.407]
Polity	-13.728**								
	[-2.016]								
Democracy (BMR)		-203.125***							
		[-2.610]							
Democracy (Freedom House)			-170.744***						
			[-2.591]						
Democracy (Acemoglu et al.)				-81.228**					
				[-2.270]					
<b>First stage results</b>									
Regional democratization	6.759***	0.814***	0.747***	0.779***	4.516***	4.382**	5.030***	4.117***	
	[2.551]	[2.824]	[2.612]	[2.724]	[2.749]	[2.514]	[2.688]	[2.486]	
Regional unrest	-1.692***	-0.209***	-0.269***	-0.185**	-1.209**	-1.446**		-1.385**	
	[-2.130]	[-2.814]	[-2.832]	[-2.489]	[-2.237]	[-2.479]		[-2.394]	
Observations	14,575	14,282	14,282	14,282	14,203	14,575	14,575	14,575	14,575
Loan type	Y	Y	Y	Y	Y	Y	Y	Y	Y
Loan purpose	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year effects	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bank effects	Y	Y	Y	Y	Y	Y	Y	Y	Y
Country effects	Y	Y	Y	Y	Y	Y	Y	Y	Y
Clustering	Country	Country	Country	Country	Country	Country	Country	Country	Country

**Table A.5. More on the role of creditor rights**

The table reports coefficients and t-statistics (in brackets). Dependent variable is *AISD* and all variables are defined in Table 1. For specifications 1 and 3, estimation method is OLS with standard errors clustered by borrower's country. For specifications 2 and 4, estimation method is the IV procedure of equations 2 and 3 with standard errors clustered by borrower's country. The lower part of the table denotes the type of fixed effects used in each specification. Specifications 1 and 2 include interaction terms between *Creditor rights* and *Firm size* and *Firm tangibility*. Specifications 3 and 4 exclude countries for which there is a change in both *Creditor rights* and *Democracy* within a five-year interval (the countries are India, Indonesia, Israel, Russia, and Thailand). The \*, \*\*, and \*\*\* marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	1	2	3	4
Democracy	-20.711** [-2.207]	-22.382** [-2.448]	-35.702*** [-4.616]	-49.867** [-2.201]
Creditor rights	-62.446* [-1.774]	-55.062 [-1.466]	-47.914** [-2.467]	-51.724** [-2.407]
Creditor rights*Firm size	-0.787 [-1.062]	-0.698 [-0.896]		
Creditor rights*Firm tangibility	-166.370* [-1.786]	-202.246* [-1.709]		
Loan amount	-11.674*** [-10.559]	-11.660*** [-10.524]	-12.080*** [-11.487]	-12.070*** [-11.532]
Maturity	-0.057 [-0.853]	-0.057 [-0.834]	-0.068 [-0.982]	-0.067 [-0.968]
Collateral	55.420*** [14.574]	55.563*** [14.601]	55.657*** [14.881]	55.886*** [14.893]
Number of lenders	0.014 [0.077]	0.017 [0.095]	0.004 [0.024]	0.013 [0.074]
Performance provisions	-33.906*** [-10.459]	-33.776*** [-10.418]	-33.911*** [-10.375]	-33.828*** [-10.350]
General covenants	4.968*** [3.896]	4.934*** [3.873]	4.998*** [3.908]	4.955*** [3.869]
Firm size	-10.404*** [-6.308]	-10.370*** [-6.280]	-9.159*** [-8.631]	-9.117*** [-8.640]
Firm market-to-book ratio	-0.124*** [-3.145]	-0.124*** [-3.127]	-0.121*** [-3.138]	-0.121*** [-3.131]
Firm tangibility	123.990* [1.723]	123.320* [0.000]	96.844** [2.302]	96.560** [2.299]
Firm leverage	15.298 [1.337]	15.277 [1.338]	14.671 [1.279]	14.708 [1.282]
GDP per capita	-0.004 [-1.341]	-0.004 [-1.209]	-0.005** [-2.124]	-0.004* [-1.839]
GDP growth	-3.884*** [-3.097]	-3.658** [-2.234]	-3.757** [-2.277]	-3.896** [-2.481]
Domestic unrest	0.032 [0.823]	0.039 [1.055]	0.015 [0.483]	0.035 [0.955]
Regional trade	-1.396*** [-4.451]	-0.791* [-1.864]	-1.403*** [-4.717]	-1.345*** [-3.860]
Observations	14,575	14,575	10,056	10,056
Adjusted R-squared	0.520		0.549	
Loan type effects	Y	Y	Y	Y
Loan purpose effects	Y	Y	Y	Y
Year effects	Y	Y	Y	Y
Bank effects	Y	Y	Y	Y
Country effects	Y	Y	Y	Y
Clustered standard errors	Country	Country	Country	Country

**Table A.6. Sensitivity to the type of clustering of standard errors and the use of weighted least squares**

The table reports coefficients and t-statistics (in brackets). Dependent variable is *AISD* and all variables are defined in Table 1. In the first four specifications, estimation method is OLS and in the latter four weighted least squares (using as weights the number of loans by country and year over the total number of loans in that year). In all specifications, the standard errors are clustered by loan and year. The lower part of the table denotes the type of fixed effects used in each specification. The regressions include the control variables of column 2, Table 3. The \*, \*\*, and \*\*\* marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	1	2	3	4	5	6	7	8
Democracy	-19.207*** [-4.578]				-22.297*** [-2.388]			
Democracy (BMR)		-170.144*** [-3.965]				-168.119*** [-2.745]		
Democracy (Freedom House)			-122.911*** [-5.448]				-120.620*** [-4.046]	
Democracy (Acemoglu et al.)				-141.776** [-2.307]				-127.311*** [-3.205]
Creditor rights	-27.683** [-2.305]	-25.474** [-2.352]	-28.609** [-2.409]	-27.737** [-2.311]	-3.809 [-0.144]	-3.102 [-0.100]	-20.989 [-1.110]	-7.199 [-0.258]
GDP per capita	-0.001* [-1.713]	-0.001* [-1.870]	-0.002** [-2.175]	-0.001* [-1.770]	-0.010*** [-2.893]	-0.013** [-2.605]	-0.013** [-2.661]	-0.013** [-2.595]
GDP growth	-4.030*** [-2.765]	-3.394** [-2.510]	-3.624*** [-3.020]	-3.142** [-2.534]	-3.335** [-2.124]	-3.835** [-2.448]	-4.000** [-2.591]	-3.818** [-2.443]
Domestic unrest	0.033 [1.422]	0.030 [1.361]	0.035 [1.504]	0.024 [1.211]	0.045 [1.321]	0.028 [0.705]	0.029 [0.819]	0.020 [0.597]
Regional trade	-1.398*** [-5.948]	-1.504*** [-6.620]	-1.240*** [-5.026]	-1.535*** [-6.795]	-1.351*** [-4.020]	-1.426*** [-3.819]	-1.119*** [-3.406]	1.455*** [-4.019]
Observations	14,575	14,282	14,282	14,282	14,575	14,282	14,282	14,282
Adjusted R-squared	0.531	0.560	0.561	0.560	0.529	0.530	0.528	0.530
Loan type	Y	Y	Y	Y	Y	Y	Y	Y
Loan purpose	Y	Y	Y	Y	Y	Y	Y	Y
Year effects	Y	Y	Y	Y	Y	Y	Y	Y
Bank effects	Y	Y	Y	Y	Y	Y	Y	Y
Country effects	Y	Y	Y	Y	Y	Y	Y	Y
Loan controls	Y	Y	Y	Y	Y	Y	Y	Y
Firm controls	Y	Y	Y	Y	Y	Y	Y	Y
Clustered standard errors	Loan&Year	Loan&Year	Loan&Year	Loan&Year	Country	Country	Country	Country

**Table A.7. Additional sensitivity tests from a sample-selection viewpoint**

The table reports coefficients and t-statistics (in brackets). Dependent variable is *AISD*. All variables are defined in Table 1. Estimation method is OLS with standard errors clustered by borrower's country. In specification 1 we only include observations where collateral is non-missing (i.e., we do not impute zero collateral when collateral is missing). In specification 2, we strictly include term and revolver loans and exclude other specialized loan facilities. In specification 3 we exclude loans for LBOs and M&As. In specification 4, we do not exclude the participant (non-lead) banks from the sample, which results in a significant increase in sample size. The lower part of the table denotes the type of fixed effects used in each specification. The regressions include the control variables of column 2, Table 3. The \*, \*\*, and \*\*\* marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	1	2	3	4
Democracy	-23.699*** [-2.382]	-20.140** [-2.172]	-20.540** [-2.199]	-20.711** [-2.048]
Creditor rights	-36.364*** [-3.290]	-29.552** [-2.425]	-33.752*** [-2.615]	-25.419* [-1.946]
GDP per capita	-0.004* [-1.815]	-0.004** [-2.047]	-0.004* [-1.847]	-0.003 [-1.589]
GDP growth	-4.422** [-2.408]	-3.567** [-2.316]	-3.307** [-2.195]	-3.902*** [-2.841]
Domestic unrest	0.024 [0.710]	0.034 [0.926]	0.029 [0.848]	0.071* [1.750]
Regional trade	-0.820** [-2.327]	-1.350*** [-4.116]	-1.015*** [-2.866]	-1.420*** [-4.219]
Observations	8,548	14,335	12,016	31,786
Adjusted R-squared	0.511	0.538	0.560	0.563
Loan type	Y	Y	Y	Y
Loan purpose	Y	Y	Y	Y
Year effects	Y	Y	Y	Y
Bank effects	Y	Y	Y	Y
Country effects	Y	Y	Y	Y
Loan controls	Y	Y	Y	Y
Firm controls	Y	Y	Y	Y
Clustered standard errors	Country	Country	Country	Country

**Table A.8. Additional fixed effects**

The table reports coefficients and t-statistics (in brackets). Dependent variable is *AISD* and all variables are defined in Table 1. Estimation method is OLS with standard errors clustered by borrower's country. The lower part of the table denotes the type of fixed effects used in each specification. The regressions include the control variables of column 2, Table 3. The \*, \*\*, and \*\*\* marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	1	2
Democracy	-20.410** [-2.195]	-21.440** [-2.209]
Creditor rights	-34.311** [-2.547]	-28.356** [-2.104]
GDP per capita	-0.002 [-1.397]	-0.001 [-1.010]
GDP growth	-4.295*** [-3.145]	-3.640** [-2.406]
Domestic unrest	0.038 [1.004]	0.030 [0.759]
Regional trade	-1.450*** [-4.442]	-1.380*** [-4.450]
Observations	14,120	14,575
Adjusted R-squared	0.512	0.534
Loan type effects	Y	Y
Loan purpose effects	Y	Y
Year effects	Y	Y
Bank effects	Y	Y
Country-pair effects	Y	N
Country-year trends	N	Y
Loan controls	Y	Y
Firm controls	Y	Y
Clustered standard errors	Country	Country



**Table A.9. List of additional country-year control variables**

The table provides a list of more than 100 control variables, which we use in additional regressions. We do not report the results from these regressions, but the effect of democracy is similar or higher compared to that in our baseline regressions. In many respects, we use more than one variable (i.e. from a different source) for the same country-year characteristic (e.g., corruption). Abbreviation of sources: ICRG: International Country Risk Guide; FH: Freedom House; WB: World Bank (either World Development Indicators or Quality of Governance indices); HF: Heritage Foundation; SWIID: Standardized World Income Inequality Database; GFDD: Global Financial Development Database. Many of the variables below are % of GDP.

Variable	Source	Variable	Source
Corruption	ICRG, FH, WB, HF	Bank accounts (per 1,000 people)	GFDD
Rule of law	ICRG, FH, WB, HF	Bank branches (per 1,000 people)	GFDD
Government quality	ICRG, FH, WB	Corporate bonds to total bonds	GFDD
Ethnic fractionalization	Alesina et al. (2003)	Private credit by banks	GFDD
Language fractionalization	Alesina et al. (2003)	Domestic credit to private sector	GFDD
Religion fractionalization	Alesina et al. (2003)	Outstanding public debt to securities	GFDD
Population size	WB	Syndicated loan issuance volume	Own calculations
Population density	WB	Syndicated loan average maturity	Own calculations
Population growth	WB	Bank net interest margin	GFDD
Urban population	WB	Bank lending-deposit spread	GFDD
Political terror	US state department	Bank return on assets	GFDD
Armed forces	WB	Bank cost to income ratio	GFDD
Military expenditure	WB	Foreign bank ownership	Claessens and Van Horen (2014)
Average schooling (years)	Barro and Lee (2013)	Bank Z-score	GFDD
Average schooling (male and female)	Barro and Lee (2013)	Bank non-performing loans ratio	GFDD
Government education expenditure	UNESCO	Banking industry H-statistic	GFDD
Age dependency (% of labor)	WB	Bank Lerner index	Delis et al. (2015), GFDD
Agriculture value added	WB	Boone indicator	Delis et al. (2015), GFDD
Birth rate (per 1,000 people)	WB	Remittance inflows	GFDD
CO2 emissions	WB	Banking crisis dummy	GFDD
Death rate (per 1,00 people)	WB	Consumer price index	GFDD
DEC alternative conversion factor	WB	Capital stringency	Barth et al. (2013)
External balance on goods & services	WB	Bank activity restrictions	Barth et al. (2013)
Electric power consumption	WB	Official bank supervisory powers	Barth et al. (2013)
Various employment ratios	WB, IMF	Bank private monitoring	Barth et al. (2013)
Consumption expenditure	WB	Bank external governance	Barth et al. (2013)
Foreign direct investment inflows	WB	Bank deposit insurance	Barth et al. (2013)
Fertility rate	WB	Bank entry requirements	Barth et al. (2013)
Forest area	WB	Corporate tax rates	WB, OECD, Tax foundation
Gini coefficient	SWIID	Business freedom	HF
Lending interest rate	WB	Labor freedom	HF
Deposit interest rate	WB	Trade freedom	HF
Arable land	WB	Investment freedom	HF
Life expectancy at birth	WB	Financial freedom	HF
Mobile subscriptions	WB	Tax burden	HF
Infant mortality	WB	Government spending	HF, WB
Official exchange rate	WB	Fiscal health	HF
Country size	WB	Fiscal deficit	WB
Longitude	G-Econ project	Fiscal debt	WB
Terrain roughness	G-Econ project	Monetary freedom	HF