

How collateral laws shape lending and sectoral activity

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Abstract

We demonstrate the central importance of creditors' ability to use movable assets as collateral (as distinct from immovable real estate) when borrowing from banks. Using a unique cross-country micro-level loan data set containing loan-to-value ratios for different assets, we find that loan-to-values of loans collateralized with movable assets are lower in countries with weak collateral laws, relative to immovable assets, and that lending is biased toward the use of immovable assets. Using sector-level data, we find that weak movable collateral laws create distortions in the allocation of resources that favor immovable-based production and investment. An analysis of Slovakia's collateral law reform confirms our findings.

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1. Introduction

The ability of creditors to enforce their contracts with debtors is fundamental to the market for credit. A debtor who cannot commit to repay her loan finds it difficult, if not impossible, to obtain one. Over the past two decades, scores of academic articles have demonstrated the validity and importance of creditors' rights for the supply of credit by showing how cross-country differences in the rights of creditors and reforms within countries that improve creditors' rights are associated with dramatic differences in the supply of bank credit and economic growth.¹ In this paper, we provide evidence on a new channel through which legal systems affect debt contracting and, in turn, credit supply and real economic activity. We demonstrate the central importance of creditors' ability to use movable assets as collateral (as distinct from immovable real estate) when borrowing from banks.

Movable assets consist of all non-real estate assets (such as machinery, accounts receivable, and inventory). According to the World Bank, creditors in emerging markets are usually reluctant to accept movable assets as collateral (Fleisig, Safavian, and De La Peña, 2006). That is a major problem for firms that rely on bank credit, because movable assets are central to the production processes of many firms in developed and emerging market countries and, in the absence of legal system shortcomings, are the most important class of collateral used in bank credit. For example, within the United States, 63% of collateralized loans made to small and medium-size enterprises (SMEs) are collateralized by movable assets.² In this paper, we argue that the root of the inability to make use of movables collateral in many

¹ King and Levine (1993), Levine and Zervos (1998), La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998), Taylor (1998), and Beck, Levine, and Loayza (2000) employ innovative statistical techniques to identify cross-country patterns. A later group of scholars—most notably Rajan and Zingales (1998), Wurgler (2000), Cetorelli and Gambera (2001), Fisman and Love (2004), and Beck, Demirgüç-Kunt, and Maksimovic (2008)—focus on the development of sectors as well as countries, and they reach the same conclusion, that is, finance leads growth. Research focusing on the growth of regions within countries by Jayaratne and Strahan (1996), Black and Strahan (2002), Guiso, Sapienza, Zingales. (2004), Cetorelli and Strahan (2006), Dehejia and Lleras-Muney (2007), and Correa (2008) produce broadly similar results. Also, various articles focus on how creditors' rights differences affect the structure of loans and the identity of lenders. See, for example, Demirgüç-Kunt and Maksimovic (1998), Qian and Strahan (2007), Bae and Goyal (2009), and Liberti and Mian (2010).

² Specifically, 46% of collateralized loans are collateralized by machinery, and 17% are collateralized by inventory and accounts receivable. Data on collateralized lending for SMEs in the US come from the Federal Reserve Board's Survey of Small Business Finance (SSBF). The SSBF combines accounts receivable and inventory. Accounts receivable and inventory are the two most fundamental forms of asset-based financing, as they combine elements of

emerging markets reflects problems in legal regimes governing movables collateral use. Each country has a collateral law for immovable assets and another law for movable assets. Although collateral laws for real estate loans tend to be relatively well developed worldwide, creditors in many countries are reluctant to lend against movable assets because their legal systems limit the usefulness of such assets as collateral. Legal systems for movables are weak in three dimensions: (1) they limit the scope of movable assets that can be used as collateral, (2) they lack centralized registration systems to monitor the security interests (to make sure no other lender has rights to the same collateral), and (3) they allow enforcement in the event of default only through courts.³

We explore how the sophistication of a country's collateral laws for movable assets affects loan supply, reflected in the loan-to-value ratios (LTVs) for loans secured by movables assets compared with loans against immovable assets. We employ a novel cross-country micro-level data set containing small and medium business secured loans issued by an anonymous global bank (which we label "GlobalBank") in 12 emerging market countries. One advantage of the data set is that it provides information regarding the liquidation value of the asset being pledged as collateral.⁴ This allows us to construct comparable LTVs, using meaningful measures of asset value, for loans collateralized by different types of assets, which is something that the previous literature has been unable to do, due to the lack of data on asset liquidation values.

Another novel contribution of our study is our analysis of how different countries' treatment of movable assets as collateral shapes the allocation of resources across sectors. Because emerging market finance is typically bank debt, and is often collateralized, constraints on LTV and debt capacity should

secured lending and short-term business loans. A firm would use the value of its accounts receivable and inventory as collateral to secure financing to produce and sell its products and services. The financing is then repaid by converting the inventory to cash, either directly or through the collection of accounts receivables (see Udell, 2004). See Appendix Table A2 for details.

³ Article 9 of the Uniform Commercial Code (UCC) governs secured transactions for movable assets in the US. According to the UCC, security interests over movables are well defined, are easily registered, and can be seized easily if default occurs without the necessity of a judicial procedure (see Section 9-607).

⁴ As per GlobalBank credit manuals, the asset value is the fair market value that a willing and informed buyer would pay in less than 180 days under normal (non-fire sale) conditions.

also constrain economic activity.⁵ We analyze how collateral laws affect the sectoral allocation of production and investment between movable-intensive and immovable-intensive producers using sector-level output and investment data covering the universe of manufacturing firms in our sample of countries.

We first investigate how the lending supply behavior of GlobalBank responds to differences in the quality of collateral protection for movable assets. We identify within-country differences in LTV across loans collateralized with movable and immovable assets for a single lender. Next, we examine how these within-country differences in loan supply and LTV are affected by different legal treatments of movable collateral. We measure cross-country differences in the quality of movable collateral laws using World Bank data from *Doing Business* to focus on each country's legal treatment of the three components of effectively secured transactions (creation, monitoring, and enforcement) over movable collateral. We start by showing that movables-backed loans are more frequent in countries with strong legal frameworks for movable collateral (strong-law countries) than in countries with weak legal frameworks (weak-law countries). Next, we show that LTVs for loans collateralized by movable assets are higher in strong-law countries, but that LTVs for loans collateralized by immovable assets are similar across countries. According to our difference-in-differences estimation, LTVs of loans collateralized with movable assets are on average 27.6 percentage points higher, relative to LTVs for loans collateralized by immovable assets, in strong-law countries relative to weak-law countries.

One concern in interpreting our cross-sectional regressions is the influence of omitted factors that could explain the observed relation between collateral laws and debt contracting. We deal with this concern in two ways. First, we control for country characteristics that could affect the LTVs of movable and immovable assets differentially, such as the efficiency of contract enforcement, efficiency of bankruptcy procedures, rule of law, and property rights. Our results are robust to controlling for these

⁵ According to the World Bank's *Enterprise Surveys*, which are performed in more than one hundred countries, collateral is required for bank loans in 75% of loans worldwide. Moreover, the lack of collateral is one of the primary reasons for the rejection of credit (Fleisig, Safavian, and De La Peña, 2006). Understanding the effects of movable collateral laws on production is particularly important given that on average 78% of developing countries' capital is in movable assets and only 22% is in immovable assets (Alvarez de la Campa, 2011).

variables. Second, we take advantage of the fact that one of the countries in our sample—Slovakia—improved all three components of movable collateral law during our sample period. To provide further causal evidence on the effects of collateral laws, we examine the lending behavior in Slovakia around the collateral law reform. Examining collateral in a within-borrower framework, we find that the LTVs for movable assets rose substantially after the policy reform, relative to immovable assets. The magnitude of this within-borrower change (20 percentage points) is similar to the magnitude of the cross-country difference between weak- and strong-law countries. To address the concern that the Slovakia results could be driven by other shocks or policies affecting movable and immovable assets differentially, we conduct a placebo test using the experience of the Czech Republic, a country that did not reform its collateral law. Given the similarities between the two countries, it is plausible that both were exposed to similar shocks. We falsely assume that the Czech Republic reformed at the same time as Slovakia, but we reject that assumption, finding no change over time in the LTVs for loans backed by movable assets in the Czech Republic.

To investigate the consequences of collateral laws for real economic activity, we study how collateral law differences affect the sectoral allocation of resources among manufacturing firms. Our measures of sectoral composition are from United Nations Industrial Development Organization (UNIDO) data, which provide each country's sector-specific output and investment for 22 sectors. The sample of countries covered by UNIDO is more extensive than the GlobalBank sample of emerging market countries we employ in our analysis of lending. We measure exogenous immovable asset intensity of each manufacturing sector using data for the US sectoral composition of assets (ratio of value of land and buildings to total assets), which should be relatively free from distortions related to ineffective movable collateral laws. Examining the within-country allocation of resources across collateral law frameworks for the 12 GlobalBank countries, we find that weak-law countries allocate 15.4% more production to immovable-intensive sectors than strong-law countries. We also find that the investment

rate in immovable-intensive sectors in weak-law countries is 3 percentage points higher than in strong-law countries. Results for a broader sample of 76 countries are similar but of smaller magnitude.

We recognize that objections could be raised to our ordinary least squares (OLS) results on sectoral allocation because of concerns about endogeneity bias due to either omitted variables or reverse causality. With respect to the possibility of reverse causality, countries with a comparative advantage in real estate-intensive sectors might not have as great a need for a strong movable law. We address that potential problem in two ways. First, we show that no correlation exists between the collateral law index and a measure of natural resource abundance, which shows that the most obvious source of reverse causality is implausible empirically. Second, we employ differences in legal origin as an instrument for differences in collateral laws and find that, under the assumed exclusion restriction, the observed association between collateral law quality and sectoral allocation appears to be the result of exogenous variation in collateral laws.

Instrumenting with legal origin provides strong evidence against reverse causality, but, with respect to concerns about omitted variables, legal origin can be correlated with other omitted country characteristics that affect sectoral allocation, which would violate the exclusion restriction. We consider that the ability to collateralize using movable assets can be a proxy for other protections of creditors' rights. To address that concern, we control for differences in the efficiency of contract enforcement, efficiency of bankruptcy procedures, rule of law, and property rights. The results remain unchanged. Not only does the inclusion of these controls not affect our regression findings regarding the importance of the ability to collateralize with movables, but our results also are stronger in countries with poorer legal efficiency. This reflects the fact that collateral rights for movables often are most important in countries where courts operate poorly, because these collateral rights often provide a means of avoiding lengthy court deliberations. One could be concerned that some of these variables are endogenous, which would mean that adding them as controls does not fully eliminate the possibility of omitted variables bias. To further address omitted variables bias concerns, we examine sectoral shifts in production within Slovakia

after its movable asset collateral reform. Consistent with our cross-sectional results, we find important sectoral shifts in production in favor of movables-intensive producers after the reform.

Finally, we investigate which aspects of legal system differences are most important for explaining our results. We find that the existence of collateral registries to record security interests over movable assets and the possibility of enforcing security interests without court intervention, not the mere existence of laws permitting the collateralization of movable assets, drive our results. When we control for out-of-court enforcement for immovable assets, we find that the movable-enforcement coefficient remains unchanged and the immovable-enforcement coefficient is not statistically significant. This suggests that out-of-court enforcement is more valuable for movable than immovable assets, because movables can depreciate more quickly and disappear more easily.

In summary, our paper makes four important and novel contributions. First, we highlight the importance of movable assets in providing debt capacity. We stress the important role of working capital in raising debt, something that the previous literature has overlooked. Second, we identify a new channel through which collateral rights on movable assets drive important cross-country variation in debt contracting. Third, as a result of data constraints, prior analyses employ proxies for the liquidation value of assets.⁶ Because we have detailed data on asset liquidation values, our paper is the first to employ the estimated LTV ratios used by lenders for different asset classes as a measure of debt capacity. Fourth, we are the first to analyze how creditors' rights influences on credit supply affect the composition of aggregate real economic activity.

Although we are the first to analyze the linkages among collateral laws, LTVs, and sectoral allocation, a number of papers investigate how cross-country differences in the supply of credit is explained by the existence and enforcement of secured creditors' rights, especially with respect to

⁶ For example, Benmelech, Garmaise, and Moskowitz (2005) and Benmelech (2009) employ property-specific zoning assignments and diversity of track gauges in 19th century American railroads, respectively, to capture variation in liquidation values. Ono, Uchida, Udell, Uesugi (2015) estimate the liquidation value of real estate collateral using a hedonic model of land prices.

collateralization.⁷ Liberti and Mian (2010) show that collateral is a binding constraint on lending and that this constraint tends to bind more in relatively underdeveloped financial markets. They show that the spread in collateral between high- and low-risk borrowers decreases with the degree of financial development of the economies.⁸ Cerqueiro, Ongena, Roszbach (2014) study the effects of a 2004 Swedish law that exogenously reduced the value of collateral. They find that, even in a country as developed as Sweden, this change produced increases in interest rates on loans, tightened credit limits, reduced investments in monitoring collateral values and borrowers, and resulted in higher delinquency rates on loans. Haselmann, Pistor, and Vig (2010) show in their study of legal reforms in Eastern Europe's transition economies that changes in collateral laws mattered more for the supply of credit than changes in bankruptcy laws.

Our paper is also close in spirit to Campello and Larrain (2016), who provide a detailed case study of a Romanian legal reform that permitted movable assets to be pledged as collateral. They show that the reform broadened access to credit, particularly for firms operating in sectors making intensive use of movable capital, resulting in a sharp increase in the employment and capital stock share of those firms. They analyze the problem from the point of view of the firms, because they have access to balance sheet

⁷ Large theoretical and empirical literatures examine the role of collateral in loan contracting, which we do not review in detail here, including Lacker (2001), Bester (1985), Chan and Thakor (1987), Berger and Udell (1990), Boot and Thakor (1994), Rajan and Winton (1995), Gorton and Kahn (2000), Longhofer and Santos (2000), John, Lynch, and Puri (2003), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2003), Benmelech, Garmaise, and Moskowitz (2005), Jiménez, Salas, and Saurina (2006), Gan (2007), Djankov, McLiesh, Shleifer (2007), Ono and Uesugi (2009), Benmelech (2009), Benmelech and Bergman (2009, 2011), Berger, Frame, and Ioannidou. (2011), Berger, Kick, Koetter, and Schaeck (2013), Godlewski and Weill (2011), Chaney, Sraer, and Thesmar (2012), Rampini and Viswanathan (2013), Campello and Giambona (2013), and Mann (2015). Some recent work has qualified some of the earlier discussions of the effects of collateral rights by showing that increases in creditors' rights to collateral that reduce debtors' bargaining power, particularly with respect to the disposition of collateral, can reduce the amount of lending through contractions in demand, even when the supply of lending increases (Lilienfeld-Toal, Mookherjee, and Visaria (2012), Vig (2013)).

⁸ Both Liberti and Mian (2010) and our paper use GlobalBank as a test laboratory. While Liberti and Mian explore cross-sectionally how differences in financial development impact collateralization rates, we analyze cross-sectionally and within-country how differences in movable laws impact debt capacity measured by LTV. This allows us to construct a precise link between the institution of a country (i.e., movable law) and the asset pledged (i.e., movable asset). Besides analyzing the effects on lending, we analyze the effects on real economic activity. In terms of data, the sample of borrowers and countries in Liberti and Mian (2010) is different from ours due to the filtering restrictions we apply. Also, we estimate LTV using the fair market liquidation value, as is typical in real estate-backed loans, while the collateralization rate in Liberti and Mian (2010) employs the net asset liquidation value, which assumes a shorter sale horizon of three to six months.

data on firms' total debt. Our paper complements their work by analyzing the problem from the point of view of the creditors, which we can do because we have access to more granular loan-level data with information on the assets pledged as collateral. Moreover, we extend their work by analyzing the consequences of movable collateral laws on aggregate economic activity.⁹

We also contribute to the literature that examines different aspects of creditors' rights. Differences in creditors' rights can reflect alternative bankruptcy rules (e.g., the rules governing reorganization versus liquidation), differences in the rights of secured versus unsecured creditors, different protections for various types of security interests (in real estate versus movable assets), differences in the ways collateral rights are enforced, and differences in the extent to which the judicial system enforces these rules impartially and expeditiously. For example, Jappelli, Pagano, and Bianco (2005), Chemin (2010), and Ponticelli (2013) show that the way rights are enforced, or not, by courts can be as important as the existence of rights as a matter of law. Our results complement this literature by showing that out-of-court enforcement can work as a substitute for an inefficient judiciary. That is, making courts less important could be beneficial for financial contracting.

The remainder of the paper is organized as follows. Section 2 discusses data sources. Section 3 describes our identification strategy. Section 4 reports empirical findings related to GlobalBank's lending in 12 emerging market countries and the collateral reform in Slovakia. Section 5 provides additional results for the GlobalBank lending analysis. Section 6 examines the effects on the sectoral allocation of resources. Section 7 reports additional results for the sectoral analysis. Section 8 concludes.

⁹ Love, Martinez Peria, and Singh (2015) use the World Bank's firm-level surveys for a large sample of countries to explore the impact of introducing collateral registries for movable assets on firms' access to bank finance. They find that introducing collateral registries increases firms' access to bank finance, particularly for smaller firms.

2. Data sources

Our study employs data primarily from three sources: the detailed lending records of an anonymous global bank, the World Bank's *Doing Business* data (including components of those data that are not publicly available), and UNIDO data on countries' sectoral allocation of production.

GlobalBank provided data on secured loans it makes to small and medium-size enterprises during the years 2002–2004 in 16 emerging market countries. In our study, we include loans that are collateralized either by immovables (real estate assets) or by movables (machinery, inventory, and accounts receivable). We exclude loans collateralized by both types of collateral from our sample, because for these loans we cannot gauge the relative contribution of each type of collateral. Four of the 16 countries (Brazil, Republic of Korea, South Africa, and Taiwan), however, had too few observations of real estate–collateralized loans to be included in our study and so we were left with data for 12 countries (Chile, Czech Republic, Hong Kong, Hungary, India, Malaysia, Pakistan, Romania, Singapore, Slovakia, Sri Lanka, and Turkey).¹⁰ We have access to all the asset-backed programs that GlobalBank developed in emerging markets during the early 2000s as part of an embedded bank strategy. One of the main goals of this strategy was for GlobalBank to act as a genuinely local bank to compete with local banks in these regions.

Given the cross-sectional nature of the main regression analysis, we include one loan per firm in our sample. With multiple loans per borrower, we use the first observed loan. Loans and firms are dropped from the sample as the result of the various sample exclusion criteria. We begin with 7,056 single-collateral loans and 2,803 multiple-collateral loans contracted with a total of 8,379 firms in our sample of 16 countries. We drop 2,620 firms with 2,881 loans that are located in one of the four excluded countries. For the other 12 countries, we begin with 4,691 single-collateral loans and 2,287 multiple-collateral loans, which are made to 5,759 firms. We exclude 467 of the

¹⁰ We are unaware of the reasons that real estate–collateralized lending by GlobalBank to SMEs is absent in Brazil, Republic of Korea, South Africa, and Taiwan.

single-collateral loans and 671 of the multiple-collateral loans in these 12 countries from our main tests because they are collateralized by supra-collateral loans, which formally is a category of movable assets. Our total sample of loans collateralized either by movables or immovables for the 12 countries includes 4,224 loans (and firms), 1,128 of which are collateralized by movable assets and 3,096 of which are collateralized by immovable assets.

We measure loan quantity as the term-loan amount or the amount drawn on a line of credit. We define the liquidation value of the pledged asset as the fair market liquidation value of the collateral as appraised by GlobalBank. This value does not include a discount due to asset fire sales or the presence of constrained buyers, as in Shleifer and Vishny (1992). In terms of the internal process to determine the liquidation value, an external independent assessor or appraiser determines the price that a willing and informed buyer would pay to a willing and informed seller when neither party is under pressure to conclude the transaction.¹¹ Unfortunately, we are unable to observe interest rate data at the individual loan-contract level because we obtain the data from GlobalBank's risk-management division located in New York. This division is not responsible for collecting and assessing interest rate data at the loan-contract level.

In addition to the loan categories already mentioned, we include another category of loans—supra collateral loans—which adds another 467 loans (and firms) to our sample, bringing the total sample to 4,691 loans. The supra-collateral category contains loans collateralized by cash deposits or other cash assets placed in GlobalBank or by foreign cash deposits, as well as loans backed by commercial letters of credit enforced abroad (related to important export lending) or by standby letters of credit or other credit guarantees enforced outside of the borrowing firm's country.¹² Foreign deposits, local cash deposits,

¹¹ See Degryse, Ioannidou, Liberti, Sturgess (2014) on how legal institutions across countries affect the relation between the appraised liquidation value and the minimum expected recovery value that the bank estimates for different types of collateral.

¹² Using cash as collateral has several advantages. From the lender's standpoint, cash collateral is a cost-effective secured lending method because, in the case of default and if collateral is seized, repossession costs are minimized. From the borrower's standpoint, cash can be used to build and improve its credit ratings. Because the type of

certificates of deposits, and bonds are forms of cash asset collateral that enjoy the legal right of recoupment or setoff, which means that the bank effectively has immediate access to these forms of collateral without relying on collateral laws governing movable assets. Standby letters and other letters of credit or guarantees typically are provided by subsidiaries of GlobalBank in a foreign country or by other acceptable counterparty banks with good reputation and with which GlobalBank has daily operations.¹³

To measure differences across countries in strength of movable collateral laws, we turn to the World Bank's *Doing Business* data set to construct an index that captures the ability to use movable assets effectively in loan contracts. The World Bank captures many different aspects of collateral laws through various components that it measures, and its staff kindly agreed to share those individual component measures for our sample of countries for the year 2005, which is the first year for which data are available.

The World Bank measures are based on a questionnaire administered to financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral laws. *Doing Business* provides information on eight different features of collateral laws and gives each feature a zero or one score. We construct a movable collateral law index (MC Law Index) for each country by summing the scores of seven of those components.¹⁴ Thus, the MC Law Index ranges from zero to seven. A score of one is assigned for the following features of the laws, each of which is important for the ability of creditors to use movable assets as loan collateral.

1. The law allows a business to grant a non-possessory security right in a single category of movable assets, without requiring a specific description of the collateral.

borrowers in our data could have problems gaining access to unsecured credit, supra-collateral can be used as a means to solve these imperfections.

¹³ Letters of credit are regulated by the International Chamber of Commerce (ICC) and Uniform Customs and Practice for Documentary Credits (UCP), which control the terms of the letter of credit and the payment procedure for drawing upon it.

¹⁴ Our results are invariant to including the eighth component in our MC Law Index, but we do not do so because we believe that this component contains significant errors. The omitted component pertains to the following feature: "Any business may use movable assets as collateral while keeping possession of the assets, and any financial institution may accept such assets as collateral." We find that this variable almost always takes the value of one in the data set, and in the few cases in which it takes the value of zero, we are aware that this coding is incorrect.

2. The law allows a business to grant a non-possessory security right in substantially all its movable assets, without requiring a specific description of the collateral.
3. A security right can be given over future or after-acquired movable assets and can extend automatically to the products, proceeds or replacements of the original assets.
4. A general description of debts and obligations is permitted in the collateral agreement and in registration documents. All types of debts and obligations can be secured between the parties, and the collateral agreement can include a maximum amount for which the assets are encumbered.
5. Secured creditors are paid first (for example, before tax claims and employee claims) when a debtor defaults outside an insolvency procedure.
6. A collateral registry or registration institution for security interests over movable property is in operation, unified geographically and by asset type, with an electronic database indexed by debtors' names.
7. The law allows parties to agree in a movable collateral agreement that the lender can enforce its security right out of court.

The first five features of the MC Law Index relate to the creation component of secured transactions. They determine the scope of movable assets that can be pledged as collateral. The sixth feature relates to the monitoring component; that is, creditors must register the security interest in a collateral registry to ensure that no other lender has rights over the same collateral. The seventh feature corresponds to the enforcement component. It determines whether the creditor is allowed to repossess the collateral (in the event of default) privately with the borrower, bypassing the court system.

Because our loan data are available for the period 2002–2004, while our MC Law Index data are derived from 2005, we perform an extensive independent search to ensure that no reforms to secured lending laws in our 12 countries had occurred during the period 2002–2005. For all but one of the 12 countries, we identify no changes during those years.

The exception is Slovakia, which passed a major reform on the collateralization of movables in late 2002. Slovakia introduced a new secured transactions law, based on the European Bank for Reconstruction and Development (EBRD) Model Law on Secured Transactions. Prior to the passage of the law, creditors in Slovakia mostly relied on fiduciary transfer of title to secure their obligations. The new law allowed the creation of security interests over movable assets without having to transfer possession to the creditor. The law also gave creditors private enforcement rights, including the ability to repossess collateral without having to go to court. The law became effective on January 1, 2003, with the

introduction of the Charges Register, a modern centralized registry for security interests over movable assets, operated by Slovakia's Chamber of Notaries. A security interest could be registered in minutes at any local office through an electronic terminal for as little as 30 euros. The reform was considered a success and became the subject of numerous press accounts. Annual filings in the collateral registry increased from 7,508 in 2003 to 31,968 in 2007, a per annum increase of over 50%. In January 2003, *The Economist* went so far as to qualify the reformed Slovak secured transactions law as "the world's best rules on collateral."¹⁵

We obtain data on the sectoral composition of output by country from the United Nations Industrial Development Organization's Industrial Statistics data set (INDSTAT-2). UNIDO provides yearly information for 22 two-digit manufacturing industries [International Standard Industrial Classification of All Economic Activities (ISIC) revision 3] for a large number of countries for a large number of years. We use data on sectoral output measured in US dollars. We also obtain from UNIDO data on the sectoral investment rate, defined as the ratio between gross fixed capital formation and output.¹⁶ We construct a single cross section, averaging data for the period 2002–2004.

Data for Sri Lanka and Pakistan are not available from this data source. Thus, the sample constructed to coincide with our GlobalBank sample consists of 220 observations corresponding to ten countries and 22 sectors. We also report regression results on the sectoral composition of output and the investment rate for a larger sample of 76 countries, which include many countries other than the ten countries that are in our GlobalBank data set. As before, we use the UNIDO data on sectoral composition and investment, and we use the World Bank data to construct our MC Law Index score for the countries included in this larger sample.

¹⁵ When we include Slovakia in the cross-sectional analysis of countries, we include loan observations only for the pre-reform period. When we separately analyze the changes in lending behavior within Slovakia over time, we include the entire Slovakian sample, to measure the effect of the reform on movables lending.

¹⁶ Wurgler (2000) also uses gross investment data from UNIDO to study the link between financial markets and the allocation of capital.

3. Identification strategy

In this section, we explain the identification strategies used in the two parts of our empirical analysis (the GlobalBank lending analysis and the sectoral output analysis) to confront potential problems of endogeneity bias related either to omitted variables or reverse causality.

3.1. GlobalBank lending analysis

For the lending analysis, we estimate the effect of collateral law strength on LTVs of movable-backed loans relative to immovable-backed loans. To do so, we exploit two sources of variation: variation in collateral law strength across countries and within-country variation across collateral types. We compare the difference between LTVs of loans collateralized by movable and immovable assets in countries with strong relative to weak collateral laws. Our identification assumption is that other country characteristics affect LTVs of movable and immovable collateral equally.

We do not consider reverse causality to be a legitimate endogeneity concern in the lending analysis. It is implausible that the LTV of a given firm could affect the passage of the collateral law. However, an omitted variables problem could exist. That is, country characteristics correlated with movable collateral law could affect LTVs of movable and immovable collateral differentially. For example, if movable assets depreciate faster than immovable assets, movable assets could lose more value in a protracted bankruptcy proceeding, which could lead to a lower LTV for movable-backed loans. To deal with this concern, we control for four country variables that could affect movable and immovable assets differentially: the efficiency of contract enforcement, the efficiency of the bankruptcy procedure, rule of law, and property rights (in Subsection 4.1 we explain how we select these variables). We recognize that other unobserved country characteristics could affect movable and immovable assets differentially. To address that problem, we take advantage of the fact that one of the countries in our sample—Slovakia—passed a movable collateral reform in the middle of our sample period.

To analyze Slovakia's 2003 reform, we exploit two sources of variation: within-firm variation across time and variation across collateral types. As long as unobserved country characteristics affecting movable and immovable assets differentially did not change with the reform, the pre-post comparison removes the influence of those unchanging effects. Our identification assumption is that any other country shocks at the time of the reform affected LTVs of movable and immovable collateral equally.

One potential concern is that Slovakia joined the European Union (EU) in 2004. To become an EU member, a country has to implement and enforce all current EU rules. Slovakia could have implemented other policies affecting movable and immovable assets differentially at the moment of the collateral reform. In fact, Slovakia did not implement either a bankruptcy or a judicial reform at this time, which are the sorts of policies that could plausibly have a differential effect on the use of movable assets as effective collateral.¹⁷ Nevertheless, other unobserved shocks could have affected movable and immovable assets differentially at the time of the collateral reform.

To deal with that potential problem, we consider the experience of the Czech Republic, Slovakia's neighbor, which did not reform its collateral law in 2003. Given the many similarities of the two countries (both were part of the same country until 1993, both have a similar industrial structure, and both joined the EU in 2004), it is reasonable to assume that they would have been subject to similar unobserved shocks around 2003. We therefore calculate the change in LTVs before and after 2003 in the Czech Republic, which should capture unobserved shocks affecting Slovakia around that time.

The other potential issue with the GlobalBank analysis is selection bias. In the absence of a good legal framework for collateralized lending against movable assets, the composition of borrowers is likely to shift toward more seasoned credit risks that are less dependent on collateral. As a result, the LTVs of movable-backed loans in weak-law countries tend to be affected by the unobservably better fundamental credit risk of the sample, which acts to diminish the observed differences in LTVs on loans collateralized

¹⁷ Slovakia passed a new bankruptcy law in 2007 (four years after the collateral reform) and introduced a judicial council in 2001 (two years before the collateral reform).

by movable assets for strong- and weak-law countries. Moreover, the Slovakia analysis allows us to set aside selection issues, because we follow the same set of firms, before and after the collateral reform.

3.2. Sectoral output analysis

For the sectoral production analysis, we estimate the effect of movable collateral law strength on the output share of real estate-intensive versus non-intensive sectors. We again exploit two sources of variation: variation in collateral law strength across countries and within-county variation in real estate intensity across sectors. Our identification assumption is that other country characteristics affect the output share of real estate-intensive and non-intensive sectors equally.

With respect to potential endogeneity bias for the sectoral analysis, both omitted variables and reverse causality are legitimate concerns. Reverse causality is a concern because countries with a comparative advantage in real estate-intensive sectors might not have as great a need to create strong movable collateral rights. The causality could therefore flow from an exogenously higher output share in real estate-intensive sectors to a weaker collateral law.

We address that potential problem in two ways. First, we analyze the plausibility of the reverse causality argument. As a proxy for a country's comparative advantage in real estate-intensive sectors, we use a measure of natural resource abundance, defined as the real value of petroleum, coal, natural gas, and metals produced per capita (Haber and Menaldo, 2011). The correlation between the MC Law Index and natural resource abundance is small (-0.017) and statistically insignificant (P-value of 0.852). Thus, it is not true that countries abundant in natural resources tend to have weaker movable collateral laws.

Second, we address the reverse causality concern using legal origin as instrument for movable collateral law. Clearly, legal origin precedes the establishment of any patterns related to industrial specialization, which makes legal origin a useful instrument for the purposes of considering the potential importance of reverse causality. To measure a country's legal origin, we rely on the classification of La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998). In our sample, legal origin is a strong

predictor of movable collateral law strength. Legal origin is ordinally ranked in terms of positive influence on collateral law as follows: English (highest), German (middle), and French (lowest).¹⁸ When we instrument with legal origin, the effect of movable collateral law on sectoral allocation remains large and statistically significant.

With respect to omitted variables bias, instrumenting with legal origin is less convincing for resolving endogeneity concerns. A country's legal origin could capture the effects of omitted country characteristics that affect sectoral allocation, which would violate the exclusion restriction. We address the omitted variables problems by controlling for the same country variables we used in the GlobalBank lending analysis. In addition, to deal with unobserved country characteristics, we examine the changes in the output shares of real estate-intensive sectors in Slovakia before and after its collateral reform.

4. Movable asset collateral laws and GlobalBank's lending

In this section, we analyze how differences across countries in the ability to collateralize loans with movable assets affected the collateral employed in GlobalBank loans for 12 emerging market countries. We also investigate the change in the use of movable assets as collateral within Slovakia after that country reformed its laws and procedures for collateralizing with movable assets. .

4.1. Cross-country analysis

We start by calculating the fraction of total GlobalBank loans collateralized by immovable assets in each country. For each of the 12 countries in our sample, we calculate the frequency of immovable-backed loans. We then sort the countries into two groups: above-median MC Law Index score (strong-law) countries and below-median MC Law Index score (weak-law) countries. The average frequency of immovable-backed loans is 76.6% in weak-law countries and 69.6% in strong-law countries.

¹⁸ The French-legal origin countries are Chile, Romania, and Turkey; the German-legal origin countries are the Czech Republic, Hungary, and Slovakia; the English-legal origin countries are Hong Kong, India, Malaysia, and Singapore.

The difference of 7 percentage points is statistically significant at the 1% level, which indicates that GlobalBank lends more against immovable assets in countries that have weak laws for movable collateral.

Next, we analyze the relation between collateral laws and loan-to-value ratios. Fig. 1 plots the differences in the average LTVs between GlobalBank loans collateralized by immovable and movable assets, against the MC Law Index. As the figure shows, loans collateralized by immovables have higher average LTVs, and the greater the value of the MC Law Index score, the less the difference between the LTVs for loans collateralized by immovables and movables. Fig. 1 is consistent with the notion that a greater legal ability to collateralize movable assets is associated with a greater supply of movable-collateralized loans, relative to immovables.

[Insert Fig. 1 here]

In Table 1, we compute the average LTVs for each of the two collateralized loan types in each country, as well as the average for countries with weak and strong collateral laws. As Table 1 shows, LTVs on loans collateralized by immovables are similar in weak-law and strong-law countries (0.817 for weak-law countries versus 0.912 for strong-law countries). However, for loans collateralized by movable assets, the average LTVs for the two groups are very different (0.454 versus 0.827).¹⁹ The fact that a difference exists in average LTVs for immovables lending between weak-law and strong-law countries indicates that weak-law countries can have broader creditors' rights problems that affect LTVs for both movables and immovables. The spread in LTVs across immovable and movable collateral is 0.085 (= 0.912 - 0.827) in strong-law countries and 0.364 (= 0.817 - 0.454) in weak-law countries, with the difference across legal frameworks significant at the 1% level. However, the ability to collateralize loans

¹⁹ The loan-to-value ratios we observe in countries with movable collateral legal regimes that make it easy to borrow against movable assets average about 83%, and loan-to-value ratios for immovable asset-based borrowing are even higher on average. These high ratios apply only to asset-based loans, not to the total assets of the firm. Furthermore, firms that rely on asset-based lending tend to be less mature or well-known firms, which are credit-constrained and unable to borrow unsecured debt by relying only on their expected cash flows. For both of these reasons, it is not surprising that firms operating in favorable legal environments exhibit high loan-to-value ratios on asset-based loans. Those same firms have much lower debt-to-asset ratios than the 83% loan-to-pledged assets ratio we observe.

against movable assets is dissimilar. In weak-law countries, the inability to collateralize using movable assets results in much lower LTVs for movable-backed loans.²⁰

[Insert Table 1 here]

To test the effect of movable collateral laws on LTVs, we run the following cross-sectional difference-in-differences estimation:

$$LTV_i = \alpha_c + \beta Movable_i + \gamma Law_c * Movable_i + \delta Z_i + \lambda X_c * Movable_i + \varepsilon_i, \quad (1)$$

where LTV_i is the loan-to-value ratio for a loan made to firm i and Law_c is a strong-law indicator variable that takes the value one if the country is above the median value of the MC Law Index score and zero otherwise. We use an indicator variable to reduce measurement error, because we believe that the equally weighted index might not be a precise indicator of the quality of collateral laws for movables.²¹ $Movable_i$ is a movable indicator variable that takes the value one if the loan is collateralized by a movable asset and zero otherwise. The specification includes a full set of country fixed effects (α_c).²² The coefficient of primary interest is γ , which is identified from the within-country variation across collateral types. The coefficient measures the difference between LTVs of loans collateralized by movable and immovable assets in strong-law countries, relative to the same difference in weak-law countries.²³

²⁰ Appendix Table A1 provides detailed information on each country's use of movable and immovable assets and the LTVs of loans collateralized by movables, immovables, or supra-collateral. Appendix Table A2 gives a breakdown of movable assets into two main subcategories—machinery and inventory plus accounts receivable—which are employed in our discussion of robustness (Subsection 5.3). In emerging markets, movable loans tend to be backed more frequently by inventory and accounts receivable than by machinery, which is the opposite of the tendency in the U.S. That pattern is especially true in weak-law countries. We believe that the relative underutilization of machinery reflects substitution into machinery leasing, which is a way for firms to borrow the machinery (which remains the property of the lessor) without resorting to a bank loan. Also, for both types of countries, LTVs for machinery loans are a bit higher than for loans against inventory and accounts receivable. This also can reflect the availability of machinery leasing, which is generally employed by less creditworthy borrowers and, therefore, can result in higher average LTVs for loans against machinery.

²¹ Our results are robust to using a continuous variable measuring the MC Law Index score and to dividing countries into finer categories, instead of above- and below-median levels of the MC Law Index (see Subsection 5.3).

²² We cluster standard errors at the country level. Because we have a relatively small number of clusters, we compute the standard errors using block bootstrapping (see Cameron, Gelbach, and Miller, 2008).

²³ Because the Law term varies at the country level, the country fixed effects absorb it.

We include borrower-level characteristics to control for differences in the supply of collateral. Z_i includes the bank's internal measure of firm size, the bank's internal risk rating, the ratio of net fixed assets-to-total assets, the ratio of cash-to-total assets, the ratio of accounts receivables-to-total assets, and the ratio of earnings before interest, taxes, depreciation, and amortization (EBITDA)-to-sales²⁴. Finally, we control for country characteristics related to the operation of the legal system, interacted with the movable indicator, which could affect LTVs of movable and immovable collateral differentially. X_c includes *Time to Enforce a Contract*, defined as the number of years required to enforce a contract, *Time to Resolve Insolvency*, defined as the number of years required to resolve an insolvency procedure, *Rule of Law*, which captures the extent to which agents have confidence in and abide by the rules of society, and *Property Rights*, which captures the extent to which private economic activity is facilitated by an effective legal system.²⁵ We chose these four legal system control variables on the basis of an analysis reported in Table A3. We considered a broad range of legal and macroeconomic variables, and we investigated the extent to which any of them was correlated with loan-to-value ratios on loans. We find that only four of the measures (our four chosen controls) co-vary significantly with LTVs.²⁶ We include only two controls at a time in Columns 3 and 4 of Table 2, given the limited number of countries in our sample.

[Insert Table 2 here]

Table 2 reports the LTV regression results, for different specifications. The *Law*Movable* interaction term is positive, large, statistically significant, and stable across all three specifications. According to the results of control Column 1, the difference between the LTV of movables and immovables-collateralized loans is 27.6 percentage points higher in strong-law countries than in weak-law countries. The economic significance is large. Compared with the unconditional mean LTV for

²⁴ Firm size is an indicator variable that takes the value of three, two, one, and zero, for firms with net sales > \$25 million, < \$25 million and > \$5 million, < \$5 million and > \$1 million, and < \$1 million, respectively.

²⁵ The data for these country variables come from the World Bank's *World Development Indicators*.

²⁶ The other control variables we considered were *GDP per Capita*, *Private Credit to GDP*, *Creditor Rights*, *Information Sharing*, and *Cost of Insolvency Procedure*.

movables in weak-law countries of 0.454, the results represent an increase in LTV of 60.8% (= 0.276 / 0.454). In Column 2, we add sector fixed effects to absorb sectoral differences in the use of collateral and LTVs, and the results remain unchanged. In Column 3, we control for other country variables and the movable law coefficient decreases slightly in magnitude but remains highly significant. The effects of *Rule of Law*, *Property Rights*, and *Time to Enforce a Contract* are not significant, while the effect of *Time to Enforce Insolvency* is negative and marginally significant. The LTV of movable collateral, relative to immovable collateral, is lower in countries with inefficient bankruptcy procedures. Overall, these results imply large loan-supply effects associated with strong-law status, which are more pronounced for movable-collateralized loans.²⁷

The results reported likely understate the degree to which loan supply is affected by movable collateral laws for two reasons. First, as explained in Subsection 3.1, in the absence of strong movable collateral laws, the composition of borrowers is likely to shift toward more seasoned credit risks. Second, improvements in collateral laws not only should increase LTVs, but they also should increase the price of movable assets pledged as collateral. Therefore, our results on LTV provide a conservative estimate of the effects of collateral law on lending supply. Given the structure of our data set, we are not able to observe changes in the liquidation values of particular assets. We can say, however, that the collateral price effect unambiguously biases our estimates toward zero.

4.2. Slovakia reform analysis

As we discuss in Section 2, the Slovakian reform in 2003 dramatically shifted the ability to collateralize movables. This enables us to perform a within-borrower analysis of the effect of this reform on movables lending in that country. To do so, we run the following difference-in-differences estimation:

$$LTV_{it} = \alpha_i + \alpha_t + \beta Post_t * Movable_i + \gamma Z_{it} + \varepsilon_{it}, \quad (2)$$

²⁷ The fact that our measure of the strength of movables collateral laws has a greater effect on movable asset lending than on immovable asset lending also provides a data accuracy check on our measure of the strength of movable collateral laws.

where LTV_{it} is the loan-to-value ratio for a loan made to firm i in quarter t and $Post_t$ is a reform indicator variable that takes the value of one after January 1, 2003 and zero otherwise. Each firm included in the sample appears once in both the pre-reform and the post-reform period.²⁸ The specification includes a full set of firm fixed effects (α_i) and quarterly time fixed effects (α_t). We are interested in the coefficient β , which is identified from the within-firm variation across time. The coefficient measures the difference between LTVs of loans collateralized by movable and immovable assets after the reform, relative to the same difference before the reform. We include time-varying borrower-level characteristics, Z_{it} , to control for differences in the supply of collateral.²⁹

Table 3 reports the estimation results for Slovakia. Column 1 reports the results without firm fixed effects for reference. According to Column 2, the difference between the LTVs of movable- and immovable-backed loans increases by 20.1 percentage points after the passage of the law.³⁰ The average LTV for movables (immovables) in Slovakia was 0.672 (0.876) prior to the reform. Hence, the results suggest that the pre-reform difference in LTVs across immovables and movables almost entirely disappeared post-reform. The magnitude of the coefficient in Table 3 (0.201) is similar to the comparable coefficient estimate from the cross-sectional regression in Table 2 (0.276).

[Insert Table 3 here]

The third column in Table 3 reports a placebo test using the experience of the Czech Republic. We falsely assume that this country reformed its movable collateral law at the same time as Slovakia. The Czech Republic is the natural placebo candidate because both countries shared a legal environment historically and they planned to enter the EU at the same time. The coefficient on the interaction term is statistically insignificant in Column 2, which shows that our results for Slovakia are not driven by other policies shared by the two countries that are unrelated to movable collateral reform. The last column

²⁸ As before, we use only the first loan observed in each period.

²⁹ We cluster standard errors at the firm level.

³⁰ The *Movable* indicator varies at the firm level and is therefore absorbed by the firm fixed effects in the specifications of Columns 2–4.

reports an additional placebo test for the remaining countries in the GlobalBank sample, which did not implement collateral reforms during the sample period. Here we verify that there was no general worldwide change in GlobalBank's lending rules for loans collateralized by movables after January 1, 2003. The interaction term in Column 3 is also statistically insignificant, indicating that our results are not driven by worldwide changes in GlobalBank's lending rules or by global shocks affecting movable relative to immovable collateral.

5. Movable collateral laws and GlobalBank's lending: additional results

Here we explore additional results regarding the affects of collateralization regime differences on GlobalBank's lending. First, we decompose the MC Law Index into its component parts to see which components are the most important drivers of our results. Second, we consider how collateral regime differences affect the use of Supra collateral, which are assets whose value as collateral does not depend on the quality of a country's collateralization regime. Third, we investigate the robustness of our findings to alternative ways of capturing cross-country differences in the MC Law Index.

5.1. Movable collateral law components

The MC Law Index measures the strength of movable collateral laws in all three components of secured transactions: creation, monitoring, and enforcement. In this subsection, we analyze which of these components matter the most. In Column 1 of Table 4, we focus on differences in the creation component across countries, which reflect differences in the existence of laws permitting the collateralization of movable assets.³¹ Although the effect is positive, it is not statistically significant. Column 2 focuses on differences in monitoring, comparing countries with and without electronic collateral registries. The results show that the LTV of movable collateral, relative to immovable collateral, is higher in countries with collateral registries in place. According to Column 3, the LTV of movable relative to immovable

³¹ The creation component corresponds to questions 1–5 of the MC Law Index. We sum these five questions for each country and create a dummy variable equal to one if the sum is above the median sum across countries and zero otherwise.

collateral is higher in countries that allow creditors to repossess collateral without court intervention.³² Column 5 shows that when all three components are included simultaneously, only the perfection and enforcement components are significant. In sum, the existence of collateral registries and the possibility of out-of-court enforcement, not the mere existence of laws, drive our results.

[Insert Table 4 here]

In Column 4 of Table 4, we consider whether our results for out-of-court enforcement of movables collateral could reflect aspects of a country's legal system that apply to immovable assets, as well. To consider that possibility, we construct an indicator variable for whether the countries in our sample permitted the out-of-court seizure of immovable collateral.³³ As Column 4 shows, out-of-court enforcement for immovables does not enter significantly in the regression, and its presence does not affect our results for the importance of out-of-court seizure of movable assets. We interpret this as reflecting the greater importance of timely seizure of movable assets, which, unlike real estate, can depreciate quickly or disappear if they are not seized promptly.

5.2. *Supra-collateral analysis*

Supra collateral insulates loan contracts from local legal imperfections, either through a foreign enforcement of a foreign payment, a foreign-enforced guarantee, or a domestic right of setoff that does not depend on movable collateral laws. The LTVs for supra collateral lending are similar across strong-and weak-law countries, although they are slightly higher in weak-law countries (83% versus 79%; the difference is statistically insignificant). This suggests that, compared with the effect of the legal

³² Seven of the 12 GlobalBank countries and 40 of the 76 extended-sample countries permit out-of-court enforcement for movable collateral (see Appendix Table A6).

³³ To construct this indicator, we rely on data in Djankov, Hart, McLiesh and Shleifer (2008). We measure out-of-court enforcement for immovables using the question of the survey on whether a country allows for an out-of-court procedure for real estate collateral. We collect data from Deloitte (2013) and Lex Mundi (2012) for our sample countries not included in Djankov, Hart, McLiesh and Shleifer (2008). The indicators for out-of-court enforcement of movables and immovables are positively correlated (0.44 in the GlobalBank sample and 0.36 in a broader sample of 30 countries, which we employ further in Table 10).

environment on movables lending, there is less of an effect of the legal environment on supra collateral lending.

To analyze the effects of collateral laws on the LTVs for supra collateral loans, we estimate

$$LTV_i = \alpha_c + \beta_1 Movable_i + \beta_2 Supra_i + \gamma_1 Law_c * Movable_i + \gamma_2 Law_c * Supra_i + \delta Z_i + \varepsilon_i, \quad (3)$$

where $Supra_i$ is an indicator variable equal to one if the loan is collateralized by supra collateral and zero otherwise. The coefficient of interest is now γ_2 , which measures the difference between LTVs of loans collateralized by supra and immovable assets in strong-law countries, relative to the same difference in weak-law countries.

The results reported in Table 5 for the difference between movable-collateralized and immovable-collateralized loans are consistent with earlier findings. As before, loans backed by movables in strong-law countries have LTVs that are 27.6 percentage points higher than loans backed by immovables, relative to weak-law countries (Column 2). We find that the difference between the LTVs of supra collateral and immovable-backed loans is 8.3 percentage points lower in strong-law countries than in weak-law countries. This result implies that while supra collateral captures a higher LTV than immovable assets in weak-law countries, this effect is overturned in strong-law countries. This likely reflects the fact that countries with weak collateral laws for movables also suffer from a relatively lower ability to collateralize against immovables. Borrowers in weak-law countries tend to have weaker borrowing options against all non-supra collateral, which pushes LTV ratios for supra loans higher than in strong-law countries.

[Insert Table 5 here]

5.3. Robustness checks

Table 6 reports various robustness tests of our LTV results in Table 2. In Column 1, we employ a continuous measure of the MC Law Index as our measure of Law , instead of an indicator variable.

Although the coefficient's size is different (consistent with the change in the mean of the regressor), results remain highly significant. Columns 2 and 3 show that the Table 2 results are invariant to omitting accounts receivable or machinery from our definition of movable assets. Results are somewhat larger when machinery is omitted (Column 3), although the difference is not statistically significant. The larger coefficient magnitude for non-machinery movables can reflect selectivity bias in favor of higher-quality borrowers who use machinery as collateral, given that less creditworthy firms have a greater tendency to lease machinery (Eisfeldt and Rampini, 2009). Column 4 confines the loan sample to manufacturing firms (the subject of Section 6) and finds no significant difference in coefficients.

[Insert Table 6 here]

Table 7 explores whether dividing countries into finer categories (instead of above- and below-median levels of the MC Law Index) affects our LTV results. We divide countries into three groups: those with a low MC Law Index (the omitted category), a *Middle Law* group, and a *High Law* group. We find that coefficients tend to be higher for the *High Law* group than for the *Middle Law* group. Similarly, for the other variable analyzed in Section 6 (manufacturing production share), we find that much of the effects of *Law* is attributable to the differences between high MC Law Index values and all others. To conserve space and in recognition of that fact, our subsequent tables divide countries according to *Law* by comparing the *High Law* group with the rest of the sample.

[Insert Table 7 here]

6. Movable collateral laws and the sectoral allocation of resources

To analyze the real consequences of collateral laws, we examine how economic activity varies across sectors with different natural usage of immovable assets. As a way to identify the exogenous (technologically given) composition of assets across sectors, we employ data on sectoral asset composition for the US. Presumably, in the US, which enjoys an unusually good legal framework for the collateralization of movable assets through the UCC, differences in the asset composition of sectors is

essentially unaffected by legal shortcomings in the ability to pledge movables as collateral. This approach is akin to the Rajan and Zingales (1998) approach for measuring sectoral external financial dependence and its effects on resource allocation, as well as the work of Buera, Kaboski, and Shin (2011) on the effects of financing constraints on sectoral resource allocation and productivity in finance-dependent sectors.³⁴ We make the operating assumption that the sectoral ranking of immovable intensity is common across the US and our sample of countries.

We construct a sectoral index of real estate intensity as the median of the average ratio of the value of land and buildings to total assets across publicly traded firms in the US in each manufacturing sector, during the period 1984–1996.³⁵ Fig. 2 reports the sectoral index for each of 22 two-digit manufacturing sectors in our sample. Clearly, large cross-sectoral differences exist in the usage of immovable assets within manufacturing sectors (roughly 6.5% in leather, 8.5% in machinery and equipment, 14.5% in furniture, and 16.5% in tobacco).

[Insert Fig. 2 here]

Using UNIDO data, we calculate each sector's share in total output by dividing sectoral output by aggregate manufacturing output.³⁶ To match the time period used in the loan-level analysis, we average the sectoral shares between 2002 and 2004.³⁷ In Fig. 3, we plot the MC Law Index against the output share of immovable-intensive sectors. We define sectors as immovable-intensive if they are above the median of the sectoral real estate intensity index. The figure shows that countries with weak collateral laws tend to allocate a greater fraction of their production toward immovable-intensive sectors.

³⁴ The Rajan and Zingales (1998) approach has been criticized by Fisman and Love (2004). The Fisman and Love critique of Rajan and Zingales' method for measuring external financial dependence, however, does not apply to our asset composition measure, as our measure focuses on asset composition, not internally generated funding, which Fisman and Love argue is likely to capture demand shocks.

³⁵ As explained in Campello and Giambona (2013), the 1984–1996 period is the only time frame for which Compustat decomposes the value of tangible assets into land and buildings (immovables) and machinery and equipment (movables).

³⁶ UNIDO does not provide information for Pakistan and Sri Lanka. As a result, when analyzing our GlobalBank sample of countries, we are left with a sample of ten countries.

³⁷ Consistent with the LTV analysis, we use UNIDO data in the pre-reform period only (2002) for Slovakia.

[Insert Fig. 3 here]

Weak-law countries allocate on average 67.7% of their production to sectors intensive in real estate, and strong-law countries allocate only 51.1%. The difference of 16.6 percentage points is statistically significant at the 5% level. To analyze the effect of collateral laws on the sectoral allocation of resources, we run the regression

$$Share_{sc} = \alpha_s + \beta Law_c * REI_s + \gamma X_c * REI_s + \varepsilon_{sc}, \quad (4)$$

where $Share_{sc}$ is the ratio of sectoral output to total output of sector s in country c . REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. The specification includes a full set of sector fixed effects (α_s).³⁸ The coefficient of interest is β , which measures the difference between the sectoral share of output allocated to immovable-intensive sectors in countries with strong and weak collateral laws. The regression is akin to a difference-in-differences estimation, in which we calculate the difference between resources allocated to sectors with different immovable intensities, between countries with different strengths of collateral laws. To account for the fact that other country characteristics could affect the sectoral allocation, we add to the specification the same set of country-level control variables used in Subsection 4.1, each interacted with the real estate intensity indicator.

Table 8 (Columns 1–4) reports the sectoral regression results. The interaction term is negative and statistically significant. According to the results, the output share of the representative immovable-intensive sector in weak-law countries is 1.4 percentage points higher than in strong-law countries (Column 1). This is a large effect. Each of the ten countries has 11 immovable-intensive sectors. The results imply that, in the aggregate, weak-law countries allocate 15.4% more of their production to immovable-intensive sectors than strong-law countries (= 1.4% * 11). The effect is robust to controlling

³⁸ We do not include country fixed effects in the regression because the outcome variables are shares. Country fixed effects would affect all sectors within a country equally, which is not possible because by definition the shares sum up to one.

for other country characteristics related to the legal system more broadly, which we employed in Table 2 (based on the findings of Table A3), such as the time to enforce a contract, the time to resolve insolvency, the rule of law, and property rights (Columns 2 and 3).³⁹ Table A5 of the Appendix shows the same regressions for the allocation of sectoral employment. The results are the same, that is, the share of workers employed in immovable-intensive sectors in weak-law countries is 14.3 percentage points higher than in strong-law countries.

[Insert Table 8 here]

Next we address endogeneity bias concerns related to reverse causality and omitted variables. To address the concern of reverse causality, we employ legal origin interacted with *REI* as an instrument for the interaction between *Law* and *REI*. In unreported results, we find that the first stage is strong. Legal origin is ranked in terms of its positive influence on collateral law as follows: English (highest), German (middle), and French (lowest). Our instrumental variable (IV) results are reported in Column 4 of Table 8. We find that the IV coefficient estimates are slightly larger in magnitude than the OLS results, but not statistically significantly so.⁴⁰

Next, in Columns 5–8 of Table 8, we run the same four regressions as in Columns 1–4, but with the sectoral investment rate (ratio of gross investment to output) as the dependent variable.⁴¹ In theory, poor legal enforcement of movables collateral should bias production against the use of movables assets, resulting in lower capital-to-labor and lower capital-to-output ratios for industries that are intensive in movables. Although UNIDO does not report capital stock data, investment-to-output ratios should track capital-to-output ratios because, in the steady state, investment equals the sectoral output growth rate plus

³⁹ Claessens and Laeven (2003) argue that weaker property rights protections against the actions of competitors lead firms to invest more in tangible assets relative to intangible assets. The fact that our tests are robust to controlling for a measure of property rights ensures that our results are not reflecting these property rights differences.

⁴⁰ The first-stage *F*-statistic is 12.29, which allows us to marginally reject the null hypothesis of weak instruments using the Stock and Yogo (2005) critical values.

⁴¹ The only difference is that the investment-rate regressions include country fixed effects, because, unlike the sectoral shares, the sectoral investment rates within a country do not sum up to one.

the sectoral depreciation rate on capital times the capital stock.⁴² Column 5 shows that the investment rate in immovable-intensive sectors in weak-law countries is 3 percentage points higher than in strong-law countries. This result is robust to controlling for other variables and to the IV estimation.

Given the possibility that machinery (but not other movable assets) can be leased, we also consider whether our findings on sectoral resource allocation could differ according to differences within movables-intensive sectors in their relative intensity in their use of machinery, as opposed to other movables. For each sector, we construct indices measuring their relative intensity in machinery or in other movables (accounts receivable plus inventory).⁴³ In Appendix Table A4, we report results showing that the effect is slightly lower for machinery-intensive sectors, consistent with the ability to lease machinery. However, the difference is not statistically significant.

In addition, we examine how the change in movables collateral law in Slovakia affected the sectoral allocation of resources. Due to the relatively small sample size in this panel study (ten years and 22 sectors divided between pre- and post-reform periods), our standard errors are large and our coefficients are estimated imprecisely. The magnitude of the estimated sectoral shift, however, is economically large. In Fig. 4, we plot the evolution of the share of production allocated in sectors with above-median real estate intensity. According to Panel A, before the 2003 reform, roughly 57% of Slovakia's manufacturing output was allocated in sectors that are intensive users of real estate. After the reform, this share decreases steadily, reaching nearly 52% by 2007. In Panel B, we show a similar graph for the average output share of immovable-intensive sectors in all countries except Slovakia. The output share is roughly constant before and after 2003. Because none of these countries reformed their collateral

⁴² On average, sectors that are movable-intensive tend to have higher depreciation rates for capital, given that machinery, inventory, and accounts receivable depreciate faster than real estate. This means that our coefficients are biased toward zero, because the estimates implicitly assume that the sum of the sectoral growth rate and the sectoral depreciation rate on capital are identical across sectors.

⁴³ We construct a sectoral machinery intensity index and an accounts receivable plus inventory intensity index as the median of the average ratio of the value of machinery to total assets and the ratio of accounts receivable plus inventory to total assets across publicly traded firms in the US, respectively.

laws during this period, this result suggests that the Slovakia results are not driven by shocks affecting immovable-intensive sectors after 2003.

[Insert Fig. 4 here]

7. Movable collateral laws and the sectoral allocation of resources: additional results

In this section, we consider how differences in collateralization regimes affected the allocation of resources in the economy. In the preceding sections, we showed how collateral laws mattered for ability of borrowers to use movable assets as collateral. Here we investigate the extent to which difficulties in collateralizing loans with movable assets – which should be relatively important for industries that make intensive use of movable assets in production – affect the sectoral composition of a country’s production and employment.

7.1. Extended sample of countries

We extend our analysis beyond the sample of the GlobalBank countries. Because the World Bank’s *Doing Business* data set on movable collateral law is available beginning in 2005, we collect UNIDO data for 2005–2010. To ensure consistent measurement of cross-country differences in the quality of collateral law, we exclude countries in which jumps in the MC Law Index occur during 2005–2010.⁴⁴ There are 90 countries for which data are available from the UNIDO and *Doing Business* data sets. We drop three countries for which some sectoral output observations are missing, and we also drop the US given that our immovable-intensity indicator is calculated using US data. We dropped ten countries for which there was a jump in the MC Law Index. This leaves a sample of 76 countries.⁴⁵

⁴⁴ To extend our sample backward in time, to the 12-country sample period of 2002–2004, would have required us to verify (as we did for the 12 countries) that no changes in collateral law had occurred during 2002–2004 for the 90 countries in our sample. Doing so would have been impractical for many of the countries in the UNIDO sample, due to lack of information. We define a jump as a change of two or more units in the MC Law Index. Our results are robust to using a threshold of one or three units for defining a major jump.

⁴⁵ Table A6 of the Appendix lists the 76 countries.

We report the results in Table 9. The findings for output and investment are qualitatively similar to our results for the GlobalBank sample of countries, although the magnitudes of the estimates for the interaction term are somewhat smaller, roughly two-thirds the size of the previous estimate ($= 0.009 / 0.014$). The estimates in Column 1 of Table 9 imply that the output share of the representative immovable-intensive sector is 0.9 percentage points higher in weak-law countries than in strong-law countries. This estimate implies that, in the aggregate, weak-law countries allocate 9.9% more of their output to immovable-intensive sectors than strong-law countries ($= 0.9\% * 11$). In Column 4 of Table 9, we report the IV results. As before, IV magnitudes tend to be larger, but not different from OLS estimates at a high level of statistical significance.⁴⁶ According to Column 5, the investment rate in immovable-intensive sectors in weak-law countries is 1.4% higher than in strong-law countries.

[Insert Table 9 here]

7.2. Movable collateral law components

Next, as in Subsection 5.1, we analyze which components of the MC Law Index are driving the results. As before, we divide the MC Law Index into its three components: creation, monitoring, and enforcement. Columns 1–5 of Table 10 report the results for the sample of GlobalBank countries; Columns 6–10 for the extended sample of 76 countries. The results are similar for both sample of countries (although, as in Tables 8 and 9, magnitudes tend to be smaller for the extended sample) and are consistent with the results reported in Section 5.1, that is, the effects of the monitoring and enforcement components matter more than the creation component. We interpret this finding as indicating that collateral laws on the books, per se, are a necessary but not sufficient condition for effective collateralization. Having an electronic collateral registry to register security interests and allowing the enforcement of security interests out of court allows agents to make more effective use of the collateral laws on the books. As in Table 4, we include a measure of out-of-court enforcement for immovables in

⁴⁶ The first-stage F -statistic is 30.54, so we can reject the null hypothesis of weak instruments (Stock and Yogo, 2005).

Columns 4 and 9 of Table 10, and we find, as in Table 4, that this variable does not enter significantly, and its inclusion does not affect the results for out-of-court enforcement of movables.

[Insert Table 10 here]

7.3. Movable collateral laws and judicial efficiency

Finally, we analyze how the effect of movable collateral laws varies with the degree of judicial inefficiency of an economy. As shown above, the ability to repossess collateral without having to go to court is one of the main factors through which collateral laws affect the sectoral allocation of resources. Therefore, we expect the effect of movable collateral laws to be stronger in those countries with inefficient judicial systems, where out-of-court enforcement is valued more. Moreover, if movable collateral laws merely were capturing omitted variables related more generally to the quality of the legal environment, then controlling for such differences would reduce the magnitude of movable collateral law effects.

We divide the extended sample of 76 countries into two groups: above and below the median value of the *Time to Enforce a Contract* variable. In Column 2 of Table 11, we re-estimate the sectoral output regression for the above-median judicial inefficiency countries. The magnitude of the interaction term is large in magnitude and highly significant. For the below-median (relatively efficient) judicial countries (Column 3), the effect is small and not significant. A Chow test rejects the null hypothesis of equal coefficients across samples at the 1% level. This implies that out-of-court enforcement is working as a substitute for an inefficient judicial system. This also provides further evidence contrary to the view that the importance of movables collateral laws reflects omitted variables bias.

[Insert Table 11 here]

8. Conclusions

In this paper, we highlight the importance of movable assets, as opposed to real estate assets, in providing debt capacity for firms. Our paper is the first to connect differences in the legal environments across countries with respect to movable collateral to the lending behavior of a global bank. We use a novel cross-country micro-level data set that has the unique feature of providing information regarding asset liquidation values, which allows us to construct meaningful loan-to-value ratios for loans collateralized by different types of assets. Our paper is also the first to show that collateralization laws in emerging market countries that discourage the use of movable assets as collateral create distortions in the allocation of resources that favor immovable-based production.

We find that differences across countries in their legal systems' ability to support the use of movable assets as collateral for bank loans substantially affect the ability of borrowers to gain access to credit. The consequences for reduced lending and constrained LTVs also are reflected in important differences in production. In countries with poorly developed movable collateralization laws, firms in sectors that exogenously rely more on movable assets in the production process tend to see a shrinkage in their shares of production, compared with other firms. These effects are all economically large as well as statistically significant. Our study has important implications for understanding how legal system deficiencies—specifically, the absence of effective means of collateralizing movable assets—can shape bank loan supply, as well as firms' choices of asset composition and the sectoral distribution of economic activity.

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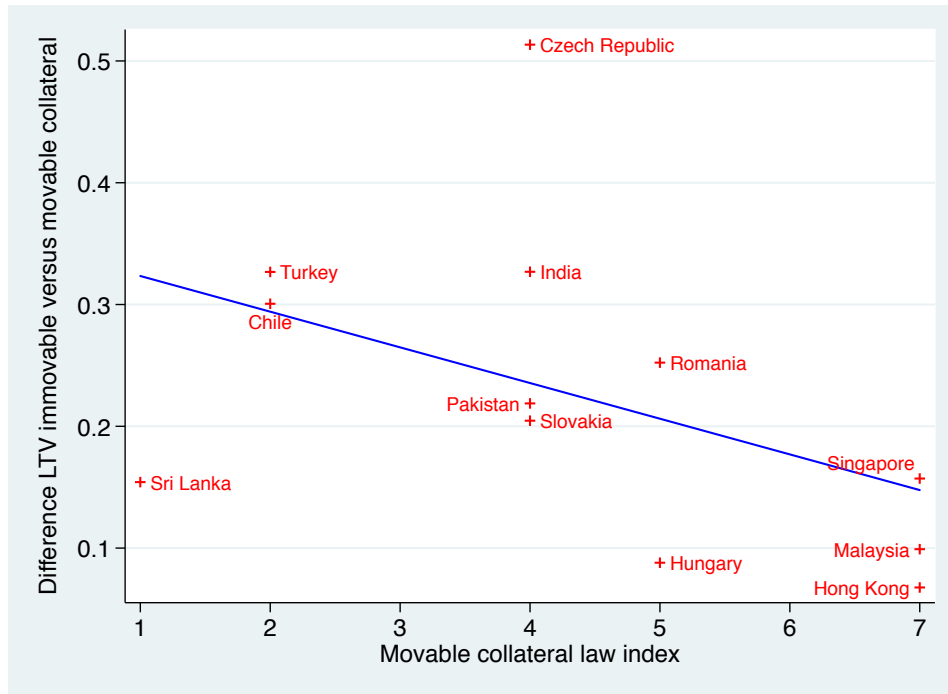


Fig. 1. Collateral law strength and the difference in loan-to-value of immovable- and movable-backed loans. The figure plots the relationship between a country’s movable collateral law index and the difference between the average loan-to-value (LTV) of GlobalBank’s loans backed by immovable assets (real estate) and movable assets (machinery, inventory, and accounts receivable). The average is taken during the period 2002-2004.

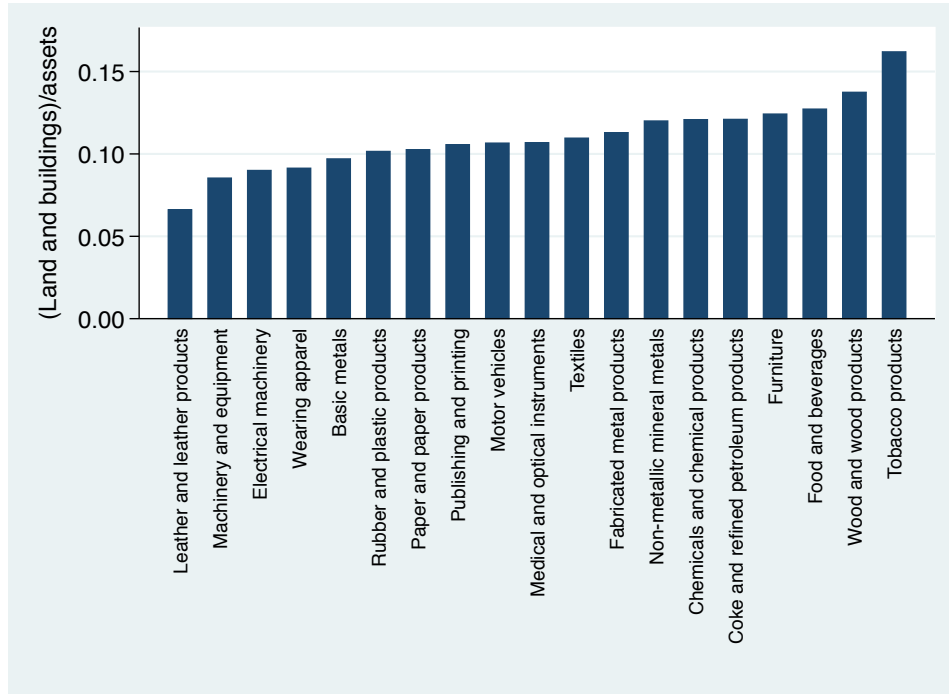


Fig. 2. Sectoral index of real estate intensity. The figure plots the sectoral index of real estate intensity for the 22 two-digit manufacturing sectors in the sample (International Standard Industrial Classification, Revision 3). The index is calculated as the median of the average ratio of the value of land and buildings to total assets across publicly traded firms in the United States in each manufacturing sector during the period 1984–1996.

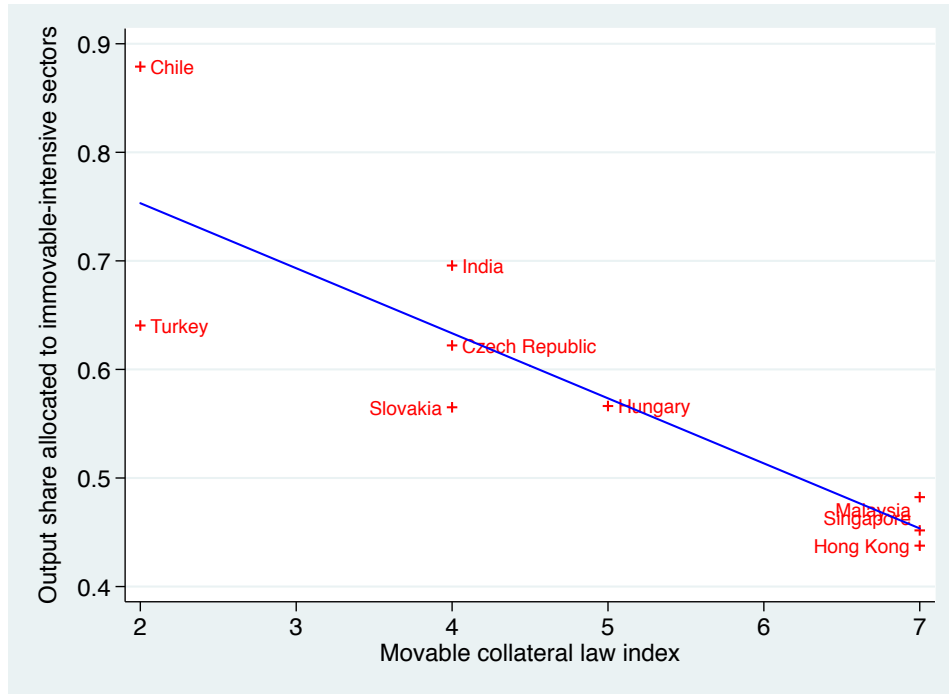


Fig. 3. Collateral law strength and the sectoral allocation of output. The figure plots the relation between a country’s movable collateral law index and the average ratio of output in immovable-intensive sectors to total manufacturing output. The sectoral data come from the United Nation’s Industrial Development Organization (UNIDO), which includes all firms operating in each sector. The average is taken during the period 2002–2004. Immovable-intensive sectors are those above the median of the sectoral index of real estate intensity.

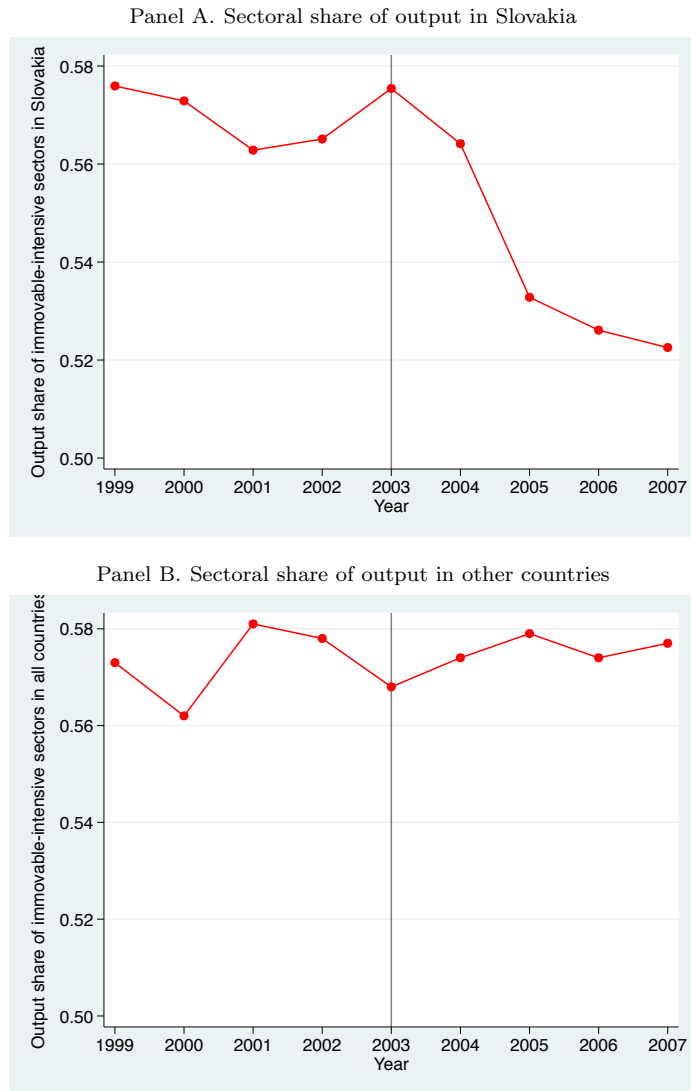


Fig. 4. Evolution of sectoral allocation of output and employment in Slovakia and other countries. The figure plots the evolution of the ratio of output in immovable-intensive sectors to total manufacturing output in Slovakia (Panel A) and the average ratio in the other nine countries (Panel B), during the period 1999–2007. The sectoral data come from the United Nation’s Industrial Development Organization (UNIDO), which includes all firms operating in each sector. Immovable-intensive sectors are those above the median of the sectoral index of real estate intensity. The vertical gray line depicts the year of the Slovakian collateral law reform (2003).

Table 1

Loan-to-value (LTV) by collateral law strength and collateral type

The table reports the average LTV for 4,224 borrowers from GlobalBank in 12 countries with weak and strong collateral laws, by collateral type. The average is taken during the period 2002–2004. Strong-law countries consist of countries above the median of the movable collateral law index. Collateral type is either *Immovable* (real estate) or *Movable* (machinery, inventory, and accounts receivable). There are 3,096 and 1,128 borrowers pledging immovable and movable assets, respectively.

Country	Collateral				
	<i>Immovable assets</i>		<i>Movable assets</i>		Difference <i>Immovable - Movable</i>
	Number of observations (1)	LTV (2)	Number of observations (3)	LTV (4)	LTV (5)
Weak-law countries					
Chile	244	0.783	16	0.482	0.301
Czech Republic	364	0.784	141	0.271	0.513
India	702	0.833	116	0.506	0.327
Pakistan	42	0.838	47	0.619	0.219
Slovakia	54	0.876	25	0.672	0.204
Sri Lanka	51	0.989	5	0.835	0.154
Turkey	251	0.804	178	0.477	0.327
Strong-law countries					
Hong Kong	989	0.928	420	0.861	0.068
Hungary	57	0.902	46	0.814	0.088
Malaysia	166	0.840	96	0.741	0.099
Romania	30	0.877	19	0.625	0.252
Singapore	146	0.894	19	0.737	0.157
Average weak- and strong-law countries					
Weak-law countries	1,708	0.817	528	0.454	0.364
Strong-law countries	1,388	0.912	600	0.827	0.085

Table 2

Effect of collateral laws on loan-to-value

This table presents the results from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta Movable_i + \gamma Law_c \times Movable_i + \lambda X_c \times Movable_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. Law_c is a dummy equal to one for countries above the median of the movable collateral law index and zero otherwise. $Movable$ is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. Z_i denotes a vector of firm-level controls. X_c is a vector of country-level controls (*Time to Enforce a Contract*, *Time to Resolve Insolvency*, *Rule of Law*, and *Property Rights* measured as dummy variables equal to one if above the median). The sample contains 4,224 borrowers in 12 countries during the period 2002–2004. The specification includes a full set of country fixed effects (α_c). Columns 2–3 also include sector fixed effects (α_s). The standard errors are clustered using block-bootstrapping at the country level. * and *** denote statistical significance at the 10 and 1 percent levels, respectively.

Variable	Dependent variable: LTV			
	(1)	(2)	(3)	(4)
<i>Movable</i>	-0.358*** (0.046)	-0.359*** (0.053)	-0.291*** (0.065)	-0.361*** (0.060)
<i>Law</i> × <i>Movable</i>	0.276*** (0.047)	0.277*** (0.057)	0.210*** (0.062)	0.238*** (0.063)
<i>Time to Enforce a Contract</i> × <i>Movable</i>			0.015 (0.055)	
<i>Time to Resolve Insolvency</i> × <i>Movable</i>			-0.121* (0.071)	
<i>Rule of Law</i> × <i>Movable</i>				0.062 (0.045)
<i>Property Rights</i> × <i>Movable</i>				-0.013 (0.041)
Firm controls				
Firm ratings	Yes	Yes	Yes	Yes
Firm size	Yes	Yes	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes	Yes	Yes
Fixed effects				
Country	Yes	Yes	Yes	Yes
Sector	No	Yes	Yes	Yes
Number of observations	4,224	4,224	4,224	4,224
R -squared	0.50	0.51	0.51	0.51

Table 3

Effect of Slovakia's collateral law reform on loan-to-value

This table presents the results from the regression

$$LTV_{it} = \alpha_i + \alpha_t + \beta Post_t \times Movable_i + \delta Z_{it} + \varepsilon_{it},$$

where LTV_{it} is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. $Movable$ is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. $Post_t$ is a dummy equal to one after January 1, 2003, the implementation date for the Slovakia reform, and zero otherwise. Z_{it} denotes a vector of time varying firm-level controls. To construct the pre- and post-reform samples we include all borrowers present in the pre-reform period and follow them post-reform. We include one observation per borrower in each of the pre- and post-reform periods. The sample in Columns 1 and 2 is for borrowers in Slovakia only and contains 55 borrowers. The placebo sample in Column 3 is for borrowers in the Czech Republic only and contains 261 borrowers. The placebo sample in Column 4 includes borrowers from all countries excluding Slovakia and contains 2,018 borrowers. The main specification in Columns 2–4 includes a full set of borrower fixed effects (α_i) and quarterly time fixed effects (α_t). The standard errors are clustered at the borrower level in Columns 1–3 and clustered using block-bootstrapping at the country level in Column 3. *** denotes statistical significance at 1 percent level.

Variable	Dependent variable: LTV			
	Sample			
	Slovakia		Czech Republic	Excluding Slovakia
	(1)	(2)	(3)	(4)
<i>Movable</i>	-0.203*** (0.033)			
<i>Post</i> × <i>Movable</i>	0.223*** (0.050)	0.201*** (0.074)	0.003 (0.026)	0.009 (0.011)
Firm controls				
Firm ratings	Yes	Yes	Yes	Yes
Firm size	Yes	Yes	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes	Yes	Yes
Fixed effects				
Borrower	No	Yes	Yes	Yes
Time	Yes	Yes	Yes	Yes
Number of observations	110	110	522	4,036
<i>R</i> -squared	0.37	0.79	0.89	0.80

Table 4

Effect of collateral law components on loan-to-value

This table presents the results from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta Movable_i + \gamma Law_c^{Component} \times Movable_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. $Law_c^{Component}$ denotes each of the three components of the movable collateral law index. *Creation* is a dummy equal to one for countries with the sum of the first five features of MC Law Index above the median and zero otherwise, *Registry* is a dummy equal to one for countries with an electronic collateral registry and zero otherwise, *Out-of-Court* is a dummy equal to one for countries that allow out-of-court enforcement for movables and zero otherwise, *Out-of-Court Immov* is a dummy equal to one for countries that allow out-of-court enforcement for immovables and zero otherwise. *Movable* is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. Z_i denotes a vector of firm-level controls. The sample contains 4,224 borrowers in 12 countries during the period 2002–2004. The specification includes a full set of country fixed effects (α_c) and sector fixed effects (α_s). The standard errors are clustered using block-bootstrapping at the country level. *** denotes statistical significance at 1 percent level.

Variable	Dependent variable: <i>LTV</i>				
	(1)	(2)	(3)	(4)	(5)
<i>Movable</i>	-0.257*** (0.054)	-0.355*** (0.050)	-0.364*** (0.052)	-0.364*** (0.053)	-0.321*** (0.038)
<i>Creation</i> × <i>Movable</i>	0.060 (0.089)				-0.066 (0.061)
<i>Registry</i> × <i>Movable</i>		0.278*** (0.052)			0.193*** (0.061)
<i>Out-of-Court</i> × <i>Movable</i>			0.280*** (0.056)	0.252*** (0.052)	0.112*** (0.038)
<i>Out-of-Court Immov</i> × <i>Movable</i>				0.038 (0.056)	
Firm controls					
Firm ratings	Yes	Yes	Yes	Yes	Yes
Firm size	Yes	Yes	Yes	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes	Yes	Yes	Yes
Fixed effects					
Country	Yes	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes	Yes
Number of observations	4,224	4,224	4,224	4,224	4,224
<i>R</i> -squared	0.51	0.51	0.51	0.51	0.51

Table 5

Effect of collateral laws on loan-to-value: supra collateral

This table presents the results from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta_1 Movable_i + \beta_2 Supra_i + \gamma_1 Law_c \times Movable_i + \gamma_2 Law_c \times Supra_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are immovable, movable, or Supra collateral. Law_c is a dummy equal to one for countries above the median of the movable collateral law index and zero otherwise. $Movable$ is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. $Supra$ is a dummy variable equal to one if collateral is supra (bank guarantees, financial securities, and cash held with the bank) and zero otherwise. Z_i denotes a vector of firm-level controls. The sample contains 4,691 borrowers in 12 countries during the period 2002–2004. The specification includes a full set of country fixed effects (α_c) and sector fixed effects (α_s). The standard errors are clustered using block-bootstrapping at the country level. *** denotes statistical significance at 1 percent level.

Variable	Dependent variable: LTV	
	(1)	(2)
<i>Movable</i>		-0.359*** (0.048)
<i>Supra</i>	0.106*** (0.023)	0.031 (0.028)
<i>Law</i> × <i>Movable</i>		0.276*** (0.050)
<i>Law</i> × <i>Supra</i>	-0.132*** (0.027)	-0.083** (0.031)
Firm controls		
Firm ratings	Yes	Yes
Firm size	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes
Fixed effects		
Country	Yes	Yes
Sector	Yes	Yes
Number of observations	4,691	4,691
<i>R</i> -squared	0.22	0.46

Table 6

Effect of collateral laws on loan-to-value: robustness checks

This table presents the results from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta Movable_i + \gamma Law_c \times Movable_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. Law_c is a dummy equal to one for countries above the median of the movable collateral law index and zero otherwise. $Movable$ is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. Z_i denotes a vector of firm-level controls. The sample for the main tests contains 4,224 borrowers in 12 countries during the period 2002–2004. The specification includes a full set of country fixed effects (α_c) and sector fixed effects (α_s). Column 1 employs the original movable collateral law index, which ranges from zero to seven. Columns 2 and 3 examine alternative movables classifications by excluding accounts receivable (186 observations) and machinery (341 observations) respectively. Column 4 contains only manufacturing firms (1,655 observations). The standard errors are clustered using block-bootstrapping at the country level. ** and *** denote statistical significance at the 5 and 1 percent levels, respectively.

Variable	Dependent variable: LTV			
	Robustness			
	Alternative asset classification			
	Alternative collateral law	Inventory and machinery	Accounts receivable and inventory	Manufacturing only
	(1)	(2)	(3)	(4)
$Movable$	-0.535*** (0.119)	-0.309*** (0.026)	-0.381*** (0.056)	-0.323*** (0.056)
$Law \times Movable$	0.062*** (0.019)	0.232*** (0.036)	0.311*** (0.075)	0.206** (0.090)
Firm controls				
Firm ratings	Yes	Yes	Yes	Yes
Firm size	Yes	Yes	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes	Yes	Yes
Fixed effects				
Country	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes
Number of observations	4,224	4,038	3,883	1,655
R -squared	0.49	0.38	0.38	0.47

Table 7

Effect of collateral laws: alternative divisions of sample

This table presents results examining alternate cutoffs for the collateral law index from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta Movable_i + \gamma_1 Middle\ Law_c \times Movable_i + \gamma_2 High\ Law_c \times Movable_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. Collateral law strength is categorized by three groups. *Low Law* denotes a movable collateral law index of less than five (omitted coefficient), *Middle Law* denotes a movable collateral law index of five or six, and *High Law* denotes a movable collateral law index of seven. *Movable* is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. Z_i denotes a vector of firm-level controls. The sample contains 4,224 borrowers in 12 countries during the period 2002–2004. The specification includes a full set of country fixed effects (α_c) and sector fixed effects (α_s). The standard errors are clustered using block-bootstrapping at the country level. ** and *** denote statistical significance at the 5 and 1 percent levels, respectively.

Variable	Dependent variable: <i>LTV</i>	
	(1)	(2)
<i>Movable</i>	-0.358*** (0.054)	-0.336*** (0.055)
<i>Middle Law</i> × <i>Movable</i>	0.238** (0.095)	
<i>High Law</i> × <i>Movable</i>	0.281*** (0.060)	0.258*** (0.060)
Firm controls		
Firm ratings	Yes	Yes
Firm size	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes
Fixed effects		
Country	Yes	Yes
Sector	Yes	Yes
Number of observations	4,224	4,224
<i>R</i> -squared	0.50	0.49

Table 8

Effect of collateral laws on sectoral allocation of output and investment rate: GlobalBank sample

The table presents the results from the regression

$$Y_{sc} = \alpha_c + \alpha_s + \beta Law_c \times REI_s + \gamma X_c \times REI_s + \epsilon_{sc},$$

where Y_{sc} is either the average ratio of sectoral output to total manufacturing output of sector s in country c or the average ratio of gross fixed capital formation to output of sector s in country c . The average is taken during the period 2002–2004. Law_c is a dummy equal to one for countries with movable collateral law index above six and zero otherwise. REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. X_c is a vector of country-level controls (*Time to Enforce a Contract*, *Time to Resolve Insolvency*, *Rule of Law*, and *Property Rights* measured as dummy variables equal to one if above the median). All specifications contain a full set of sector fixed effects (α_s), and Specifications 4–6 also include a full set of country fixed effects (α_c). The sample consists of the ten GlobalBank countries and 22 sectors. Columns 1–2 and 4–5 report the results using Ordinary Least Squares (OLS). Columns 3 and 6 report the results using instrumental variables (IV), where the instrument for the interaction between *Law* and *REI* is the interaction between legal origin and *REI*. The standard errors are clustered using block-bootstrapping at the country level. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively.

Variable	Dependent variable: Output share				Dependent variable: Investment rate			
	OLS (1)	OLS (2)	OLS (3)	IV (4)	OLS (5)	OLS (6)	OLS (7)	IV (8)
<i>Law</i> × <i>REI</i>	-0.014*** (0.003)	-0.012* (0.005)	-0.010* (0.004)	-0.021** (0.008)	-0.030** (0.013)	-0.022* (0.013)	-0.029* (0.014)	-0.045* (0.021)
<i>Time to Enforce a Contract</i> × <i>REI</i>		0.001 (0.002)				-0.007 (0.004)		
<i>Time to Resolve Insolvency</i> × <i>REI</i>		0.001 (0.002)				0.003 (0.002)		
<i>Rule of Law</i> × <i>REI</i>			0.005 (0.019)				0.007 (0.014)	
<i>Property Rights</i> × <i>REI</i>			0.001 (0.001)				0.001 (0.000)	
Fixed effects								
Country	No	No	No	No	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of countries	10	10	10	10	10	10	10	10
Number of observations	220	220	220	220	220	220	220	220
R-squared	0.376	0.368	0.443	0.374	0.539	0.600	0.505	0.533

Table 9

Effect of collateral laws on sectoral allocation of output and investment rate: extended sample

The table presents the results from the regression

$$Y_{sc} = \alpha_c + \alpha_s + \beta Law_c \times REI_s + \gamma X_c \times REI_s + \epsilon_{sc},$$

where Y_{sc} is either the average ratio of sectoral output to total manufacturing output of sector s in country c or the average ratio of gross fixed capital formation to output of sector s in country c . The average is taken during the period 2002–2004. Law_c is a dummy equal to one for countries with movable collateral law index above six and zero otherwise. REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. X_c is a vector of country-level controls (*Time to Enforce a Contract*, *Time to Resolve Insolvency*, *Rule of Law*, and *Property Rights* measured as dummy variables equal to one if above the median). All specifications contain a full set of sector fixed effects (α_s), and specifications 4–6 also include a full set of country fixed effects (α_c). The extended sample consists of 76 (52) countries for the output share (investment rate) regressions and 22 sectors. Columns 1–2 and 4–5 report the results using Ordinary Least Squares (OLS). Columns 3 and 6 report the results using instrumental variables (IV), where the instrument for the interaction between *Law* and *REI* is the interaction between legal origin and *REI*. The standard errors are clustered using block-bootstrapping at the country level. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively.

Variable	Dependent variable: Output share				Dependent variable: Investment rate			
	OLS (1)	OLS (2)	OLS (3)	IV (4)	OLS (5)	OLS (6)	OLS (7)	IV (8)
<i>Law</i> × <i>REI</i>	-0.009*** (0.004)	-0.008** (0.003)	-0.008** (0.003)	-0.012* (0.007)	-0.017** (0.008)	-0.014 (0.009)	-0.019 (0.019)	-0.025* (0.012)
<i>Time to Enforce a Contract</i> × <i>REI</i>		0.001 (0.002)				-0.001 (0.005)		
<i>Time to Resolve Insolvency</i> × <i>REI</i>		0.001 (0.001)				0.004 (0.002)		
<i>Rule of Law</i> × <i>REI</i>			0.007 (0.017)				0.007 (0.012)	
<i>Property Rights</i> × <i>REI</i>			0.000 (0.001)				0.001 (0.001)	
Fixed effects								
Country	No	No	No	No	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of countries	76	76	76	76	52	52	52	52
Number of observations	1,672	1,672	1,672	1,672	1,144	1,144	1,144	1,144
R-squared	0.451	0.444	0.452	0.451	0.797	0.787	0.519	0.796

Table 10

Effect of collateral law components on sectoral allocation of output

The table presents the results from the regression

$$Share_{sc} = \alpha_s + \beta Law_c^{Component} \times REI_s + \gamma X_c \times REI_s + \epsilon_{sc},$$

where $Share_{sc}$ is the average ratio of sectoral output to total manufacturing output of sector s in country c . The average is taken during the period 2002–2004. $Law_c^{Component}$ denotes each of the three components of the movable collateral law index. $Creation$ is a dummy equal to one for countries with the sum of the first five features of MC Law Index above the median and zero otherwise. $Registry$ is a dummy equal to one for countries with an electronic collateral registry and zero otherwise. $Out-of-Court$ is a dummy equal to one for countries that allow out-of-court enforcement for movables and zero otherwise. $Out-of-Court Immov$ is a dummy equal to one for countries that allow out-of-court enforcement for immovables and zero otherwise. REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. The specification contains a full set of sector fixed effects (α_s). The sample of Columns 1–3 consists of the ten GlobalBank countries and 22 sectors. The sample of Columns 4–6 consists of 76 countries and 22 sectors. The standard errors are clustered using block-bootstrapping at the country level. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively.

Variable	Dependent variable: <i>Share</i>									
	Original Sample					Extended Sample				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Creation</i> × <i>REI</i>	-0.012 (0.008)				-0.005 (0.004)	-0.008*** (0.002)				-0.005 (0.004)
<i>Registry</i> × <i>REI</i>		-0.017** (0.007)			-0.009 (0.006)		-0.007*** (0.003)			-0.004 (0.002)
<i>Out-of-Court</i> × <i>REI</i>			-0.015*** (0.006)	-0.012* (0.005)	-0.007** (0.003)			-0.005** (0.003)	-0.004*** (0.001)	-0.003* (0.002)
<i>Out-of-Court Immov</i> × <i>REI</i>				0.008 (0.008)					0.001 (0.001)	
Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector										
Number of countries	10	10	10	10	10	76	76	76	30	76
Number of observations	220	220	220	220	220	1,672	1,672	484	1,672	1,672
R-squared	0.372	0.378	0.377	0.378	0.379	0.452	0.451	0.451	0.393	0.452

Table 11

Effect of collateral laws on sectoral allocation of output: role of judicial inefficiency

The table presents the results from the regression

$$Share_{sc} = \alpha_s + \beta Law_c \times REI_s + \epsilon_{sc},$$

where $Share_{sc}$ is the average ratio of sectoral output to total manufacturing output of sector s in country c . The average is taken during the period 2002–2004. Law_c is a dummy equal to one for countries with movable collateral law index above six and zero otherwise. REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. The specification contains a full set of sector fixed effects (α_s). The sample in Column 1 includes 76 countries and 22 sectors. Column 2 includes countries above the median of the variable *Time to Enforce a Contract* (42 countries). Column 3 includes countries below the median of *Time to Enforce a Contract* (34 countries). The standard errors are clustered using block-bootstrapping at the country level. *** denotes statistical significance at the 1 percent levels.

Variable	Dependent variable: <i>Share</i>		
	Full sample (1)	Above-median judicial inefficiency (2)	Below-median judicial inefficiency (3)
<i>Law</i> × <i>REI</i>	-0.009*** (0.003)	-0.013*** (0.004)	-0.005 (0.005)
Fixed effects			
Sector	Yes	Yes	Yes
Number of countries	76	42	34
Number of observations	1,672	924	748
<i>R</i> -squared	0.451	0.449	0.476

Table A1

Descriptive statistics for GlobalBank sample

The table reports descriptive statistics for loan-to-value (LTV) for 4,691 borrowers from GlobalBank in 12 countries, by collateral type. The average is taken during the period 2002–2004. Strong-law countries consist of countries above the median of the movable collateral law index. Collateral type is either *Immovable* (real estate), *Movable* (machinery, inventory, and accounts receivable), or *Supra*. There are 3,096, 1,128, and 467 borrowers pledging immovable, movable, and supra assets, respectively.

Country	Number of observations	Mean	Median	Standard deviation	25th percentile	75th percentile
<i>Panel A: Immovable asset collateral</i>						
Chile	244	0.783	0.735	0.136	0.726	0.888
Czech Republic	364	0.784	0.811	0.140	0.685	0.864
Hong Kong	989	0.928	0.952	0.092	0.935	0.992
Hungary	57	0.902	0.995	0.154	0.907	1.000
India	702	0.833	0.800	0.094	0.750	0.850
Malaysia	166	0.840	0.903	0.162	0.734	0.997
Pakistan	42	0.838	0.824	0.165	0.675	1.000
Romania	30	0.877	0.877	0.098	0.824	0.990
Singapore	146	0.894	0.986	0.148	0.829	1.000
Slovakia	54	0.876	0.855	0.098	0.778	0.995
Sri Lanka	51	0.989	0.992	0.012	0.973	1.000
Turkey	251	0.804	0.771	0.145	0.752	0.967
All	3,096	0.860	0.864	0.131	0.750	0.992
<i>Panel B: Movable asset collateral</i>						
Chile	16	0.482	0.481	0.191	0.255	0.675
Czech Republic	141	0.271	0.175	0.220	0.113	0.315
Hong Kong	420	0.861	0.932	0.136	0.783	0.944
Hungary	46	0.814	0.868	0.193	0.767	0.924
India	116	0.506	0.378	0.311	0.203	0.828
Malaysia	96	0.741	0.874	0.268	0.309	0.938
Pakistan	47	0.619	0.854	0.372	0.177	0.988
Romania	19	0.625	0.723	0.173	0.527	0.824
Singapore	19	0.737	0.746	0.143	0.686	0.833
Slovakia	25	0.672	0.682	0.117	0.630	0.783
Sri Lanka	5	0.835	0.816	0.113	0.779	0.923
Turkey	178	0.477	0.452	0.192	0.342	0.593
All	1,128	0.652	0.748	0.295	0.342	0.928
<i>Panel C: Supra-collateral</i>						
Chile	69	0.840	1.000	0.235	0.671	1.000
Czech Republic	104	0.794	0.730	0.135	0.708	0.956
Hong Kong	4	0.814	0.950	0.306	0.647	0.981
Hungary	6	0.917	0.950	0.098	0.800	1.000
India	–	–	–	–	–	–
Malaysia	113	0.770	0.800	0.190	0.631	0.928
Pakistan	18	0.966	1.000	0.072	0.961	1.000
Romania	92	0.802	0.900	0.221	0.722	0.956
Singapore	35	0.796	0.820	0.181	0.666	0.969
Slovakia	23	0.832	0.910	0.178	0.771	0.997
Sri Lanka	–	–	–	–	–	–
Turkey	3	0.987	1.000	0.022	0.962	1.000
All	467	0.808	0.884	0.192	0.706	0.979

Table A2

Frequency and loan-to-value (LTV) by collateral type

The table reports the frequency of different types of collateral for the United States, based on the Survey of Small Business Finances (SSBF). The SSBF, from the Federal Reserve Board, provides information on small businesses in the United States. We use the latest version available: 2003. SSBF has separate collateral information on six different types of loans, among which five (lines of credit, mortgages, motor vehicle loans, machinery loans, and other loans) can be secured. Up to three loans for each type can be reported in the survey, meaning a firm can report up to 15 secured loans. We treat each loan as an individual observation and focus only on secured loans that are collateralized by one type of asset class. To make a comparison with our study, we examine inventory or accounts receivable, business equipment or vehicles, and real estate in the SSBF survey and estimate frequencies by dividing the number of each collateral type by the total number of the loans in that collateral class. The table also reports the frequency and average LTV for 4,224 borrowers from GlobalBank in 12 countries with weak and strong collateral laws, by collateral type. The average is taken during the period 2002–2004. Strong-law countries consist of countries above the median of the movable collateral law index. Collateral type is either *Immovable* (real estate) or *Movable* (machinery, inventory, and accounts receivable). There are 3,096 and 1,128 borrowers pledging immovable and movable assets, respectively. For the 1,128 movable asset loans, there are 341, 601, and 186 borrowers pledging machinery, inventory, and accounts receivable, respectively.

Country	Immovable Assets		Machinery		Inventory and Accounts Receivable	
	Frequency	LTV	Frequency	LTV	Frequency	LTV
United States	37.03%	NA	45.69%	NA	17.27%	NA
GlobalBank countries						
Full sample	73.10%	0.864	8.34%	0.736	18.56%	0.630
Weak-law countries	76.39%	0.817	3.76%	0.653	19.86%	0.534
Strong-law countries	69.82%	0.912	12.93%	0.819	17.25%	0.726

Table A3

Effect of collateral laws on loan-to-value: alternate control variables
 This table presents the results from the regression

$$LTV_i = \alpha_c + \alpha_s + \beta \text{Movable}_i + \gamma X_c \times \text{Movable}_i + \delta Z_i + \varepsilon_i,$$

where LTV_i is the loan-to-value for a loan made by GlobalBank to firm i collateralized by assets that are either immovable or movable. X_c is a vector of country-level controls: *GDP per Capita*, *Private Credit to GDP*, *Rule of Law*, *Property Rights*, *Creditor Rights*, *Information Sharing*, *Time to Enforce a Contract*, *Time to Resolve Insolvency*, and *Cost of Insolvency Procedure*, measured as dummy variables equal to one if above the median. *Movable* is a dummy variable equal to one if collateral is movable (machinery, inventory, and accounts receivable) and zero otherwise. Z_i denotes a vector of firm-level controls. The sample includes 4,224 borrowers in 12 countries during the period 2002-2004. The specification contains a full set of country fixed effects (α_c) and sector fixed effects (α_s). The standard errors are clustered using block-bootstrapping at the country level. *, **, and *** denote statistical significance at the 10, 5, and 1 percent levels, respectively.

Variable	Dependent variable: LTV								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>Movable</i>	-0.243*** (0.050)	-0.261*** (0.049)	-0.318*** (0.060)	-0.304*** (0.060)	-0.277*** (0.040)	-0.139*** (-0.080)	-0.129* (0.073)	-0.129** (0.052)	-0.292*** (0.067)
<i>GDP per Capita</i> × <i>Movable</i>	0.060 (0.140)								
<i>Private Credit to GDP</i> × <i>Movable</i>		0.083 (0.119)							
<i>Rule of Law</i> × <i>Movable</i>			0.235*** (0.078)	0.219** (0.094)					
<i>Property Rights</i> × <i>Movable</i>									
<i>Creditor Rights</i> × <i>Movable</i>					0.108 (0.107)				
<i>Information Sharing</i> × <i>Movable</i>						0.160 (0.110)			
<i>Time to Enforce a Contract</i> × <i>Movable</i>							-0.189** (0.095)		
<i>Time to Resolve Insolvency</i> × <i>Movable</i>								-0.256*** (0.078)	
<i>Cost of Insolvency Procedure</i> × <i>Movable</i>									0.121 (0.114)
Firm controls									
Firm ratings	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm size	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Balance sheet data (four ratios)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fixed effects									
Country	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	4,224	4,224	4,224	4,224	4,224	4,224	4,224	4,224	3,317
R-squared	0.43	0.44	0.48	0.48	0.44	0.46	0.47	0.49	0.45

Table A4

Effect of collateral laws on sectoral allocation of output: alternative sectoral indices

The table presents the results from the regression

$$Share_{sc} = \alpha_s + \beta Law_c \times SectoralIndex_s + \epsilon_{sc},$$

where $Share_{sc}$ is the average ratio of sectoral output to total manufacturing output of sector s in country c . The average is taken during the period 2002–2004. Law_c is a dummy equal to one for countries with movable collateral law index above six and zero otherwise. *RealEstate Intensity*, *(AccRec+Inv) Intensity*, and *Machinery Intensity* are dummies equal to one for sectors above the median of the sectoral index of real estate intensity, (accounts receivable + inventory) intensity, and machinery intensity, respectively, and zero otherwise. The specification includes a full set of sector fixed effects (α_s). The sample consists of the ten GlobalBank countries. The standard errors are clustered using block-bootstrapping at the country level. * and ** denote statistical significance at the 10 and 5 percent levels, respectively.

Variable	Dependent variable: <i>Share</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Law</i> × <i>RealEstate Intensity</i>	-0.014** (0.005)			-0.025** (0.008)	-0.022** (0.008)	-0.027** (0.009)
<i>Law</i> × <i>(AccRec+Inv) Intensity</i>		0.015** (0.006)		0.026** (0.010)		0.021** (0.009)
<i>Law</i> × <i>Machinery Intensity</i>			0.011* (0.006)		0.019** (0.008)	0.010 (0.007)
Fixed effects						
Sector	Yes	Yes	Yes	Yes	Yes	Yes
Number of countries	10	10	10	10	10	10
Number of observations	220	220	220	220	220	220
<i>R</i> -squared	0.376	0.376	0.373	0.398	0.391	0.401

Table A5

Effect of collateral laws on sectoral allocation of employment

The table presents the results from the regression

$$Share_{sc} = \alpha_s + \beta Law_c \times REI_s + \gamma X_c \times REI_s + \epsilon_{sc},$$

where $Share_{sc}$ is the average ratio of sectoral employment to total manufacturing employment of sector s in country c . The average is taken during the period 2002-2004. Law_c is a dummy equal to one for countries with movable collateral law index above six and zero otherwise. REI_s is a dummy equal to one for sectors above the median of the sectoral index of real estate intensity and zero otherwise. X_c is a vector of country-level controls (*Time to Enforce a Contract* and *Time to Resolve Insolvency*, measured as dummy variables equal to one if above the median). The specification includes a full set of sector fixed effects (α_s). The sample includes ten countries and 22 sectors. The standard errors are clustered using block-bootstrapping at the country level. OLS denotes ordinary least squares and IV denotes instrumental variables. * and ** denote statistical significance at the 10 and 5 percent levels, respectively.

Variable	Dependent variable: <i>Share</i>					
	Original sample			Extended sample		
	OLS (1)	OLS (2)	IV (3)	OLS (4)	OLS (5)	IV (6)
<i>Law</i> × <i>REI</i>	-0.013** (0.005)	-0.014* (0.006)	-0.019* (0.010)	-0.009* (0.005)	-0.007* (0.004)	-0.022** (0.009)
<i>Time to Enforce a Contract</i> × <i>REI</i>		-0.001 (0.002)			-0.001 (0.002)	
<i>Time to Resolve Insolvency</i> × <i>REI</i>		0.001 (0.002)			0.002 (0.001)	
Fixed effects						
Sector	Yes	Yes	Yes	Yes	Yes	Yes
Number of countries	10	10	10	66	66	66
Number of observations	220	220	220	1,289	1,289	1,289
<i>R</i> -squared	0.356	0.363	0.354	0.367	0.368	0.364

Table A6

Countries in extended sample

The table reports the 76 countries contained in the extended sample of the sectoral analysis.

Country	Out-of-court enforcement of movables
1.- Afghanistan	0
2.- Albania	0
3.- Argentina	0
4.- Armenia	1
5.- Australia	1
6.- Austria	1
7.- Azerbaijan	1
8.- Botswana	1
9.- Brazil	0
10.- Bulgaria	1
11.- Cameroon	0
12.- Canada	0
13.- Chile	0
14.- China	0
15.- Colombia	0
16.- Congo	0
17.- Costa Rica	0
18.- Czech Republic	1
19.- Denmark	1
20.- Ecuador	0
21.- Egypt	0
22.- Eritrea	0
23.- Estonia	1
24.- Ethiopia	0
25.- Fiji	0
26.- Finland	1
27.- France	0
28.- Georgia	1
29.- Germany	1
30.- Hong Kong	1
31.- Hungary	1
32.- Iceland	1
33.- India	0
34.- Iran	0
35.- Ireland	1
36.- Israel	1
37.- Italy	0
38.- Japan	0
39.- Jordan	1
40.- Kenya	1
41.- Kyrgyz Republic	1
42.- Latvia	1
43.- Lithuania	1
44.- Macedonia	0
45.- Madagascar	0
46.- Malaysia	1
47.- Mauritius	0
48.- Mexico	0
49.- Morocco	0
50.- Niger	0
51.- Norway	1
52.- Oman	0
53.- Paraguay	0
54.- Peru	0
55.- Poland	1
56.- Portugal	0
57.- Puerto Rico	1
58.- Republic of Korea	1
59.- Republic of Moldova	1
60.- Russia	0
61.- Senegal	0
62.- Singapore	1
63.- Slovakia	1
64.- Slovenia	1
65.- South Africa	1
66.- Spain	1
67.- Sweden	0
68.- Thailand	1
69.- Tonga	0
70.- Tunisia	0
71.- Turkey	0
72.- Ukraine	1
73.- United Kingdom	1
74.- Uruguay	1
75.- Vietnam	1
76.- Yemen	0