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**DEBT-SIDE GOVERNANCE AND THE GEOGRAPHY  
OF PROJECT FINANCE SYNDICATES**

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**ABSTRACT**

We build on Williamson's (1988) emphasis on debt as a mechanism of governance to argue and show that the geographic composition of banking syndicates financing infrastructure investments is driven in part by the level of host-country (i.e. local) political risk and, in part, by the level of systemic risk in global financial markets. Geographically dispersed syndicates pool more external leverage over host-country stakeholders, allowing them to mitigate host-country political risk, but are also more difficult to reorganise internally if circumstances demand it. We therefore propose that the geographic composition of a syndicate reflects a trade-off between the syndicate's external political leverage and its ability to reorganise internally. Using data on 5,928 large-scale infrastructure projects in 160 countries, we show that syndicates are more geographically dispersed when an investment is exposed to high levels of political risk in the host country. In addition, we identify systemic risk in lending markets and the threats it creates for internal reorganisation as a major impediment to creating such debt-side governance. Our results suggest that geographically dispersed banking syndicates are a strong form of governance for investments into high-risk countries, but their efficiency strongly depends on the functioning of international lending markets.

**Keywords:** Syndication, governance, project finance, political risk, systemic risk, geographic distance

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