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# KOF Working Papers

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# Politics and IMF Conditionality

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**Abstract:** Bailouts sponsored by the International Monetary Fund (IMF) are famous for their conditionality: in return for continued installments of desperately needed loans, governments must comply with austere policy changes. Many have suggested, however, that politically important countries face rather weak stringency. Obstacles to testing this hypothesis include finding a measure of political importance that is not plagued by endogeneity and obtaining data on IMF conditionality. We propose to measure political importance using temporary membership on the United Nations Security Council and analyze a newly available dataset on the level of conditionality attached to (a maximum of) 314 IMF arrangements with 101 countries over the 1992 to 2008 period. We find a negative relationship: Security Council members receive about 30 percent fewer conditions. This suggests that the major shareholders of the IMF trade softer conditionality in return for political influence over the Security Council.

**Keywords:** IMF, UN Security Council, Voting, Aid, Conditionality

**JEL-Codes:** O19, O11, F35

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## **Introduction**

Bailouts sponsored by the International Monetary Fund (IMF) are famous for their conditionality: in return for continued installments of desperately needed loans, governments must comply with policy changes, such as closing budget deficits and raising interest rates. Yet not all countries face the same stringency. As noted by members of the Japanese Finance Ministry, the recent packages for Western European countries like Greece appear less stringent than those imposed on countries like Thailand and Indonesia, just over a decade ago (Desai and Vreeland 2010: 112). Some speculate that this is because countries with closer connections to the major shareholders of the IMF, who virtually control the institution, receive softer treatment than countries that are less important to them. Obstacles to testing this hypothesis include finding a measure of political importance that is not plagued by endogeneity and obtaining data on IMF conditionality.

We propose to measure political importance by considering a quasi-exogenous measure: membership on the United Nations Security Council (UNSC). Recent evidence suggests that temporary members of the UNSC receive increased finance from several sources, including the International Monetary Fund (IMF). Presumably, the money goes towards winning favorable votes for decisions of the Security Council on censures, economic sanctions, and military action. As the argument goes, the major shareholders of the IMF – the United States, Japan, Germany, France, and the United Kingdom – desire influence on the Security Council and can pool the costs of that influence by lending through the IMF. The governments of some developing countries may care more about the foreign exchange that the IMF can provide than they care about the global security issues considered important by the IMF's major shareholders. Trades of UNSC votes for IMF loans are thus possible.

But are IMF loans really such a prize? The answer is not immediately obvious. As noted, IMF loans are not provided entirely upfront – in order to receive continued disbursements of the loans, governments are expected to comply with specific policy conditions, reviewed on a quarterly basis. These arrangements are notorious for stringent and controversial economic austerity. During the East Asian Financial Crisis, much-needed liquidity came at the price of national sovereignty as the IMF required tight monetary policy and fiscal contraction in return for continued disbursements of credit. The image of the IMF managing director standing with arms crossed over the president of Indonesia as he signed an IMF arrangement has become emblematic of what leaders of developing countries have complained about for decades: conditionality. If IMF loans come with strict policy conditions, how can they be considered a reward by countries serving on the UNSC?

One possibility is that conditionality is less stringent when loans go to countries considered strategically important by the IMF's major shareholders. Stone (2002, 2004) shows, for example, that the punishment for noncompliance with IMF conditions is significantly weaker for countries that are considered important to the United States. It is also possible that the conditions themselves are fewer in number and severity for countries favored by the most powerful members of the IMF (Stone 2008).<sup>1</sup> This would explain why countries that vote with the United States, Japan, Germany, France, and the United Kingdom at the United Nations General Assembly are more likely to receive IMF loans.<sup>2</sup>

Do UNSC members receive fewer conditions? Previous analyses of conditionality have suffered from the use of limited data coming from unofficial sources. The reason can be summarized in a word – transparency – or rather the IMF's historical lack thereof. Until relatively recently, an IMF arrangement – formally documented in a “Letter of Intent” (LOI) – was kept secret for many years before being made available at the IMF's archives in Washington, DC. Since 1999, however, nearly all IMF arrangements have been posted on the Fund's website. In January 2001, the Executive Board took the “Transparency Decision,” making information about the IMF's operations more accessible to the public. Previous studies have relied on the number of conditions in IMF arrangements publicly available on the Internet.<sup>3</sup> Since then, the IMF has continued its successful and admirable efforts to become a more open institution. This study makes use of the IMF's Monitoring of Fund Arrangements (MONA) database. The IMF official dataset contains many more cases than previous datasets and provides more details. For example, beyond looking at the overall number of conditions, we can now disaggregate the data by the type of policy condition and by the type of arrangement. We can also consider the scope of conditionality in terms of the number of different policy areas that conditionality covers. The data cover 101 countries over the 1992

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<sup>1</sup> For a related argument regarding foreign aid and UNSC membership, see Bueno de Mesquita and Smith 2010 and 2012. For a critique and further evidence, see Bashir and Lim 2012 and Dreher et al. 2013. For broader approaches to the politics of foreign aid, see Bearce and Tirone 2010, Bermeo 2008, Kilby 2009, 2011, Milner and Tingley 2013.

<sup>2</sup> See Thacker 1999, Barro and Lee 2005, Copelovitch 2010 for quantitative evidence. For qualitative evidence see Lipsy 2003, and Momani 2004a,b.

<sup>3</sup> For example, see Dreher and Jensen 2007, Dreher et al. 2009.

to 2008 period for a total of 314 IMF arrangements detailing thousands of specific policy conditions.<sup>4</sup>

To foreshadow our results, we find that temporary members of the UNSC receive fewer conditions than other countries participating in IMF programs. The magnitude of the average annual effect is substantial: about two-and-a-half fewer conditions. Considering that programs include an average of about eight policy conditions, UNSC members receive about 30 percent fewer conditions.<sup>5</sup> More specifically, the IMF requires fewer “prior actions” to receive loans and fewer “performance criteria” to continue receiving loans. We find weaker results with respect to “structural benchmarks” and the overall scope of conditionality, although there is evidence that the scope of the policy areas covered by the performance criteria is narrower for UNSC members.<sup>6</sup> The overall effect appears to be especially driven by specific policy areas pertaining to debt repayment, the balance of payments, credit to the government, and domestic pricing.

The paper proceeds as follows: in the next two sections, we present our dataset and methodology, respectively. We then present the results of our analysis and conclude by connecting our study to a debate that has recently unfolded in the pages of the *Journal of Conflict Resolution* regarding the effectiveness of foreign aid.

### **Data on IMF Conditionality**

Table A1 of the Appendix presents descriptive statistics of our dependent variables. Our data cover three types of conditioned IMF arrangements, which differ according to their time horizons and interest rates: Stand-by Arrangements (SBA) and Extended Fund Facility (EFF)

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<sup>4</sup> This IMF arrangements database, which we have extracted from the MONA data, is available on request. A preliminary analysis in Dreher et al. (2009) relies on a maximum of only 37 countries (and focused on conditions included in each Letter of Intent rather than programs, to obtain a sufficient number of observations).

<sup>5</sup> Note that the number of conditions typically reported in official IMF statistics is considerably higher than the average that we report here. We explain why in detail below.

<sup>6</sup> We explain the differences across “prior actions,” “performance criteria,” and “structural benchmarks” in the next section.

arrangements, which we group together, and Poverty Reduction and Growth Facility (PRGF) arrangements.<sup>7</sup>

**(a) Dependent variables:** Measuring the level of conditionality in IMF arrangements is not straightforward. Conditionality varies across arrangements according to the severity of the policy conditions, the number of conditions, the nature or type of the condition (whether it is a performance criterion, a required prior action, or a structural benchmark), and the scope or breadth in terms of the number of policy areas addressed. There are also different types of IMF arrangements – those for the most impoverished countries and those for other, more developed countries. Data on the precise severity of conditions are not systematically available, but data on the number, type, and scope of conditions are. Thus, we define the level of conditionality in two ways (1) the *number* of conditions, and (2) the *scope* of conditions. Here, we consider each of these factors – type of arrangement, type of condition, number of conditions, and scope of conditions – in turn:

*Type of arrangement:* The IMF provides loans through various facilities. The most common type of arrangement dates back to 1951: the Standby Arrangement (SBA). These arrangements are supposed to last one to two years, but in many cases they have lasted much longer. In the 1970s, recognizing that many governments entered into consecutive SBAs, the IMF opened the Extended Fund Facility (EFF) for arrangements intended to last about four years. The nature of conditionality did not change, just the explicit time horizon. We thus group these types of arrangements together. In the 1980s, the IMF opened the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) – later renamed the Poverty Reduction and Growth Facility (PRGF) and then the Extended Credit Facility. These types of arrangements did represent a change in conditionality, as they were supposed to promote economic development in the poorest countries. We thus group these facilities as separate from SBAs/EFFs.

*Type of condition:* The type of condition refers to how and when the IMF measures compliance. The vast majority are “performance criteria” – they account for 14,962 of the

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<sup>7</sup> The PRGF was previously called the Enhanced Structural Adjustment Facility (ESAF) and was recently renamed again as the Extended Credit Facility. We also include in this category arrangements under the ESAF’s predecessor, the Structural Adjustment Facility.



22,810 quarterly conditions in our dataset. (Note that in the original dataset the same conditions are repeated each time they are reviewed – usually four times per year. We correct for this repeated counting below.) Performance criteria include fiscal deficit targets that the government is expected to achieve over the course of an arrangement in order to receive continued loan disbursements. There are also “prior actions” that governments are required to take before the IMF makes the first loan disbursement. There are 2,559 of these conditions in our dataset. Finally, there are “structural benchmarks.” Structural benchmarks include conditions such as the privatization of national assets as well as policies designed to improve financial sector operations, like putting in place laws to govern the banking sector and public borrowing, and goals of improving social safety nets.<sup>8</sup> They may also include, more broadly, policies intended to help a government better manage the public sector. Indeed, the most common types of structural conditions refer to “institutional reform, tax and revenue policy, expenditure policy, and public wages and employment” (Goldstein 2000, p41 – also see Mercer-Blackman and Unigovskaya 2000). Structural benchmarks cannot usually be expressed in quantitative terms, and qualitative markers are used, such as the passing of legislation by date  $x$  (see Goldstein 2000, p32). Enforcement of structural benchmarks is, as a result of their qualitative nature, more lax. As Goldstein explains, “Failure to meet structural benchmarks conveys a negative signal but does not automatically render a country ineligible to draw; instead, a decision about eligibility would be judgmental” (Goldstein 2000, p32). There are 5,429 of these structural conditions in the dataset.<sup>9</sup>

*The number of conditions:* The number of conditions has been used as a proxy for stringency of conditionality in several previous studies.<sup>10</sup> The measure is imperfect because it does not capture the severity or depth of any individual condition, and studies prior to ours relied on a (somewhat subjective) count of the conditions from the fraction of IMF arrangements posted online or available in the Fund’s archive. Still, these studies show that the measure proxies for the degree of conditionality in ways that various theories predict. And, with our new dataset, we now have the IMF’s official count of the number of conditions included in each arrangement (1992-2008).

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<sup>8</sup> See <http://www.imf.org/external/np/exr/facts/conditio.htm>.

<sup>9</sup> In 140 cases, the condition is labeled as both “prior action” and “structural benchmark.”

<sup>10</sup> See Ivanova et al. 2003, Gould 2003, Bulíř and Moon 2004, Dreher and Jensen 2007, Dreher et al. 2009, Copelovitch 2010, Caraway et al. 2012.

Importantly, the data are provided by the IMF as the cumulative number of conditions evaluated during each quarter of the year(s) an arrangement is in force. Not all of the conditions enter an arrangement when it is initiated; some are added and subtracted over time.<sup>11</sup> Ideally, we would want to count only those conditions that were included at the initiation of a program. But the structure of the MONA database (as we have access to it) does not provide this information. We know for certain only the total number of conditions that were evaluated, not their timing.<sup>12</sup> A specific performance criterion is usually included throughout all quarters of the program, while prior actions and benchmarks come and go. For our analysis, we calculate the sum of all of these conditions. As the resulting number is obviously larger the longer a program is in effect, we divide by the number of quarters.<sup>13</sup> While the average number of conditions is a good proxy for the number of performance criteria, which tend to be consistently evaluated each quarter, it represents a lower bound for structural benchmarks and prior actions, which may not be evaluated each quarter. Still, dividing by the number of quarters avoids over-counting individual conditions and gives our variable the proper order of magnitude in a yearly setup. We also control for the duration of the arrangement (see below).

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<sup>11</sup> Consider the example of Albania's June 26, 2006 PRGF Arrangement. The Letter of Intent (dated January 11, 2006) contained a ceiling on net domestic credit to the government, to be tested by the end of March and the end of September (as performance criteria). On July 14, 2006 and January 11, 2007, Albania submitted follow-up Letters of Intent. In July, a prior action and a structural performance criterion were added; ten structural benchmarks were also included – only some of which had been included in the first Letter. The January 2007 Letter of Intent again contained the performance criterion on credit to the government, to be tested on March and September 2007.

<sup>12</sup> In the example of Albania, we therefore observe (among others) four quantitative performance criteria on credit to the government from the first and the third Letter of Intent, four prior actions, and three structural performance criteria. In addition to the ten structural benchmarks included in the first Letter, the number of additional benchmarks entering in the other Letters of Intent would also be included. To be clear, we know when certain conditions were added in this case of Albania because we have studied these specific Letters of Intent, but these details are not included in the comprehensive MONA database.

<sup>13</sup> The number of quarters is determined by comparing the last known review date with the approval date of the arrangement.

*The scope of conditionality:* Measuring the scope of conditionality is a relatively new approach, suggested by Stone (2008). Sometimes several conditions refer to one policy area, but as conditions cover a broader scope of distinct policy areas, the effective level of conditionality imposed on a government increases. To capture the scope of IMF conditionality, we categorize all conditions into one of 20 policy areas. We then sum the total number of policy areas that an arrangement covers. Note that unlike the number of conditions, the data are provided as the total number of policy areas for the duration of the arrangement (in other words, policy areas are not repeatedly counted for each quarter). Still, the scope can only increase over the duration of an arrangement as new conditions come into effect over time. We, therefore, again control for the duration of the arrangement (see below). Most of the policy area categories are straightforward: arrears, balance of payments/reserves, the broad capital account, central bank reform, government credit, debt, exchange system, financial sector, governance, government budget, monetary ceiling, pricing, private sector reforms, privatization, public sector, social sector (including expenditures), trade, wages & pensions, “systemic,” and a final residual category. The last two policy areas merit more description. The “systemic” category is identified explicitly in the IMF database and refers to various – rather specific – policies, mainly pertaining to the information technology employed by the government.<sup>14</sup> The residual category includes specific policy conditions that otherwise defy categorization.

**(b) Independent variable:** Our key independent variable of interest is temporary membership on the UNSC.<sup>15</sup>

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<sup>14</sup> Scholars have documented the expansion of IMF micro-conditionality (Babb and Buira 2005 and Bird 2001). Examination of this “systemic” category shows the extent. Examples include details like the introduction of version 1.16f of ASYCUDA (Automated System for Customs Data). There are also 32 “systemic” conditions that are opaquely referred to as “ownership reform.” Ownership refers to policy conditions developed by governments through their own initiative, and so these appear to be informational technology systems policies suggested by recipient governments.

<sup>15</sup> In our analysis below, we would like to test our hypothesis on permanent UNSC member Russia (the only permanent member to participate in IMF arrangements during our sample

By no means a random draw, membership appears to be largely idiosyncratic due to varying regional norms. The ten elected seats are allocated by region, with three seats for Africa, two for Asia, two for Latin America, one for Eastern Europe, and two for the Western Europe and Others group. As discussed in Dreher et al. (2012), different regions follow different norms with all regions exhibiting turn-taking to some extent. Africa has the strongest norm of turn-taking. In Latin America and Asia, regional hegemons win the most often (Brazil and Japan). Western Europe has a mixture of these two patterns. Eastern Europe, since the Cold War (when most of them joined the IMF), has exhibited no strong patterns at all.

Typically, regions agree on a clean slate of nominations in advance, which is then ratified by the United Nations General Assembly. Sometimes competitive elections, decided by a two-thirds majority rule by the General Assembly, are held – in about 20 percent of cases (Dreher et al. 2012). Strictly enforced two-year term limits helps to reinforce the exogeneity of the selection process. Elections are held in the fall every year. Since it is often known in the run up to the election who will win, we code our UNSC membership indicator variable one for the year of election, as well as for the two years during which a country serves on the Security Council – and zero otherwise. Another study has shown that the IMF benefits of UNSC membership drop off when a term ends (for a clear presentation of the pattern, see Dreher et al. 2009, 747).

Several studies have employed UNSC membership as a measure of political importance since Kuziemko and Werker (2006) originally showed its relevance with respect to US bilateral aid and (to a smaller extent) multilateral aid from the United Nations. Hurd (2007) suggests that the votes of temporary members of the UNSC matter to great powers because they legitimize potentially hostile foreign policies by giving a voice to the rest of the world, represented on the council.<sup>16</sup> Chapman (2011) suggests an information rationale relating to domestic politics: great powers seek to send a credible signal to domestic audience that aggressive foreign policies are the right ones, and a resolution passed by the UNSC represents third party verification.<sup>17</sup> The importance of the UNSC is further corroborated by the political struggles to reform its voting system.<sup>18</sup>

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years). But country fixed-effects are too important to ignore. With country fixed-effects, permanent members drop from the analysis.

<sup>16</sup> Also see Doyle 2001 (p223), Voeten 2001, 2005, Hurd and Cronin 2008.

<sup>17</sup> Also see Chapman and Reiter 2004, Chapman 2007, Thompson 2006, and Fang 2008.

<sup>18</sup> See O'Neill 1996, Russett 1997, Strand and Rapkin 2011, and Weiss 2008.

**(c) Control variables:** Following the numerous previous studies cited above, we include as determinants of IMF conditionality variables that have been found to influence participation in IMF arrangements more generally. We thus draw on the robust determinants of IMF arrangements according to the extreme bounds analysis of Sturm et al. (2005).

Specifically, we employ an indicator for lagged legislative election years (Beck et al. 1999), gross capital formation as a percent of gross domestic product (World Bank 2008), total debt service as a percent of gross national income (World Bank 2008), total international reserves as a percent of total external debt (World Bank 2008), total external debt as a percent of gross national income (World Bank 2008) and the external balance on goods and services as percent of gross domestic product (World Bank 2008). We tested many other variables, but they were generally not statistically significant at conventional levels.<sup>19</sup>

We also control for the number of quarters that an arrangement is in effect. As mentioned above, conditions are sometimes added or subtracted over the course of an arrangement. For the number of conditions, MONA reports the total number of conditions that are evaluated each quarter, thus counting most conditions multiple times (for example, if a condition is in effect for an entire year, it is counted four times for that year – once for each quarter). We normalize this dependent variable by dividing by the total number of quarters an arrangement is in effect. Scope of conditionality is reported as the total number of policy areas for the entire duration of the arrangement. Policies are thus not counted multiple times, and there is no need to divide this variable by the total number of quarters an arrangement is in effect. For both dependent variables, however, we do include as a control variable the total number of quarters an arrangement is in effect.

Finally, we control for concessional and non-concessional new net IMF loans (as a share of GDP) as well as the annual amount of US bilateral aid (as a share of GDP) received by a country.<sup>20</sup> While we basically treat UNSC membership as an exogenous shock, evidence

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<sup>19</sup> The additional variables we tested include GDP per capita (constant 2000 US\$), democracy, government fractionalization, left-wing government, short-term debt (share of total debt), trade (% of GDP), changes in net reserves (BoP, current US\$), deposit interest rate (%), general government final consumption expenditure (% of GDP), money and quasi money (M2) as % of GDP, GDP growth (annual %), and total reserves in months of imports –results available on request.

<sup>20</sup> Concessional loans have lower effective interest rates.

suggests that UNSC members receive financial perks from their membership, such as increased amounts of bilateral aid from the United States (see Kuziemko and Werker 2006). It is possible, therefore, that UNSC members seek smaller loans from the IMF precisely because they need less money. If UNSC members indeed receive smaller loans, the IMF may attach lighter conditionality – Bird’s (1995) “public choice” approach to the IMF explicitly proposes that conditionality should increase with loan-size. If our results do not hold when controlling for US bilateral aid and IMF loan-size, it would suggest a different mechanism explaining the drop-off in the stringency of conditionality.

**(d) Descriptive evidence:** Figure 1 presents descriptive evidence supporting our hypothesis. For a typical country – not a member of the Security Council – the average number of conditions is 8.3 and the average scope of conditionality covers 10.2 areas. For UNSC members, however, conditionality appears less stringent: the average number of conditions is 6.6 and the average scope of conditionality covers 9.3 areas. The t-tests indicate that the relationship between UNSC membership and number of conditions is statistically significant ( $p=0.016$ ) but the relationship with the scope of conditionality is not ( $p=0.119$ ).

[Figure 1 here]

Which UNSC members participated in IMF programs during the 1992 to 2008 period? We present the complete list along with their respective levels of conditionality in table 1. Again, the evidence on the scope of conditionality does not appear to show favoritism; in most of the cases, the scope is about at the level of the mean for the larger sample, or higher. Regarding the average number of conditions, however, in most cases it is noticeably lower than the mean for the larger sample.

[Table 1 here]

Take the example of Kenya, which entered into an ESAF program in March of 1996 and ended in March of 1999. In October of 1996, Kenya was elected to serve on the UNSC. During its two-year tenure (1997-1998), it voted along with the United States, the United

Kingdom, and France (the P3) on 126 out of 127 resolutions.<sup>21</sup> Regarding the single exception, the P3 itself actually split, with France abstaining; Kenya similarly abstained (along with China, Egypt, and Russia).<sup>22</sup> Otherwise, Kenya was in lock step with the P3 on all resolutions, including several on which China and Russia abstained.<sup>23</sup> In terms of the treatment that Kenya received from the IMF, the number of conditions was notably light, with just two prior actions required to obtain the arrangement, a total of thirteen performance criteria and nine structural benchmarks over the life of the three-year program. This amounts to an average of *two conditions per quarter*, which is among the lowest 20 cases out of the total 314 in our sample. The case is also outstanding compared to Kenya's other IMF arrangements in 1993, 2000, and 2003, where Kenya had an average of 4.75, 3.75, and 5.25 conditions per quarter, respectively – and was not on the UNSC.

The case of Zimbabwe's 1992-1995 program is particularly interesting. At first blush, it appears typical. The average number of quarterly conditions approaches the same as the mean for the larger sample (8.25 versus 8.26). Yet, economic circumstances may have warranted even more conditionality, and international politics may have actually determined the fate of this case. During Zimbabwe's 1991-1992 term, the UNSC was deciding the fate of Iraq for having invaded its neighbor Kuwait. It was during the latter part of 1992 that the government of Zimbabwe entered into negotiations with the IMF.

Zimbabwe was reportedly threatened with additional IMF conditions if it failed to vote along with the United States on important resolutions pertaining to Iraq (Pilger 1992, 182; 2002). Specifically, the United States applied pressure for Resolution 773 on 26 August 1992 (regarding the demarcation of the Iraq-Kuwait border) and Resolution 778 on 2 October 1992

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<sup>21</sup> In 1997, Kenya voted on 53 out of 54 resolutions along with the P3. In 1998, Kenya voted with the P3 on all 73 resolutions.

<sup>22</sup> Resolution 1134 on Iraq's continued refusal to allow access to sites designated by the UN Special Commission. See <http://unbisnet.un.org/>, accessed 7 July 2011. For a framework to study international institutions when the most powerful members disagree, see Copelovitch 2010.

<sup>23</sup> China abstained on Resolutions 1101 (on Albania, 28 March 1997), 1114 (on Albania, 16 June 1997), 1199 (on Yugoslavia, 23 September 1998), 1207 (on Yugoslavia, 17 November 1998). Russia abstained on Resolution 1129 (on Iraq, 12 September 1997). Both abstained on Resolutions 1203 (on Yugoslavia, 24 October 1998) and 1212 (on Haiti, 25 November 1998).

(regarding the proceeds of sales of Iraqi petroleum and petroleum products).<sup>24</sup> Apparently, the pressure worked, as Zimbabwe voted affirmatively with the United States on both resolutions.<sup>25</sup> Note that most of the other resolutions of 1992 passed unanimously, but China abstained on several of them pertaining to the situation in Yugoslavia – and Zimbabwe joined China for many of these.<sup>26</sup> Back in 1991, when the government was *not* negotiating with the IMF, Zimbabwe voted “no,” against a US-supported resolution on the repression of Kurds in Iraq (Resolution 688, 5 April). But on the primary US foreign policy objective regarding Iraq – while the government was in negotiations with the IMF in 1992 – Zimbabwe supported the United States.

Did Zimbabwe receive favorable treatment from the IMF in return? The number of performance criteria for this IMF arrangement was typical (an average of 6.25 per quarter as opposed to an average of 5.52 per quarter for the entire sample). But the number of prior actions required of Zimbabwe was noticeably low. Recall that prior actions are policy changes that must go into effect *before* receiving loan installments. These would have been the precise conditions Zimbabwe would have had to follow around the time of the Iraq Resolutions 773 and 778. Now, on average, there are about eight prior actions for each IMF arrangement in our sample (with a range of 0 to 98); for UNSC members, the average is a little lower – about

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<sup>24</sup> See <http://unbisnet.un.org>, accessed 8 July 2011.

<sup>25</sup> While he does not recall using IMF pressure, Ambassador John Bolton affirms that political pressure was exerted on important resolutions (interview 31 March 2011, American Enterprise Institute, Washington, DC). He served as the Assistant Secretary of State for International Organization Affairs under Secretary of State James Baker from 1989 to 1993. He also recalls the famous exchange where Baker declared to the Yemeni Ambassador “that was the most expensive ‘no’ vote you have ever cast” following Yemen’s failure to vote in favor of Resolution 678 on 29 November 1990, which authorized the use of force in the Gulf War. With respect to the resolutions discussed above, the political pressure was apparently effective as only Ecuador abstained on Resolution 773 and only China on Resolution 778. All other votes were affirmative.

<sup>26</sup> Specifically, Zimbabwe abstained along with China on Resolutions 757 (30 May), 770 (13 August – India also abstained), 776 (14 September – India also abstained), 777 (19 September – India also abstained), and 787 (16 November). Zimbabwe also abstained along with China, Cape Verde, India, and Morocco on Resolution 748 regarding sanctions on Libya (31 March).



six. And how many prior actions were required of Zimbabwe to start receiving IMF loan installments on 11 September 1992? There were only two.

The descriptive evidence discussed here is suggestive and should be subjected to more rigorous analysis to see if these anecdotes are representative of a systematic pattern.

## Method of Analysis

In our analysis below, we begin with OLS regression analysis, controlling for country fixed-effects. We then adopt a feasible Generalized Least Squares (hereafter, GLS) fixed-effects estimator to control for country unobservables, to correct for AR(1) autocorrelation within panels (where needed), and to address heteroscedasticity across countries.<sup>27</sup> We thus test:

$$C_{it} = \alpha_i + \beta_1 UNSC_{it} + \beta_2 Z_{it} + u_{it}, \quad (1)$$

where  $C_{it}$  is, alternatively, the average *number* or the *scope* of conditions in country  $i$  for the arrangement beginning in year  $t$ .  $UNSC$  represents the indicator for temporary UNSC membership for country  $i$  in year  $t$ , and  $Z$  is a vector of the control variables described in the previous section, again for country  $i$  in year  $t$ . The  $\beta$ -vectors capture the effects of these variables. Country fixed-effects are represented by  $\alpha_i$ , and  $u_{it}$  is the error term.

An alternative approach to consider for the scope dependent variable is a count model, such as Poisson. Although the scope variable indeed is discrete in nature, however, its distribution is quite well approximated by a normal distribution. Consequently, as shown in Table A2 in the Appendix, the qualitative results are not affected by using a Poisson model

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<sup>27</sup> Diagnostic tests indicate that autocorrelation is an issue for the scope of conditionality, but not for the number of conditions. For the latter, there is no sign of significant autocorrelation, and hence we only correct for heteroscedasticity. Note that we correct for autocorrelation across consecutive arrangements, not necessarily consecutive years. The GLS estimator has been shown to perform efficiently under heteroscedasticity and autocorrelation as compared to standard panel estimators. Note that the GLS correction for a single AR(1) term is unlikely to cause the standard errors to be inconsistent as would be the case employing the Parks correction with individual AR(1) terms for each country (Beck and Katz 1995: 637). In the specifications explaining the scope of conditionality, the Wooldridge test for serial correlation in panel-data models rejects the hypothesis of no AR(1) at conventional levels of significance. The procedure of estimation employed here is standard in the recent literature (see, e.g., Kilby 2006).

(due to space constraints, we present the results of our analysis of the scope of conditionality in the Appendix).

## Results

We have several sets of results. Note that in each table, we present two sets of control variables, a “full” set, and a “truncated” set, which includes a subset of control variables. The subset of variables is selected by a general-to-specific procedure applied separately to the average number of conditions, the scope of these conditions, and the average number of areas covered. For each of these dependent variables, we begin with a “general” specification that includes all of our control variables and is estimated using a country fixed-effects OLS model. Then we sequentially drop the control variables that do not have effects considered statistically significant at conventional levels until we arrive at a “specific” model, which includes only the control variables with robustly significant effects. Consequently, the subset of control variables differs across the three dependent variables. To allow comparison across the different approaches that we apply below, we subsequently maintain the same selection of control variables throughout the analysis of each dependent variable.

Finally, we highlight that the number of observations for different model specifications changes due to missing data on the control variables. To better ascertain changes in our main coefficients of interest, and their respective levels of statistical significance, we first report a set of results that maximizes the number of observations for each model and then report results for the same model holding the number of observations constant across specifications (thus, using the largest sample that is available across *all* models). This approach helps make it clearer whether changes are due to the addition of control variables or to changes in the sample size.

[Tables 2-4 here]

First, we consider the average number of conditions. Table 2 uses country fixed-effects OLS and GLS models. Given significant heteroscedasticity – as indicated by the Breusch-Pagan test – inference should be based on the GLS model, and we thus report only GLS results in subsequent tables. Table 3 presents results for the number of conditions by conditionality type (performance criteria, prior action, or structural benchmark). Table 4 presents results for the number of conditions by type of IMF arrangement (SBA/EFF or PRGF).

We then consider the scope of conditionality, with the results presented in the Appendix. Table A2 uses country fixed-effects OLS and GLS. Again GLS is preferred – this time because of significant autocorrelation – and thus only these results are reported in the subsequent tables. Table A3 presents results for the scope of conditionality by conditionality type, and table A4 presents the scope of conditionality by type of IMF arrangement.

Finally, we consider the scope of conditionality in more detail: Table 5 presents the effect of our principal independent variable of interest – UNSC membership – on the number of conditions in the specific policy areas mentioned above.

**(a) The effect of temporary UNSC membership on the number of conditions:** Throughout the models presented in table 2, our principal independent variable of interest – UNSC membership – has a negative effect on the average number of conditions, consistent with the suggestive results presented in figure 1 above. The finding holds whether we employ the OLS or the GLS model, and it holds in the presence of our control variables. According to table 2 – where the focus is on all types of conditions and programs – this effect is significant at the ten percent level (at least) throughout all regressions. Columns 1 and 2 report the baseline regression, controlling for the number of quarters exclusively, and using the full sample of observations. In columns 3 and 4, we report the same specification, but restrict the sample to those observations for which we also have data on the control variables included in the full model. The full model itself is reported in columns 5 and 6; columns 7-10 show the results derived from the general-to-specific model – again using all available observations and, respectively, a constant sample using only those observations which are also included in the full model.

Regarding the type of condition (table 3), the effect of UNSC membership on performance criteria is also negative throughout, but it is not statistically significant with the full set of control variables – see column 3. Note, however, that after we apply our general-to-specific method, retaining only robustly significant control variables, the level of statistical significance of the negative effect of UNSC membership holds at the one percent confidence level – see column 4. When we restrict the sample size in column 5, the statistical significance drops again, suggesting that the lack of a significant effect of UNSC membership in column 3 may be due to missing data, rather than any correction of omitted variable bias that the added control variables bring. We thus conclude that the negative effect of UNSC membership on the number of performance criteria holds, as long as sufficient data are included in the sample. Turning to the number of prior actions (columns 6 through 10), the statistical significance of

the negative effect of UNSC membership holds at the ten percent level (at least), regardless of the set of control variables and number of observations that we include. For structural benchmarks, the effect of UNSC membership is negative, as expected, but not as robust – it is significant at the ten percent level in the full model, and at the one percent level in the general-to-specific regression, but not when we drop the control variables or restrict the sample. It appears necessary to control for legislative election year, which has a strong positive effect on the number of structural benchmarks, in order to detect the effect of UNSC membership. Once we do so, the effect of UNSC membership holds regardless of the sample size – see columns 14 and 15. Thus this table presents evidence of a negative effect of UNSC membership on the number of performance criteria, prior actions, and structural benchmarks.

Regarding the type of program (table 4), our finding robustly holds for the concessional PRGF arrangements (at least at the five percent level of significance) – see columns 4 through 6. For the SBA/EFF arrangements (columns 1 through 3), the effect is statistically significant at conventional levels only in the baseline specification which includes all available observations. Note, however, that we cannot determine if the problem is missing data or omitted variable bias. When we restrict the sample size for the baseline specification (column 2), the statistical significance disappears. Ideally, we would test the effect with the full set of control variables in the unrestricted data sample to rule out the effect of UNSC membership, but the data are not available.

As for the magnitude of the effect, the lower bound of the 95 percent confidence intervals from the “full GLS-FE” model in table 2 (column 6) is -3.1 conditions, while the upper bound is -2.7 conditions. Considering that the average number of conditions is about eight, we can say with 95 percent confidence that the effect of UNSC membership is to reduce the number of conditions by 33 to 39 percent.

**(b) The effect of temporary UNSC membership on the scope of conditions:** In contrast to the results for the number of conditions, the effect of UNSC membership is not robustly significant for the scope of conditionality. For the sample presented in table A2 (in the Appendix), the UNSC membership coefficient has the expected negative coefficient, but is not significant at conventional levels of significance in most specifications. The effect is not significant, whether we estimate the regressions with OLS, GLS, or Poisson.

Regarding the type of condition (table A3), for prior actions and structural benchmarks, we find no evidence of a statistically significant effect of UNSC membership. But there is evidence that the scope of performance criteria is narrower for UNSC members.

The effect is negative and statistically significant at the five percent level throughout. Because the average scope of performance criteria covers about 7.3 policy areas, and the effect is about 1.5 (without the insignificant control variables), UNSC membership appears to reduce the scope of performance criteria by about 20 percent. We can say with 95 percent confidence that the effect of UNSC membership is to reduce the scope of performance criteria by 0.3 to 2.6 topics, or 4 to 33 percent (based on column (1) in table A3). The negative effect makes sense since these are the most common conditions, and, importantly, compliance with them is usually the key to receiving continued loan disbursements.<sup>28</sup>

Regarding the type of arrangement (table A4), we find evidence of a statistically significant effect of UNSC membership for SBA/EFF programs, but not for PRGF programs. This finding contrasts with our results for the number of conditions reported above. It thus seems that SBA/EFF programs with temporary UNSC members cover fewer policy areas, while PRGF programs contain fewer conditions.

**(c) The effect of control variables:** Perhaps the most interesting of our control variables is lagged legislative elections, which has a positive effect (significant at the 10 percent level or stronger in the OLS models and at the one percent level in the GLS models, table 2), consistent with other findings in the literature. The finding holds for type of condition (table 3), and for SBA/EFF programs (table 4). While it does not hold for PRGF programs (table 4), it should be noted that this type of program is exclusively for the poorest countries in the world, countries where meaningful elections have historically been rare (see Przeworski et al. 2000). By and large, we do not find the same effect of elections on the scope of conditionality (tables A2-A4), although it does hold for the scope of conditions when we separate SBA/EFF and PRGF programs (table A4).

There are a number of potential explanations for the positive effect of lagged elections. It may result from stricter IMF conditionality following expansionary policies during the run up to elections (Dreher and Vaubel 2004).<sup>29</sup> Alternatively, the election result may arise from less experienced negotiators of new governments. Or perhaps governments are willing to accept the highest level of austere conditionality when the next election is furthest away. Indeed, both the IMF and governments are strategic actors who must take

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<sup>28</sup> This result also holds when we employ a Poisson model.

<sup>29</sup> Lagged elections are among the robust determinants of IMF program participation (Moser and Sturm 2011).

account of what is politically possible. As elections approach, high levels of conditionality may result in the eviction of incumbents and the collapse of an IMF program.

Strangely, the control variables accounting for economic circumstances do not perform as well. External debt has a negative effect, indicating fewer conditions if debt is a larger share of gross national income. This effect may result from the ironically strong negotiation posture of a heavily indebted government that can threaten default on large loans. Yet, the effect is not robust. It is only statistically significant at conventional levels in the GLS model; it is not significant in the OLS model (table 2). It does hold for performance criteria, prior actions, and structural benchmarks (table 3); it does not hold for SBA/EFF programs (where the coefficient is significantly *positive*) but does hold for PRGF arrangements (table 4). It does not generally hold for the scope of conditionality (tables A2-A4).

Debt service as a percent of gross national income has a similarly non-robust negative effect (table 2), with a positive coefficient. This is more in line with the literature – more indebted countries receive harsher conditionality. The effect is significant for structural benchmarks, but not the other types of conditions (table 3). For SBA/EFF programs, debt service also has a positive and significant effect (table 4). We detect no statistically significant effect of debt service for the scope of conditionality, with the exception of a positive and significant effect on prior actions (tables A2-A4).

The evidence on total foreign reserves is mixed. There is no significant effect on the overall number of conditions (table 2). Reserves reduce the number of performance criteria and prior actions, but increase the number of structural benchmarks (table 3). The effect is positive and statistically significant when we focus on SBA/EFF arrangements, but not for the PRGF (table 4). Turning to the scope of conditionality, we find a negative effect, although, again, the finding is not robust (table A2). The effect is mostly negative but not robustly significant for the various types of conditions (table A3) and the different types of programs (table A4). The negative effect of reserves is consistent with arguments that countries with the lowest levels of foreign reserves have the weakest negotiation posture with the IMF and thus must accept higher levels of conditionality (see Bird 1995).

The effect of external balance on goods and services as a percentage of GDP is the most inconsistent of any of our control variables. Notably, we detect a negative effect that is significant for PRGF arrangements. It seems that when poor countries that receive PRGF arrangements run negative external balances, the number and scope of structural conditionality is higher. This makes sense and is consistent with the literature. The effect does

not hold for other situations – namely for the middle income countries receiving SBA/EFF arrangements – and strangely runs in the opposite direction.

The effect of investment as a percentage of GDP is not robustly significant at conventional levels throughout all of our regressions. It has a positive effect on the number of performance criteria and the number of prior actions, but the effect does not survive the general-to-specific procedure (table 3). It also has a positive effect on the number of conditions in SBA/EFF programs (table 4), significant at the one percent level. So, for middle-income countries with high levels of investment, more conditionality applies. Overall, we find no evidence that investment *reduces* the level of conditionality, even though the variable has been found in many studies to have a negative effect on the likelihood of participation in IMF programs.

US aid has no consistent effect on conditionality. There is no statistically significant effect on the overall number (table 2) or scope (table A2) of conditions. Table 3 shows that countries receiving more US aid surprisingly receive more prior actions (significant at the ten percent level), but expectedly fewer structural benchmarks (significant at the five percent level). The number of conditions in PRGF programs decreases with US aid, as one would expect (table 4). The results for prior actions and PRGF programs also hold regarding the scope of conditions (see tables A3 and A4).

Turning to the size of the IMF loan itself, we find that programs with larger non-concessional financing receive more conditions, as expected. This finding holds for the overall number of conditions (table 2), for most of the specifications focusing on type of conditions (table 3), and for SBA/EBA programs (table 4). It does not hold regarding programs under the PRGF, but PRGF countries rarely receive non-concessional financing (table 4). Note that larger PRGF programs also receive fewer conditions, significant at the five percent level. Larger concessional loans increase the number of prior actions, but have no effect on the overall number of conditions. The number of areas covered decreases with the size of these loans.

Throughout our regressions, the number of quarters variable has the expected effects. It is negative for the average number of conditions (tables 2-4), where number of quarters is the denominator of the dependent variable, and it is positive for the scope of conditionality (tables A2-A4), where, by definition, scope can only increase over the duration of an arrangement. Throughout most of our regressions, these relationships are significant at conventional levels.

[Table 5 here]

**(d) The effect of temporary UNSC membership on specific policy areas:** We conclude this section by returning to the effect of our principal variable of interest, UNSC membership, on specific policy areas.<sup>30</sup> Table 5 reports the effect of temporary UNSC membership on the average number of conditions in each of the following specific policy areas: Debt, Government Budget, Monetary Ceiling, Financial sector, BOP/Reserves, Credit to Government, Public Sector, Trade, Systemic, Pricing, Arrears, Governance, Privatization, Exchange system, Wages & Pensions, Central Bank Reform. For each of these areas, we test for the effect of UNSC membership in the baseline model (controlling only for the number of quarters over the duration of a program), and the full model (controlling for our full set of control variables – the results for the control variables are not presented but are available on request).

We find evidence in favor of our hypothesized negative effect of UNSC membership on conditionality for the following policy areas (statistically significant at the ten percent level at least): Debt, Monetary Ceiling, BOP/Reserves, Credit to Government, Trade, Systemic, Pricing, Arrears, and Central Bank Reform. The negative effect is robust for the policy areas of: Debt, BOP/Reserves, Credit to Government, and Pricing. In addition, we find an effect on the Financial Sector in the full model, significant at the one percent level, and on Central Bank Reform in the baseline model, significant at the ten percent level (although an insufficient number of observations prevents the analysis of this dependent variable in the full model). The only policy area that robustly goes against our hypothesized relationship is Public Sector, where we find that UNSC members are likely to have more conditions. Perhaps the content and severity of these conditions is light. Another study finds that when democratic countries that are temporary members of the UNSC participate in IMF programs, wages and

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<sup>30</sup> We present results for 16 of the 20 policy categories listed in the Data on IMF Conditionality section above. We do not consider the following policy areas because there are too few observations: Social (27 countries), Private Sector Reforms (26 countries), Capital Account (10 countries). For all of the other policy areas, there are at least 53 countries in the baseline regression, and a maximum of 101 countries (see table 5). We also drop the residual category, where we find no statistically significant effect of UNSC membership.



salaries increase as a proportion of total government spending, in contrast to the austerity typical of IMF conditions (Nooruddin and Vreeland 2010). Perhaps politically important governments negotiate for fewer conditions in other areas, where compliance may be more transparent, and accept a larger number of public sector conditions, where compliance can be more easily obfuscated. This interpretation is buttressed by the negative effect of UNSC membership on the number of policy conditions in other areas. In fact, for all other policy areas, we find either no effect, or we find evidence of our hypothesized relationship: fewer conditions for UNSC members.

### **Implications for the Foreign Aid Debate**

Unusual events led the IMF Executive Board to select a new Managing Director in 2011. The unexpected opportunity for new IMF leadership resulted in demands from around the world for a fairer and more transparent election process. Many governments and outside observers argued that the new leader should come from outside Europe for the first time in the history of the Fund. These events followed difficult negotiations where Western powers sacrificed some of their voting power at the institution so that emerging market countries could have a larger share. Countries like China, Brazil, India, Turkey and Korea gained in voting power. The largest vote holder, however, remains the United States, and Western Europe retained the prized position of Managing Director. The evidence in this paper illustrates just why political power at the IMF is worth fighting for: the major shareholders can use their power to give favorable treatment to governments that are strategically important to them.<sup>31</sup>

Our study tests this relationship by (1) directly analyzing a new dataset of IMF conditionality and (2) employing UN Security Council membership as a measure of political importance. The results of our analysis confirm that strategically important countries do receive favorable treatment from the IMF when it comes to the conditions that are imposed in return for loans. The robust finding is statistically significant and substantive: UNSC members receive about 30 percent fewer conditions than other countries. Specifically, fewer prior actions are required of them to enter into an arrangement, and they face fewer performance criteria to receive continued loan disbursements. We detect more limited evidence of an effect on the number of structural benchmarks. The scope of policy areas covered by prior actions appears unaffected, although there is evidence that the scope of

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<sup>31</sup> A seat on the Executive Board may be important to other countries as well. See Kaja and Werker 2009, Momani 2008, 2010, Vreeland 2011, and Morrison 2013.

policy areas covered by performance criteria is narrower. In particular, we find reduced conditionality in the policy areas of debt repayment, the balance of payments, credit to the government, and domestic pricing.

During the first decade of the 2000s, when many governments avoided borrowing from the IMF for the first time in their histories, several studies emerged showing that participation in IMF programs during the twentieth century resulted in lower rates of economic growth.<sup>32</sup> The result found acceptance from across the political spectrum, although people disagreed over the mechanism. Some have argued that IMF programs hurt economic growth by imposing weak conditionality, thereby encouraging moral hazard.<sup>33</sup> As countries are now returning to the IMF – and the debate about conditionality has again taken center-stage – addressing the question of moral hazard continues to be of importance.

The problem with corroborating the moral hazard argument has been the historic lack of transparency of the IMF when it comes to providing systematic data on levels of conditionality. So, in a recent study showing economic growth suffers when countries are temporary UNSC members (Bueno de Mesquita and Smith 2010), a crucial piece of evidence is missing: the level of conditionality. Indeed, a debate has ensued in the pages of the *Journal of Conflict Resolution* over whether the pernicious effects of Security Council membership come from increased access to finance, on the one hand, or increased political leverage to avoid macroeconomic adjustment, on the other. Bashir and Lim (2012) highlight that some of the worst performing UNSC members did not receive obvious increases in foreign aid, and they suggest that the negative effects of membership may have been caused by an increased ability to avoid macroeconomic adjustment that would have been required along with similarly-sized aid packages, even small ones. In their rejoinder, Bueno de Mesquita and Smith (2012) clarify that the problem is not necessarily more money but rather “easy” money – finance that does not come with proper policy conditions attached. Indeed, Dreher et al. (2013) find that aid committed while a country was a temporary member of the UNSC is less effective in raising the recipient country’s rate of economic growth. Presumably, then, temporary UNSC members experience lower rates of economic growth because the augmented foreign aid that they receive has low levels of conditionality attached. Rather than encouraging important policy changes, the aid simply props up bad policies and maybe even

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<sup>32</sup> See, for example, Barro and Lee 2005. See Atoyán and Conway 2006 and Marchesi and Sirtori 2011 for more nuanced views.

<sup>33</sup> See Conway 2006 for a summary.

corrupt governments. To test this argument, however, data on levels of conditionality are required. Such data are notoriously unavailable from most sources. Our study provides an initial analysis along these lines, focusing on IMF policy conditionality, thanks to the continuing opening of the IMF and their providing us access to their Monitoring of Fund Arrangements (MONA) database.

To be clear, our findings certainly do not imply that the IMF imposes optimal conditions. They do suggest that politically important countries can expect softer treatment from the IMF. If the governments of such countries can expect fewer conditions in return for access to loans of foreign exchange, these arrangements may indeed serve to promote moral hazard for countries considered politically important to the major shareholders of the IMF. Still, better access to IMF loans with lighter conditionality can be considered for temporary members of the UNSC to be a short-run perk.

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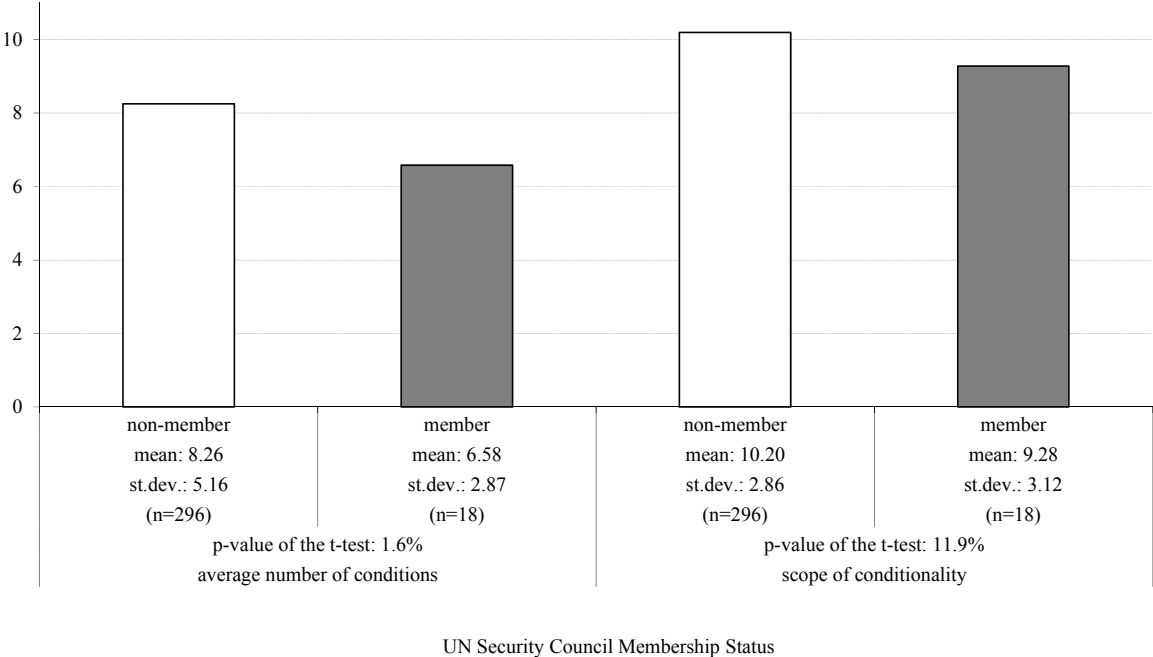
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**Figure 1: Temporary UNSC membership and IMF conditionality**



**Table 1: Levels of IMF conditionality for countries serving on the UN Security Council (election year included)**

Country	Year	Average number of conditions	Scope of conditionality
Zimbabwe	1992	8.25	11
Czech Republic	1993	6.25	4
Hungary	1993	4.2	5
Pakistan	1993	9.5	9
Pakistan	1994	6.08	9
Guinea-Bissau	1995	3.85	12
Egypt	1996	8.88	10
Kenya	1996	2	11
Argentina	1998	6	5
Gambia	1998	5.64	13
Mali	1999	4.13	12
Argentina	2000	6.75	5
Guinea	2001	3.92	12
Bulgaria	2002	11.38	12
Romania	2004	12.25	13
Benin	2005	4.38	10
Burkina Faso	2007	5	5
Peru	2007	10	9

**Table 2: Temporary UNSC membership and average number of IMF conditions**

Variable	Baseline model		Baseline model		Full model		Truncated model		Truncated model	
	Largest sample		Restricted sample				Largest sample		Restricted sample	
	(1) OLS	(2) GLS	(3) OLS	(4) GLS	(5) OLS	(6) GLS	(7) OLS	(8) GLS	(9) OLS	(10) GLS
Temporary member of the UNSC (indicator)	-2.410*	-1.263**	-2.909*	-3.140***	-3.329*	-2.096***	-3.003**	-2.891***	-3.157*	-3.024***
	(-1.906)	(-1.974)	(-1.686)	(-12.63)	(-1.950)	(-4.023)	(-2.133)	(-29.46)	(-1.877)	(-18.92)
Number of quarters of program (count)	-0.184***	-0.189***	-0.116	-0.139***	-0.0851	-0.133***	-0.0749	-0.0456*	-0.0980	-0.0806**
	(-2.611)	(-22.76)	(-1.194)	(-4.256)	(-0.855)	(-3.728)	(-0.893)	(-1.860)	(-1.031)	(-2.107)
Election year, t-1 (indicator)					1.507*	1.184***	1.235*	1.085***	1.584**	1.279***
					(1.897)	(4.517)	(1.803)	(13.01)	(2.049)	(5.139)
External debt, total (% of GNI)					-0.0149	-0.0198***				
					(-1.407)	(-4.825)				
Total debt service (% of GNI)					0.120	0.120**				
					(0.926)	(2.547)				
Total reserves (% of external debt)					0.00223	-0.0138				
					(0.0868)	(-1.138)				
External balance on goods and services (% of GDP)					-0.0809	-0.0478*				
					(-1.386)	(-1.661)				
Investment (% of GDP)					-0.000591	0.00502				
					(-0.00634)	(0.131)				
US Aid (% of GDP)					-0.0889	-0.283				
					(-0.225)	(-1.251)				
Concessional IMF loans (% of GDP)					-0.0813	-0.109				
					(-0.257)	(-0.966)				
Non-concessional IMF loans (% of GDP)					0.486*	0.480***	0.404**	0.441***	0.362**	0.402***
					(1.726)	(11.44)	(2.433)	(12.78)	(2.146)	(8.172)
Observations	314	314	217	217	217	217	288	288	217	217
Number of countries	101	101	75	75	75	75	96	96	75	75
R-squared	0.049		0.030		0.124		0.079		0.094	
F-test for fixed country effects (p-value)	0.000		0.001		0.002		0.000		0.000	
Wooldridge test for serial correlation (p-value)	0.942		0.629		0.737		0.836		0.593	
Breusch-Pagan heteroscedasticity test (p-value)	0.000		0.000		0.000		0.000		0.000	

Notes: t-statistics are in parentheses (\*\*\*) p<0.01, \*\* p<0.05, \* p<0.1); GLS results are corrected for heteroscedasticity.

**Table 3: Temporary UNSC membership and average number of IMF conditions by condition type, GLS**

Variable	Performance criteria					Prior actions					Structural benchmarks				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Temporary member of the UNSC (indicator)	-1.840*** (-5.369)	-0.874* (-1.706)	-0.791 (-1.399)	-2.221*** (-7.467)	-0.647 (-1.126)	-0.177** (-2.092)	-0.270*** (-5.686)	-0.265*** (-2.776)	-0.271*** (-3.377)	-0.217*** (-2.918)	-0.000697 (-0.00783)	-0.293 (-1.462)	-0.318* (-1.942)	-0.191*** (-2.920)	-0.376*** (-2.576)
Number of quarters of program (count)	-0.142*** (-8.946)	-0.133*** (-5.679)	-0.145*** (-4.237)	-0.110*** (-4.694)	-0.127*** (-4.676)	0.00338 (1.296)	0.00890** (2.271)	0.0134** (2.295)	0.0184*** (3.324)	0.0152** (2.086)	-0.0240*** (-3.664)	0.000230 (0.108)	0.0479*** (3.032)	0.0164** (1.994)	0.00545 (0.517)
Election year, t-1 (indicator)			0.682*** (2.695)	0.432** (2.049)	0.629** (2.515)			0.203*** (7.985)	0.0577** (2.318)	0.172*** (3.713)			0.261*** (3.014)	0.306*** (5.999)	0.255*** (3.648)
External debt, total (% of GNI)			-0.0107*** (-2.814)					-0.00396*** (-25.17)					-0.00532*** (-4.127)		
Total debt service (% of GNI)			0.0510 (1.395)					0.00933 (1.237)					0.0437** (2.101)		
Total reserves (% of external debt)			-0.00960* (-1.714)					-0.00554*** (-4.149)					0.00747*** (3.746)		
External balance on goods and services (% of GDP)			-0.0163 (-0.687)					0.00418 (1.266)					-0.0458*** (-4.562)		
Investment (% of GDP)			0.0430* (1.885)					0.0133*** (3.068)					-0.00321 (-0.203)		
US Aid (% of GDP)			-0.136 (-0.976)					0.0713* (1.764)					-0.119** (-2.055)		
Concessional IMF loans (% of GDP)			-0.0745 (-0.726)					0.0416* (1.833)					-0.0223 (-0.386)		
Non-concessional IMF loans (% of GDP)			0.259*** (4.044)	0.251*** (5.273)	0.238*** (5.011)			0.0877*** (4.490)	0.0678*** (4.096)	0.0121 (1.311)			0.125** (2.526)	0.0638** (2.265)	0.0483 (1.360)
Observations	314	217	217	288	217	314	217	217	288	217	314	217	217	288	217
Number of countries	101	75	75	96	75	101	75	75	96	75	101	75	75	96	75

Notes: t-statistics are in parentheses (\*\*\*) p<0.01, \*\* p<0.05, \* p<0.1); GLS results are corrected for heteroscedasticity.

**Table 4: Temporary UNSC membership and average number of IMF conditions by arrangement type, GLS**

Variable	EFF/SBA			PRGF		
	(1)	(2)	(3)	(4)	(5)	(6)
Temporary member of the UNSC (indicator)	-2.271**	-3.208	-2.085	-1.706**	-2.279***	-1.897***
	(-2.006)	(-0.820)	(-0.490)	(-2.413)	(-5.581)	(-4.251)
Number of quarters of program (count)	-0.155***	-0.0142	-0.151	-0.336***	0.0406***	0.00764
	(-9.375)	(-0.139)	(-1.529)	(-6.609)	(5.597)	(0.171)
Election year, t-1 (indicator)			1.977***			0.545
			(3.007)			(1.585)
External debt, total (% of GNI)			-0.0518***			-0.0152***
			(-3.139)			(-4.684)
Total debt service (% of GNI)			0.381***			0.00949
			(3.274)			(0.120)
Total reserves (% of external debt)			0.0982**			0.00592
			(2.345)			(0.344)
External balance on goods and services (% of GDP)			0.300**			-0.105***
			(2.444)			(-3.633)
Investment (% of GDP)			0.361***			-0.0133
			(2.643)			(-0.250)
US Aid (% of GDP)			-0.0239			-0.574**
			(-0.0354)			(-2.300)
Concessional IMF loans (% of GDP)			-0.559			-0.628**
			(-0.347)			(-2.500)
Non-concessional IMF loans (% of GDP)			0.782***			-0.664*
			(6.018)			(-1.869)
Observations	163	94	94	152	127	127
Number of countries	68	43	43	61	53	53

Notes: t-statistics are in parentheses (\*\*\*) p<0.01, \*\* p<0.05, \* p<0.1); GLS results are corrected for heteroscedasticity.

**Table 5: Temporary UNSC membership and IMF conditionality by area classes, GLS**

	Baseline model				Full model			
	beta	t-stat	Obs	Countries	beta	t-stat	Obs	Countries
Debt	-0.31	-3.40***	312	101	-0.23	-2.13**	215	75
Government Budget	-0.08	-0.32	302	100	-0.43	-1.46	209	75
Monetary Ceiling	-0.07	-3.11***	281	98	-0.03	-0.47	199	74
BOP/ Reserves	-0.17	-1.94*	252	87	-0.12	-2.07**	174	64
Financial sector	-0.14	-1.01	252	93	-0.44	-10.02***	178	69
Credit to Government	-0.21	-10.28***	233	88	-0.08	-1.75*	170	64
Public Sector	0.22	2.50**	222	89	0.17	2.30**	161	65
Trade	-0.26	-3.83***	169	78	-0.17	-0.87	125	61
Systemic	-0.24	-20.15***	150	77	0.06	0.48	109	60
Pricing	-0.08	-2.37**	142	75	-0.17	-3.66***	100	57
Arrears	-0.56	-9.07***	122	54	-0.06	-1.01	88	40
Governance	-0.11	-1.48	118	66	-0.15	-1.18	88	51
Exchange system	0.00	0.11	96	59	0.14	0.80	62	43
Privatization	0.15	0.94	95	57	0.10	0.73	76	48
Wages & Pensions	-0.01	-0.11	81	56	0.00		55	42
Central Bank Reform	-0.11	-1.79*	76	53	0.00		52	40

Notes: t-statistics are in parentheses (\*\*\*)  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ); GLS results are corrected for heteroscedasticity. The results for the most commonly included conditions are listed first. The “baseline model” results include only the number of quarters per program as a control variable. The “Full model” results include the full set of control variables (the control variable results are not reported and are available with the replication materials). The number of observations for each regression depends on the number of programs that include the condition in question.

## **Appendix**

This appendix presents the following tables discussed in the main text:

Table A1:

Dependent Variable Descriptive Statistics

Table A2:

Temporary UNSC membership and the scope of IMF conditionality

Table A3:

Temporary UNSC membership and the scope of IMF conditionality by condition type, GLS

Table A4:

Temporary UNSC membership and the scope of IMF conditionality by arrangement type, GLS

Table A5:

Descriptive Statistics of Additional Variables

**Table A1: Dependent Variable Descriptive Statistics**

	All	EFF/SBA	PRGF
Number of countries	101	68	61
Number of years (1992-2008)	17	17	17
Number of programs	314	163	152
Avg. number of quarters	9.61	7.14	12.49

## Total number of conditions

Overall	22,810	11,807	12,309
Performance criteria	14,962	8,365	7,481
Prior actions	2,559	1,350	1,368
Structural benchmarks	5,429	2,188	3,504

## Average number of conditions per quarter

Overall	8.16	10.10	6.64
Performance criteria	5.52	7.24	4.06
Prior actions	0.86	1.09	0.68
Structural benchmarks	1.84	1.85	1.93

## Number of areas covered by conditionality ("scope")

Overall	10.14	9.07	11.40
Performance criteria	7.34	6.15	8.77
Prior actions	2.47	2.33	2.77
Structural benchmarks	4.31	3.31	5.43

Notes: The number of conditions typically reported in official IMF statistics is considerably higher than what we report here. The reason is that the data provided by the IMF represent the cumulative number of conditions evaluated during each quarter of the year(s) an arrangement is in force. Not all of the conditions enter an arrangement when it is initiated; some are added and subtracted over time. Ideally, we would want to count only those conditions that were included at the initiation of a program. But the structure of the MONA database (as we have access to it) does not provide this information. We know for certain only the total number of conditions that were evaluated, not their timing. A specific performance criterion is usually included throughout all quarters of the program, while prior actions and benchmarks come and go. For our analysis, we calculate the sum of all of these conditions. As the resulting number is obviously larger the longer a program is in effect, we divide by the number of quarters. While the average number of conditions is a good proxy for the number of performance criteria, which tend to be consistently evaluated each quarter, it represents a lower bound for structural benchmarks and prior actions, which may not be evaluated each quarter. Still, dividing by the number of quarters avoids over-counting individual conditions and gives our variable the proper order of magnitude in a yearly setup.



**Table A2: Temporary UNSC membership and the scope of IMF conditionality**

	Baseline model						Full model			Truncated model					
	Largest sample			Restricted sample			(7) OLS	(8) GLS	(9) Poisson	Largest sample			Restricted sample		
Average number of areas covered (scope)	(1) OLS	(2) GLS	(3) Poisson	(4) OLS	(5) GLS	(6) Poisson				(10) OLS	(11) GLS	(12) Poisson	(13) OLS	(14) GLS	(15) Poisson
Temporary member of the UNSC, dummy	-0.208 (-0.356)	-0.564 (-0.960)	-0.0214 (-0.226)	-0.557 (-0.676)	-1.430* (-1.746)	-0.0490 (-0.407)	-0.562 (-0.684)	-1.557* (-1.938)	-0.0500 (-0.412)	-0.203 (-0.314)	-0.694 (-1.072)	-0.0147 (-0.144)	-0.490 (-0.604)	-1.388* (-1.725)	-0.0429 (-0.356)
Number of quarters of program	0.304*** (9.316)	0.310*** (9.317)	0.0297*** (5.672)	0.319*** (6.874)	0.304*** (6.578)	0.0308*** (4.325)	0.330*** (6.899)	0.316*** (6.705)	0.0322*** (4.352)	0.283*** (7.325)	0.270*** (6.866)	0.0272*** (4.473)	0.309*** (6.707)	0.292*** (6.387)	0.0300*** (4.186)
Election year (t-1), dummy							0.448 (1.172)	0.345 (0.830)	0.0384 (0.649)						
External debt, total (% of GNI)							0.00292 (0.573)	0.00378 (0.771)	0.000284 (0.382)						
Total debt service (% of GNI)							0.0518 (0.831)	0.0898 (1.469)	0.00647 (0.685)						
Total reserves (% of external debt)							-0.0185 (-1.498)	-0.0168 (-1.387)	-0.00180 (-0.941)	-0.0171** (-2.427)	-0.0149** (-2.333)	-0.00201 (-1.626)	-0.0248** (-2.265)	-0.0264** (-2.476)	-0.00244 (-1.420)
External balance on goods and services (% of GDP)							-0.0575** (-2.050)	-0.0668** (-2.390)	-0.00558 (-1.329)						
Investment (% of GDP)							-0.0223 (-0.498)	-0.0325 (-0.757)	-0.00209 (-0.310)						
US Aid (% of GDP)							-0.0309 (-0.162)	-0.0361 (-0.179)	-0.00585 (-0.203)						
Concessional IMF loans (% of GDP)							-0.0997 (-0.656)	-0.130 (-0.850)	-0.00986 (-0.439)						
Non-concessional IMF loans (% of GDP)							0.0102 (0.0757)	0.0382 (0.286)	0.00509 (0.237)						
Observations	314	299	299	217	206	206	217	206	206	281	268	268	217	206	206
Number of countries	101	86	86	75	64	64	75	64	64	93	80	80	75	64	64
R-squared	0.291			0.253			0.314			0.250			0.280		
F-test for fixed country effects (p-value)	0.000			0.000			0.000			0.000			0.000		
Wooldridge test for serial correlation (p-value)	0.004			0.059			0.076			0.007			0.118		
Breusch-Pagan heteroscedasticity test (p-value)	0.852			0.669			0.596			0.926			0.585		

Notes: t statistics in parentheses (\*\* p<0.01, \* p<0.05, \* p<0.1); GLS results are corrected for autocorrelation.

**Table A3: Temporary UNSC membership and the scope of IMF conditionality by condition type, GLS**

Average number of areas covered (scope)	Performance criteria					Prior actions					Structural benchmarks				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Temporary member of the UNSC, dummy	-1.491**	-1.886**	-2.063**	-1.392**	-1.974**	-0.0808	-0.826	-1.198	-0.166	-0.851	0.585	-0.619	-0.732	0.431	-0.659
	(-2.535)	(-2.209)	(-2.408)	(-2.075)	(-2.344)	(-0.139)	(-1.032)	(-1.519)	(-0.248)	(-1.058)	(1.037)	(-0.905)	(-1.063)	(0.703)	(-0.959)
Number of quarters of program	0.400***	0.401***	0.390***	0.370***	0.390***	0.185***	0.224***	0.220***	0.224***	0.225***	0.222***	0.225***	0.252***	0.222***	0.227***
	(11.95)	(8.319)	(7.751)	(9.063)	(8.161)	(5.591)	(4.944)	(4.750)	(5.503)	(4.927)	(6.974)	(5.825)	(6.240)	(6.007)	(5.826)
Election year (t-1), dummy			0.211					0.335					0.119		
			(0.468)					(0.799)					(0.336)		
External debt, total (% of GNI)			0.00238					-0.00995**					0.000833		
			(0.455)					(-2.061)					(0.198)		
Total debt service (% of GNI)			0.0716					0.127**					0.0321		
			(1.097)					(2.115)					(0.613)		
Total reserves (% of external debt)			-0.0112	-0.00177	-0.0192*			-0.0129	0.000475	-0.000297			0.0117	-0.0123**	0.00546
			(-0.865)	(-0.270)	(-1.715)			(-1.081)	(0.0727)	(-0.0278)			(1.131)	(-1.988)	(0.599)
External balance on goods and services (% of GDP)			-0.0188					0.0118					-0.0617**		
			(-0.628)					(0.427)					(-2.575)		
Investment (% of GDP)			-0.0204					0.0518					-0.0317		
			(-0.447)					(1.232)					(-0.861)		
US Aid (% of GDP)			-0.197					0.459**					-0.0523		
			(-0.905)					(2.265)					(-0.305)		
Concessional IMF loans (% of GDP)			-0.0644					-0.267*					-0.0114		
			(-0.393)					(-1.765)					(-0.0867)		
Non-concessional IMF loans (% of GDP)			0.0226					0.0135					0.127		
			(0.159)					(0.103)					(1.110)		
Observations	299	206	206	268	206	299	206	206	268	206	299	206	206	268	206
Number of countries	86	64	64	80	64	86	64	64	80	64	86	64	64	80	64

Notes: t statistics in parentheses (\*\*\*) p<0.01, \*\* p<0.05, \* p<0.1); GLS results are corrected for autocorrelation.

**Table A4: Temporary UNSC membership and the scope of IMF conditionality by arrangement type, GLS**

Average number of areas covered (scope)	EFF/SBA			PRGF		
	(1)	(2)	(3)	(4)	(5)	(6)
Temporary member of the UNSC, dummy	-0.596** (-2.171)	-3.157*** (-3.817)	-2.869* (-1.895)	-0.231 (-0.308)	0.701 (0.938)	1.110 (1.342)
Number of quarters of program	0.250*** (70.09)	0.250*** (5.136)	0.269*** (5.701)	0.353*** (11.23)	0.310*** (5.721)	0.280*** (3.987)
Election year (t-1), dummy			0.823*** (3.154)			0.854** (1.971)
External debt, total (% of GNI)			-0.00581 (-0.448)			0.00562** (2.043)
Total debt service (% of GNI)			0.0761 (1.362)			0.0188 (0.333)
Total reserves (% of external debt)			0.0160 (0.812)			-0.00966 (-0.808)
External balance on goods and services (% of GDP)			0.146*** (2.817)			-0.0930*** (-4.087)
Investment (% of GDP)			0.134*** (2.828)			-0.0805 (-1.613)
US Aid (% of GDP)			0.0405 (0.152)			-0.623*** (-2.757)
Concessional IMF loans (% of GDP)			-0.207 (-0.180)			-0.111 (-0.933)
Non-concessional IMF loans (% of GDP)			0.122 (1.095)			-0.0283 (-0.165)
Observations	163	94	94	152	127	127
Number of countries	68	43	43	61	53	53

Notes: t statistics in parentheses (\*\*\*) p<0.01, \*\* p<0.05, \* p<0.1); GLS results are corrected for heteroskedasticity.

**Table A5: Descriptive Statistics of Additional Variables**

	N	mean	median	min	max	st.dev	skewness	kurtosis
Average number of conditions per quarter	314	8.16	7.25	0.75	45.08	5.07	2.61	15.59
Scope - number of areas covered by conditionality	314	10.14	10.00	1.00	17.00	2.88	-0.17	2.72
Temporary member of the UN Security Council	314	0.06	0.00	0.00	1.00	0.23	3.81	15.51
Number of quarters of program	314	9.61	12.00	1.00	18.00	4.37	-0.10	1.67
Legislative election year (t-1), dummy	300	0.33	0.00	0.00	1.00	0.47	0.74	1.55
External debt, total (% of GNI)	284	81.68	63.19	4.46	479.22	69.53	2.64	12.26
Total debt service (% of GNI)	284	5.94	4.52	0.06	80.75	6.55	5.99	63.00
Total reserves (% of external debt)	281	24.72	17.84	0.09	223.24	25.19	3.32	20.34
External balance on goods and services (% of GDP)	290	-9.12	-7.76	-99.09	36.36	15.21	-2.08	13.79
Gross fixed capital formation (% of GDP)	286	19.85	19.24	4.03	61.34	6.84	2.12	13.36
US Aid (% of GDP)	226	1.07	0.61	-0.90	13.68	1.50	3.80	26.58
Concessional IMF loans (% of GDP)	293	0.42	0.00	-1.15	36.07	2.35	12.58	184.20
Non-concessional IMF loans (% of GDP)	293	0.11	0.00	-23.76	12.71	1.90	-5.96	93.40