

No. 604-01

**The Influence of Elections on Compliance
with World Bank Conditionality and IMF
Program Interruptions**

Axel Dreher

**Beiträge zur
angewandten
Wirtschaftsforschung**



**Universität Mannheim
A5, 6
D-68131 Mannheim**

The Influence of Elections on Compliance with World Bank Conditionality and IMF Program Interruptions

Axel Dreher

Fakultät für Volkswirtschaftslehre
Universität Mannheim
D – 68131 Mannheim
Germany

e-mail: mail@axel-dreher.de

July 2001

Abstract

Using panel data, this paper tries to explain compliance with World Bank conditionality as well as interruptions of IMF programs around election dates in the recipient countries. Compliance with World Bank conditionality is lower in election years and pre-election years. Using a proxy for IMF program interruptions it is shown that breakdowns are less likely in election years. However, no other political factors seem to influence interruptions and compliance systematically. The paper concludes with implications for reform.

Keywords: World Bank, IMF, Compliance, Program Interruption
JEL classifications: D72, F33, F34

1. Introduction

There is now a widespread perception that creditor ownership¹ is most important to successful implementation of World Bank and IMF policies and that it is not possible to substitute for that ownership with conditionality (World Bank, 1988, 1990, 1992, IMF, 2001). For example, Dollar and Svensson (1998) showed, that governments which are inclined to reform must be identified and can not be created by international organisations. In order to design effective programs, it would therefore be most important for the international financial institutions (IFIs) to detect factors influencing ownership and thus the willingness to reform.

One important factor that influences the will to comply with arrangements negotiated between a government and the IFIs might be national elections in program countries. In the words of the IMF (1997), elections result in government overspending and a general distraction of policy makers. It is sometimes asserted that because of this non-compliance in election years programs are cancelled.² Contrary to this common view, I shall argue that IMF programs are less likely to break down prior to elections. There are two possibilities. First, even if non-compliance is evident the IMF may not want to damage a government's reputation in the run up of elections. Since the Fund could be blamed for the defeat of the incumbent, it may grant a waiver and pay out another tranche before interrupting the program after the election. The IMF may also believe that non-compliance is only temporary and will be reversed after the elections. Thus, it may decide not to cancel the arrangement. Second, the break-down of an arrangement would be interpreted by the voters as failure of the incumbent. A government that has already borne the sometimes high political costs of negotiating an arrangement is unlikely to cancel a program in the eve of an election. Thus, governments are probably inclined to agree to harsh future conditionality to prevent the arrangement from breaking down.

In the case of the World Bank, programs are almost never cancelled – even if non-compliance is evident (Dollar and Svensson 1998: 4, Nash 1993: 24, Mosley et al. 1991: 166). I shall try to test, however, whether compliance is lower in and before election years.

¹ The term ownership simply means that programs include countries 'own' strategies for crises resolution and not those of the Fund or Bank.

² E.g. Mecagni (1999: 223).

First evidence about the effects of elections on new net credit provided by the IFIs, was provided by Dreher and Vaubel (2001) and Dreher (2001a). They showed that, on average, IMF credits are significantly larger in pre- and post-election years and significantly smaller in election years. IBRD loans are significantly larger in pre-election years. However, the smaller amount of net credit drawn in election years does not necessarily mean that more programs are cancelled in these years. An alternative explanation might be that the higher demand in pre-election years results in exhausted quotas in election years. Governments cannot draw any more money in election years. Alternatively, but less likely, in election years the administrative capacity of a government might be exhausted. Governments may thus be unable to negotiate a new reform program. In addition, since a new program would signal direct support for the incumbent government, the IFIs might be unwilling to negotiate a program in election years.³

The observation of higher post-election year credit leads to a second part of the hypothesis: Since the institutions' conditionality can be used to justify restrictive macroeconomic policies after the election, fewer programs should be cancelled during those years. If, however, a new government is elected, it may decide not to comply with the conditions negotiated between its predecessor and the IFIs. Moreover, if the incumbent is re-elected, he may decide not to comply with the conditions agreed prior to the election because – after the election – the perceived trade-off between the cheap money and reduced political leeway may have changed. As a consequence, the IMF, having been quite lenient during the election year, may eventually cancel the program. Thus, with respect to the IMF, it is not clear a priori whether interruptions are more or less likely in post-election years.

Apart from factors that influence government ownership, the empirical analysis has to allow for the fact that external or internal shocks could prevent policy makers from complying with the IFIs' conditionality.⁴

The aim of this paper is to examine in detail whether there are factors that systematically affect compliance, and to test the above-stated hypotheses.

³ Dreher (2001b) provides another explanation. Conclusion of an IMF arrangement may signal rational voters the incumbents incompetence. Since otherwise politicians expect to loose the election they conclude no new arrangements in election years.

⁴ Note, that this is different from asking whether the IFIs' programs were successful. Success depends on many factors. For example, even if a country does not comply with program conditions, a positive shock could improve its situation. On the other hand, programs could fail to succeed, even if all conditions are implemented. This could be due to bad program design or, alternatively, because countries comply only

In addition, I try to find out whether the smaller amounts of credit drawn from the IMF in election years are due to program cancellations or, alternatively, to a reduction in the number of new arrangements.

Sections 2 and 3 survey the empirical studies of compliance with IFIs' conditionality. In Section 4, I present my own panel analysis. Section 5 sums up and proposes reforms.

2. Compliance with World Bank Conditionality

Unlike the IMF, the World Bank itself presents detailed evidence on implementation and success of its adjustment programs.⁵ A first outline was given in the document 'Adjustment Lending: an Evaluation of Ten Years Experience' in December 1988. The main conclusions were that about 60 percent of the agreed policy changes had been implemented. Compliance was higher than the average for energy policy (80%) and lower for trade, industry and agricultural conditions (55%). Similar levels of compliance with adjustment loan conditionality have been reported by Nash (1993) who analyses compliance with World Bank trade related conditionality in Sub-Saharan-African countries between 1980-92. Overall compliance in these countries was relatively high; almost 65 percent of the conditionality was implemented. For non-Sub-Saharan countries he reports a rate of compliance of only 55 percent. In those countries non-compliance was greatest with respect to export institutions and promotion as well as conditions referring to the exchange rate. Compliance was highest in the case of export duties and subsidies on import as well as export and quantitative import restrictions.

The first to analyse political reasons for compliance with World Bank conditionality were Mosley et al. (1991). They argue that the type of political regime might influence governments' ability to comply. This is because authoritarian governments do not have to negotiate with opposition parties about politics. On the other hand, democratic parties may use Bank conditionality as a scapegoat for their preferred reform measures. Another view states that it is most important to commitment whether a new government has come to power. New governments often have popular credits. Moreover, they do not have to fear the immediate loss of power if unpopular measures are taken. A third view stresses the importance of a country's implementation

formally and circumvent the program's spirit with countervailing measures not covered under the programs conditionality.

⁵ However, no country evidence on compliance is presented.

history. On the one hand it is possible that a history of compliance has contributed to a consensus about the necessity of reforms. Alternatively, countries that did not comply in the past may now be in such a bad economic position that they have no alternative but to reform and thus comply with World Bank conditionality. A fourth type of explanations concentrates on the struggle between interest groups directly. In order to influence commitment, the constellation of power in a country has to be changed. This constellation of power depends heavily on the presence of elections. At those times unpopular reforms are less likely to be implemented.⁶

A more recent study of the World Bank (1997) analyses compliance with adjustment lending in Sub-Saharan Africa. In this study 10 out of 35 countries are identified as strong compliers, 11 as weak compliers and 14 are poor compliers. In other words, less than 30 percent of the evaluated countries have a good compliance record.

With respect to project lending, the World Bank (2000) reports a higher rate of compliance. As can be seen in Figure 1 according to the Bank, compliance was nearly 80 percent between 1998-99. This compliance measure does not only include compliance with the conditions of the loan agreement but also whether qualified personnel and the required financial resources are assigned to the projects. However, this study does not evaluate reasons for high or low compliance.

3. Compliance with IMF Conditionality

First evidence on compliance with IMF conditionality was presented by Beveridge and Kelly (1980). They showed that out of 105 countries with upper-credit-tranche programs implemented between 1969–78 only 60 percent achieved the target for the overall fiscal deficit and 54 percent complied with the credit ceiling. However, they did not analyse the reasons for this low compliance.⁷

⁶ There is ample evidence of low compliance prior to elections. For example, in the eve of the November 1983 election in Turkey, money from the World Bank was used to buy electoral support for the governing party, e.g. with mass housing programmes (Mosley et al. 1991: 147). Compliance – which was quite high during the previous period of military rule – was drastically reduced. Public investment growth as well as extra-budgetary funds were expanded. Another example is the Burnham government in Guyana that failed to elicit political commitment in the negotiation of an SAL before elections in December 1980. In Ecuador the removal of maize and wheat import prohibition was only implemented with a delay in July 1988 after presidential elections were held in January.

⁷ There is, of course, case study evidence illuminating possible reasons. One example is the program negotiated with Peru in 1977. This program failed chiefly because targets for the overall budget deficit were not met. Prior to legislative elections in June 1978, monetary expansion surged to more than 60 percent and foreign direct investment declined drastically. In the second quarter of 1978 the country was almost bankrupt. In July, one month after the election, a new IMF arrangement was concluded. The program included conditions on increases in bread and fuel prices, an elimination of most subsidies, an increase in interest rates and restricted government spending (Cline 1983). The targets for the 1978

Almost 10 years later, Edwards (1989) reported even lower rates of compliance. Out of 34 programs approved in 1983 only 30 percent complied with conditions on the government's deficit. In 1984 compliance was reduced further: the ceiling was observed in only 19 percent of the programs. One year later, 57 percent of these countries failed to comply. As for changes in domestic credit, compliance was highest in 1983 (54.8%). It reduced to 46.4% in 1984 and still further in 1985 (40.9%). On average, compliance was higher for changes in net domestic credit to the government with 72 percent in 1983 and about 52 percent in 1984 and 1985.⁸

Similar results were achieved by Tony Killick (1995) who used a proxy to show that from 305 IMF programs between 1979 and 1993 only 47 percent were completed without interruptions. He showed that the completion rate is declining over time and that Standby Arrangements compared to Extended Fund Facility Arrangements – are more likely to be completed. In addition, Killick gives evidence that highly indebted countries as well as countries with small amounts of IMF credit are less likely to complete a program and that fiscal conditions are especially unlikely to be met. He also stresses that new programs are concluded for political reasons even if non-compliance with the conditionality of previous ones is evident.⁹

More recently, Mecagni (1999) evaluates 36 countries with an IMF program under the Structural Adjustment Facility or the Enhanced Structural Adjustment Facility approved between 1986 and end-94. His findings show that 28 of the evaluated

program were substantially met, the external deficit was down to 10 percent of the exports. Obviously, it would have been difficult to enforce such conditions prior to elections.

Another break-down in which elections might have played a role is that of Tanzania in 1975. The IMF refused to disburse the second tranche of a Stand-by arrangement initiated in august 1975 because the Tanzanian government did not comply with the accepted conditions (Cline 1983). Specifically, officials were not able to reduce government spending and monetary growth – maybe because of the oil price shock and a worldwide recession. Moreover, legislative and presidential elections held in October could have contributed to the non-compliance. Contrary to the IMF, the World Bank extended their program loans to Tanzania.

⁸ For example, the 1981 Extended Fund Facility Arrangement with Jamaica was not fully disbursed due to non-compliance in 1983-84 (Stiles 1991). In 1983 – when national elections were held in December – 85 percent of the agreed amount were drawn. One year later, only 15 percent were disbursed. Another example is Mexico, where large deviations from targeted public sector borrowing prior to the July 1985 election occurred. In 1984 and 1985 the target was 5.5 and 3.5 percent of GDP, respectively. The actual borrowing amounts to 8.7 percent in 1984 and 9.9 percent in 1985.

⁹ This was the case in Sudan, for example, where the IMF supported president Nimeiri despite of repeated slippage and a lack of government commitment to reform (Killick 1995: 104). In December 1981, directly after legislator elections, sugar subsidies were abruptly removed instead of letting them phase out, as agreed with the Fund. Moreover, petrol prices were increased by almost 40 percent. (Stiles 1991: 92). The program was therefore cancelled. However, a new arrangement was concluded in February 1982. Another example is the 1996 credit for Russia under the Extended Fund Facility 3 month prior to presidential elections where the US and German governments induced the IMF to support president Yeltsin (Goricki 1999: 223). This was despite the low compliance with conditions under the previous Standby Arrangement where Yeltsin, in the eve of parliamentary and presidential elections promised huge expenditure increases. Moreover, revenues were far behind expectations.

countries interrupted their programs 51 times in total. 17 countries had more than one interruption. Only 10 programs were in effect for 3 or 4 years without any major interruption and policy slippage. 38 programs made it at least one year, in the second year, 22 programs remained in effect. 33 interruptions were caused by slippage on conditionality, only 8 programs broke down due to disagreements about future actions. In some cases, governments needed more time to get political support in their countries in favour of an IMF program. For example, in 1988-89, only 40 percent of 17 countries with an SAF program complied with the postulated credit ceiling. The same is true for the overall fiscal deficit. In 1/6 of the reviewed programs there were political upheavals. Governments were therefore not able to make credible commitments. In 12 interruptions elections played a role.¹⁰

To sum up the evidence, several studies did find influences of political factors on compliance with loan conditions. But are these studies merely anecdotal or is it possible to find a systematic correlation between compliance and political factors in creditor countries? This question will be addressed in the following paragraph. Specifically, I test whether IMF program interruptions are less likely in election years and, with respect to the World Bank, whether compliance is reduced at election times.

4. Some new Evidence: An Empirical Investigation

4.1. The World Bank

I start by analysing compliance with World Bank programs. Afterwards, a similar analysis is applied to the IMF. The regression is a pooled time-series cross-section analysis (panel data). Since some of the data are not available for all countries or years, the panel data are unbalanced and the number of observations depends on the choice of explanatory variables. I did not find significant fixed time effects, neither for individual years, nor for different decades. All variables, their precise definitions and data sources are listed in the appendix.

¹⁰ There was, for example, a 12 month delay in completing the review for the 1988 ESAF program with Bolivia. Presidential elections were held in June 1993, the interruption started in April. However, the money was completely disbursed prior to the election. There were large deviations from fiscal targets, as well as from benchmarks on credit and international reserves. Moreover, reforms in the financial sector were delayed. In Burkina Faso, an SAF program was cancelled 3 month after the elections in December 1991. Tax collection efforts declined and there were insufficient attempts to compensate for the income reductions with expenditure cuts. In September 1993, a scheduled ESAF review was not completed prior to the November elections in Equatorial Guinea. The program went off track in several areas, fiscal and monetary expansion was excessive and structural reforms were delayed. Similar problems occurred in Ghana, Guinea, Honduras, Kenya, Mauritania, Nepal, Senegal, Sri Lanka and Togo.

As dependent variable, I employ an index of compliance constructed with case study data presented by Nicholas (1988) and Mosley et al. (1991). It takes the value of one if low compliance is observed and zero otherwise. Therefore, a probit model is used for estimation.

Unfortunately, data are only available from 1980-88 and cover only 23 countries.

To examine the influence of elections on compliance with World Bank adjustment programs, column 1 of *Table 1* regresses the dependent variable on three election year dummies: One dummy for pre-election years, one for election years and one for post-election years. As can be seen, compliance is lower in and before election years. However, the coefficients are only marginally significant.

Column 2 adds macroeconomic variables, which can be controlled by the government directly or do depend on its actions:

- the overall budget deficit relative to GDP,
- the rate of monetary expansion,
- changes in international reserves relative to imports,
- the current account balance as a percent of GDP and
- the net inflow of foreign direct investment relative to GDP.

To avoid simultaneity bias all additional variables are lagged one year. Only one coefficient is significant: Higher budget deficits seem to lead to reduced compliance. However, if more variables are included, this result will be overturned. The coefficients of the election and pre-election year dummies remain marginally significant.

Column 3 uses three political variables instead:

- the share of past IMF programs that were interrupted,
- a dummy for the existence of autonomous regions and
- a dummy that is unity if the prime minister is from a nationalist party.

The share of IMF programs interrupted in the past is used to test the hypothesis that past compliance with Fund conditionality influences those with the World Bank. However, no significant correlation was found. The same is true, if a dummy for IMF-interruptions in the same or the previous year is used instead. The dummy for autonomous regions is highly significant. However, this is probably due to the small number of countries for which this dummy is unity. Nationalism has no significant influence on compliance. Again, the election and pre-election year dummies are significant at the 10-percent-level. I also tried to check for the influence of democracy

and past non-compliance with Bank conditionality on non-compliance. However, since their inclusion reduces the number of observations significantly the results are not reported in the table.¹¹

Finally, column 4 combines all variables. Apart from the electoral variables only the dummy for autonomous regions has a significant (positive) influence: With regional autonomy, it is more difficult for the government to comply with World Bank conditionality. The election year dummy now is significant at the five percent level, the pre-election year dummy remains marginally significant.¹² The final equation is able to predict the dependent variable correctly 66 percent of the time.

To sum up, I did not find variables other than elections and regional autonomy that influence compliance with World Bank conditionality systematically. Compliance is lower in election and pre-election years.

4.2. The International Monetary Fund

This section replicates the above analysis for the IMF. However, in the case of the Fund, no direct data on compliance are available. It is therefore necessary to employ a proxy. As Killick (1995: 58) points out, the credit agreed but left undrawn may be a useful indicator of performance under a program. After concluding an arrangement, part of the credit associated with the program will be paid out immediately. The rest is payable in tranches. Since IMF credits are highly subsidised, countries have incentives to draw all the money available immediately. This is especially true in election years. However, the money is conditional on observance of several performance criteria. Unless a waiver is granted, non-compliance results in program interruptions. Therefore, if there are large unused credit lines, non-compliance and interruptions are likely to be the cause.¹³ In Killick's study a program was taken as uncompleted if at least 20 percent of the initial credit line remained undrawn. The results were compared with case studies on 48 programs, where an almost perfect matching was achieved. Thus, a similar indicator will be used here.

¹¹ If a dummy for democracy is used, the election and pre-election year dummies remain significant. The coefficient of the democracy dummy is insignificant.

¹² Note, that this result is independent from the estimation method. It also holds, if additional political variables are added. However, due to the drastically reduced sample size, these results are not reported here.

¹³ Only in some cases countries may not draw on their credit lines because their economic situation improved quickly after the agreement with the Fund. Moreover, some countries might enter an arrangement only on a precautionary basis, without intending to draw on these credits. However, apart from these exceptional cases, only countries not complying with Fund conditionality leave some of the money undrawn.

As in the case of the World Bank, the regression is a pooled time-series cross-section analysis. Here, the annual data cover the years 1971-97 and extend to 67 countries.¹⁴

The dependent variable is a dummy which takes the value of one if in a certain year at least 25 percent of the amount agreed under an IMF program remained undrawn and zero otherwise.

As can be seen in *Table 2*, according to this dummy, interruptions of IMF programs seem to be quite frequent.¹⁵ Between 1969-98 almost 56 percent of the agreed money were not disbursed as scheduled. The fraction of undisbursed money was lowest under the Enhanced Structural Adjustment/ Poverty Reduction and Growth Facility and greatest under the Extended Fund Facility.

To examine the influence of elections on undisbursed credit lines, the dependent variable is regressed on the three election dummies. As can be seen, unused credit lines are significantly smaller in election years. This result will hold, regardless of the choice of control variables. It seems that we can reject the claim that more programs are being cancelled in election years.

One year after the election there seems to be, on average, a higher probability of interruptions. This is compatible with the a priori hypotheses. However, as more control variables are added, this result cannot be maintained. The pre-election year dummy is insignificant.

Column 2 adds the same macroeconomic variables as the previous section. Since ceilings on the overall budget deficit and the rate of monetary growth are included in almost all Fund arrangements, on average, higher values should induce the Fund to interrupt the program.¹⁶ As indicators for the dependence on the IMF, changes in net reserves, the current account balance and foreign direct investment are included. Dependence is reduced with rising foreign investment and more foreign reserves available and raises with higher current account deficits. However, only foreign direct investment is marginally significant. As can be seen, more foreign direct investment apparently leads to a greater probability of interruptions. The (marginal) significance of

¹⁴ Initially, the sample contained 111 countries. Due to a lack of data, however, it was reduced to 67.

¹⁵ Similar results were achieved by Killick (1995: 62). This is in contrast to the findings of Mussa and Savastano (1996: 16) who report a higher fraction of disbursements. However, since they present the share of IMF loans actually disbursed under each arrangement this is no adequate indicator for program interruptions. With their measure interruptions during a (longer-term) program would not be measured when the money is finally disbursed.

¹⁶ A better indicator would be the deviation from agreed values. However, those data are not available for programs before 1998.

the post-election dummy drops with the inclusion of the macroeconomic variables. However, the negative coefficient of the election dummy improves in significance.

Instead of the macroeconomic variables, column 3 uses the following political and internal variables to control for countries' differences:

- the share of past programs in which at least 25 percent of the agreed money remained undrawn,
- an index for currency crises (t-1),
- an index for government fractionalisation in the legislature,
- an index for the strength of the president,
- a dummy for the existence of autonomous regions,
- a dummy that is unity if the chief executive's party is nationalist,
- a dummy for democracy and
- a dummy that is unity if there is an IMF quota review in the next year.

However, not one of these variables has a significant influence on program interruptions. Owing to data limitations, the number of observations is reduced by more than half. Again, the election year dummy keeps its significantly negative coefficient.

Column 4 combines macroeconomic and political variables.¹⁷ The results with respect to the election dummies are highly robust. In the combined regression, 4 variables have a significant influence on our proxy of program interruptions. In addition to the election year dummy and foreign direct investment, changes in net reserves and the monetary growth rate have coefficients that are at least marginally significant.¹⁸ The coefficient of foreign direct investment is now significant at the 5 percent level. The results are easy to explain: The more foreign reserves are available, the less do governments depend on the Fund. Higher rates of monetary growth are probably an indicator for non-compliance; interruptions are therefore more likely. The regression is able to predict program interruptions correctly 81 percent of the time. However, the McFadden R² remains quite low.

Finally, column 5 adds dummies to check whether the observed differences in the share of undisbursed money between arrangements (Table 2) are significant. As can be seen, the share of disbursed money is significantly lower under Standby and EFF arrangements. One reason for this might be the higher interest rate subsidy under the Poverty Reduction and Growth Facility. With the inclusion of these dummies, the share

¹⁷ I also tried to check for regional differences. However, as in Killick (1995) no significant effects were found.

of past program interruptions in all programs becomes marginally significant. It seems that part of the money withheld due to non-compliance is paid out later. The influence of the other coefficients remains unchanged.

To sum up, the results are compatible with the above stated hypotheses: In election years, program interruptions seem to be less likely than in non-election years. The IMF's claim that it cancels programs regardless of elections cannot be maintained.¹⁸ The probability of cancellation is not significantly smaller in pre-election years. Initially, I did find some evidence that cancellation is higher in post-election years. However, this result disappeared with the inclusion of more control variables. Neither democracy nor a country's past implementation record seem to have a systematic influence on interruptions of disbursement.

5. Conclusion

Compliance with conditionality under IMF and World Bank programs is traditionally quite low. As a consequence, the IMF sometimes cancels the arrangement while the World Bank does not. The World Bank is reluctant to negotiate new arrangements with past non-compliers (Mosley et al. 1991: 167) whereas the Fund immediately concludes new arrangements after previous failures. Both responses seem to be inappropriate. Countries that fail to comply with (important) program conditions should immediately be excluded from new money. That means that the current program has to be cancelled and that no new arrangements should be concluded with that government. Another way to adjust the disproportion between money paid out and conditionality implemented would be to pay out tranches only after agreed conditions have been met. This procedure has recently been introduced under the World Bank's Higher Impact Adjustment Lending and would be a good instrument at least for the longer term assistance from the IMF. A similar proposal has been made by Vaubel (1991) and the International Financial Institutions Advisory Commission (1999) who proposed to establish IMF conditionality on an ex-ante basis. If tranches would be released only after compliance with certain codes of good practise, less money would be paid to failing countries. This principle has been established for the IMF's contingent credit line which, however, has not been used so far.

¹⁸ The results for international reserves and monetary growth are in line with Ergin (1999) who used a similar indicator for Tobit regressions.

¹⁹ The smaller amounts of new credit in election years observed by Dreher and Vaubel (2001) imply therefore that less arrangements are concluded during those years.

To the extent that conditionality is ex post, the interest rate on the loan could be made contingent on compliance. Low compliance would lead to an interest penalty.

A better selection of countries may also reduce non-compliance. However, it is not evident which factors – other than elections – influence compliance systematically. Neither democracy nor past compliance were found to be reliable indicators of future compliance. With respect to elections, it has been shown that the share of money disbursed under IMF programs is significantly higher in election years. Since it is highly unlikely that compliance with conditionality is rising prior to elections, the IMF seems to be more lenient at this time – probably in order to support the incumbent. It has been shown that compliance with World Bank conditions is lower in election and pre-election years. To avoid interference with domestic political processes, Fund and Bank should not pay out tranches prior to elections in the case of non-compliance. Camdessus (1996) has objected that the postponement of a program at election times would be a political act in its own right. However, the real political act is increased tolerance of non-compliance and increased lending at election time.

Definitions and data sources

„IMF program interruptions“, <http://www.imf.org>: Dummy that takes the value of one, if at least 25 percent of the money initially agreed upon in an arrangement remains undrawn in a certain year.

„Non-Compliance with World Bank conditionality“, Mosley et al. (1991), Nicholas, Peter (1988): Dummy that takes the value of one, if a country's compliance is classified as unsatisfying according to case studies.

Election years, Gorvan (1989) and Journal of Democracy (various years).

“Overall Budget Deficit in percent of GDP”, International Bank for Reconstruction and Development (1999): Overall budget deficit is total expenditure and lending minus repayments less current and capital revenue and official grants received. Data are for central government only.

“Monetary Expansion”, International Bank for Reconstruction and Development (1999): Average annual growth rate in money and quasi money. Money and quasi money comprise the sum of currency outside banks, demand deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government. The change in the money supply is measured as the difference in end-of-year totals relative to the level of M2 in the preceding year.

“Changes in Net Reserves in percent of GDP“, International Bank for Reconstruction and Development (1999): Measures the net change in a country's holdings of international reserves resulting from transactions on the current, capital, and financial accounts.

“Current account balance in percent of GDP”, International Bank for Reconstruction and Development (1999)

“Net inflow of foreign direct investment in percent of GDP”, International Bank for Reconstruction and Development (1999): Net inflows of investment to acquire a lasting

management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments.

“Index for Currency Crises”, Hutchinson, Michael M. (2001): Weighted average of monthly exchange rate changes and monthly (percent) reserve losses.

“Government fractionalisation in the legislature”, Beck, Thorsten et al.: Measures the probability that any two government legislators drawn at random belong to the same party.

“Strength of the president”, Beck, Thorsten et al.: The percent of votes, the chief executive achieved in the first round of the last election.

“Autonomous regions” Beck, Thorsten at al.: Dummy that takes the value of one, if a country has regions, areas or districts that are autonomous or self governing.

“Chief executive is nationalist” Beck, Thorsten et al.: Dummy that is one, if the chief executive’s party is described as nationalist or a primary component of the party’s platform is the creation or defence of a national or ethnic identity.

“Dummy for democratic regime”, Alvarez et al. (1996): Dummy which takes the value of one, if a country is classified as democratic in that year. A country is not classified as democratic when its chief executive and legislature were not elected and there are not at least two political parties.

“Dummy for year of IMF quota review”, IMF: <http://www.imf.org>: Dummy which takes the value of one for years in which IMF quotas were under review and zero otherwise.

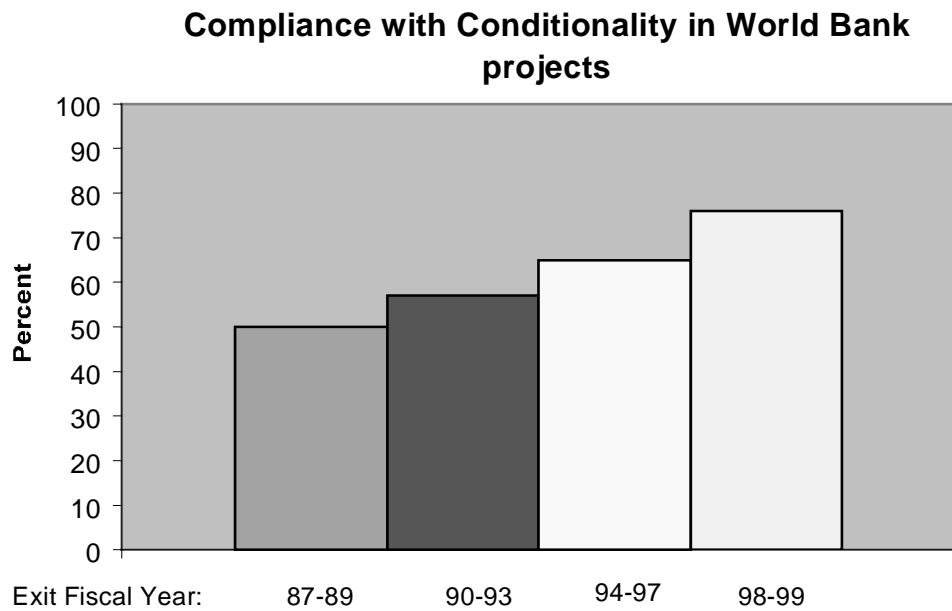
References

- Beck, Thorsten et al., New Tools and new tests in comparative political economy: The Database of Political Institutions, Development Research Group, The World Bank, Washington, D.C.
- Beveridge, W. A., Kelly, M. R. (1980), Fiscal Content of Financial Programs Supported by Stand-By Arrangements in the Upper Credit Tranches, 1969-78, IMF Staff Papers, Vol. 27: 205-249.
- Camdessus, Michael (1996), Camdessus on IMF Support For Russian Reforms, in: IMF Survey, Vol. 25, No. 8: 129-30.
- Cline, William (1983), "Economic Stabilisation In Developing Countries: Theory and Stylised Facts", in: John Williamson (ed.), IMF Conditionality, Institute for International Economics, Washington, D.C.: 175-208.
- Dollar, David, Svensson, Jakob (1998), What Explains the Success or Failure of Structural Adjustment Programs?, Policy Research Paper 1938, World Bank, Washington, D.C.
- Dreher, Axel (2001a), Does the World Bank cause moral hazard and political business cycles? Evidence from panel data, Universität Mannheim, <http://www.axel-dreher.de>.
- Dreher, Axel (2001b), The Influence of IMF Programs on the Re-election of Debtor Governments, Universität Mannheim.
- Dreher, Axel, Vaubel, Roland (2001), Does the IMF cause moral hazard and political business cycles? Evidence from panel data, Beiträge zur angewandten Wirtschaftsforschung, Institut für VWL und Statistik, Universität Mannheim: Discussion Paper 598-01, <http://www.vwl.uni-mannheim.de/vaubel/vaubel/publikation.html>.
- Edwards, Sebastian (1989), The International Monetary Fund and the Developing Countries: A Critical Evaluation, Carnegie-Rochester Conference Series on Public Policy: IMF Policy Advice, Market Volatility, Commodity Price Rules and other Essays, North-Holland: 7-68.
- Ergin, Evren (1999), Determinants and Consequences of International Monetary Fund Programs, Ph.D. dissertation, Stanford University.
- Goricki, Clarissa (1999), Marktwirtschaftliche Reformsteuerung - Die Rolle von IWF und Weltbank in Mittelosteuropa nach 1990, Verlag Fakultas, Singapur.

- Hutchinson, Michael M. (2001), A Cure Worse than the Disease? Currency Crises and the Output Costs of IMF-Supported Stabilisation Programs, NBER Working Paper 8305.
- International Financial Institutions Advisory Commission (1999), Report, <http://phantom-x.gsia.cmu.edu/IFIAC/USMRPTDV.html>, 1.9.2000.
- International Monetary Fund (1997), The ESAF at Ten Years, Economic Adjustment and Reform in Low-Income Countries, IMF Occasional Paper 156, Washington, D.C.
- International Monetary Fund (2001), Conditionality in Fund-Supported Programs - Policy Issues, Washington, D.C.
- Killick, Tony (1995), IMF Programmes in Developing Countries - Design and Impact, Routledge, London.
- Mecagni, Mauro (1999), "The Causes of Program Interruptions", in H. Bredenkamp, S. Schadler (eds.), Economic Adjustment in Low-Income Countries, International Monetary Fund, Washington, D.C.: 215-276.
- Mussa, Michael, Savastano, Miguel (1999), The IMF Approach to Economic Stabilisation, IMF Working Paper, Washington, D.C.
- Mosley, Paul, Harrigan, Jane, Toye, John (1991), Aid and Power - The World Bank & Policy-based Lending Vol. 1, Routledge, New York.
- Nash, John (1993), Implementation of Trade Reform in Sub-Saharan Africa - How Much Heat and How Much Light?, Policy Research Working Paper 1218, World Bank.
- Nicholas, Peter (1988), The World Bank's Lending for Adjustment - An Interim Report, World Bank Discussion Paper 34, Washington, D.C.
- Stiles, Kendall W. (1991), Negotiating Debt, Westview Press, San Francisco.
- Vaubel, Roland (1991), "The Political Economy of the International Monetary Fund: A Public Choice Approach", in: Roland Vaubel, Thomas D. Willett (eds.), The Political Economy of International Organisations, Boulder, Westview: 205-245.
- World Bank (1988), Adjustment Lending: An Evaluation of Ten Years Experience, Policy and Research Series 1, Washington, D.C.
- World Bank (1990), Adjustment Lending: Policies for Sustainable Growth, Policy and Research Series 14, Washington, D.C.
- World Bank (1992), Adjustment Lending and Mobilisation of Private and Public Resources for Growth, Policy and Research Series 22, Washington, D.C.

World Bank (1997), Adjustment Lending in Sub-Saharan Africa: An Update, Document of the World Bank, Report No. 16594, Washington, D.C.

World Bank (2000), 1999 Annual Review of Development Effectiveness, Washington, D.C.

Figure 1

Source: World Bank, Annual Review of Development Effectiveness, several years.

Table 1
Non-Compliance with World Bank conditionality
(panel data, 23 countries, 1980-88, probit)

explanatory variables	(1)	(2)	(3)	(4)
constant	-0.12 (-0.60)	-0.43 (-0.99)	-0.88 (-1.63)	-1.06 (-1.34)
election year dummy	0.68 (1.68**)	0.81 (1.76**)	0.72 (1.75**)	1.00 (2.17*)
post-election year dummy	0.49 (1.40)	0.32 (0.79)	0.49 (1.37)	0.58 (1.24)
pre-election year dummy	0.67 (1.85**)	0.63 (1.65**)	0.67 (1.77**)	0.67 (1.66**)
overall budget deficit (t-1)		0.07 (2.25*)		0.04 (1.12)
monetary growth (t-1)		-0.00 (-0.34)		0.00 (0.32)
change in net reserves (t-1)		-0.06 (-0.92)		-0.06 (-0.95)
current account balance (t-1)		0.02 (0.65)		-0.02 (-0.46)
foreign direct investment (t-1)		0.29 (1.02)		0.29 (1.04)
past compliance			1.11 (1.33)	0.40 (0.38)
autonomous regions			8.28 (28.43 ^o)	8.33 (11.27 ^o)
executive's party is nationalist			0.20 (0.54)	0.44 (1.02)
log likelihood	-56.17	-43.82	-53.12	-42.04
McFadden R ²	0.05	0.14	0.10	0.17
number of observations	87	74	87	74

Notes:

z-statistics in parentheses:

^o: significant at the 1 percent level *: significant at the 5 percent level

**: significant at the 10 percent level

Table 2
Proxy for Interruptions of IMF Programs, 1969-98¹

	Number of Program years	Frequency of “Interruptions”	“Interruptions” in percent
All Programs	956	574	60.04
1969-78	144	103	71.53
1979-88	319	202	63.32
1989-98	493	269	54.56
SAF	87	33	37.93
1969-78	0	0	0
1979-88	53	13	24.53
1989-98	34	20	58.82
ESAF/PRGF	231	92	39.83
1969-78	0	0	0
1979-88	6	1	16.67
1989-98	225	91	40.44
Standby Arrangements	525	351	66.86
1969-78	133	95	71.43
1979-88	222	144	64.86
1989-98	170	112	65.88
Extended Fund Facility	151	112	74.17
1969-78	11	8	72.73
1979-88	61	47	77.05
1989-98	79	57	72.15

Source: www.imf.org

¹ A program is classified as ‘interrupted’ if in a certain year at least 25 percent of the money that were available under equal phasing remained undrawn.

Table 3
Proxy for Interruptions of IMF programs
(panel data, 67 countries, 1971-97, probit)

explanatory variables	(1)	(2)	(3)	(4)	(5)
constant	0.35 (5.38 ⁰)	0.40 (3.67 ⁰)	0.82 (2.36*)	0.87 (1.56)	1.00 (1.70**)
election year dummy	-0.21 (-2.07*)	-0.35 (-2.63*)	-0.52 (-2.44*)	-0.60 (-2.31*)	-0.64 (-2.45*)
post-election year dummy	0.20 (1.89**)	0.003 (0.02)	0.03 (0.13)	0.01 (0.03)	-0.003 (-0.01)
pre-election year dummy	0.11 (1.06)	0.03 (0.23)	-0.07 (-0.35)	-0.19 (-0.77)	-0.20 (-0.80)
overall budget deficit (t-1)		-0.01 (-0.54)		-0.02 (-0.65)	-0.02 (-0.63)
monetary growth (t-1)		0.0005 (1.32)		0.002 (2.06*)	0.002 (2.59*)
change in net reserves (t-1)		0.02 (0.93)		0.09 (1.91**)	0.10 (2.24*)
current account balance (t-1)		-0.002 (-0.51)		-0.01 (-0.46)	0.01 (0.31)
foreign direct investment (t-1)		0.07 (1.74**)		0.19 (2.08*)	0.20 (2.25*)
past interruptions			-0.53 (-1.05)	-0.87 (-1.09)	-1.60 (-1.74**)
currency crises (t-1)			0.28 (0.99)	0.57 (1.53)	0.55 (1.39)
government fractionalisation in the legislature			-0.16 (-0.38)	-0.23 (-0.46)	-0.25 (-0.47)
strength of the president			0.0003 (0.1)	0.0003 (-0.08)	0.001 (0.28)
autonomous regions			0.40 (1.12)	0.40 (1.09)	0.64 (1.59)
executive's party is nationalist			-0.16 (-0.52)	-0.32 (-0.79)	-0.46 (-1.10)
dummy for democracy			-0.08 (-0.42)	-0.16 (-0.69)	-0.19 (-0.78)
quota review (t+1)			-0.11 (-0.47)	0.11 (0.37)	0.15 (0.50)
dummy for EFF Arrangements					0.65 (1.97*)
dummy for Standby Arrangements					0.54 (2.00*)
log likelihood	-580.23	-343.86	-148.88	-105.34	-102.10
McFadden R ²	0.01	0.02	0.04	0.10	0.13
number of observations	902	539	235	177	177

Notes:

z-statistics in parentheses:

^o: significant at the 1 percent level *: significant at the 5 percent level **: significant at the 10 percent level