The political economy of IMF conditionality

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The International Monetary Fund is no longer central to the international monetary system in the way it was before the collapse of the Bretton Woods system of exchange rates. The most advanced industrial economies can now endure the worst financial crises without its assistance. Since this change, the Fund’s resources have shrunk considerably relative to changes in the global economy. However, it still exercises a unique function for some developing countries. This function is known as ‘lender of last resort’ and it is supposed to stop financial crises from spreading, or even starting in the first place (Fischer 1999:86). Scholars seem to agree that we need an international institution like the IMF to reduce international financial instability (Fischer 1999; Rogoff 1999). In other words, if it did not already exist, we would need to create it.

A key trade-off faced by the IMF in all of its lending and conditionality decisions is between the provision of liquidity and the prevention of moral hazard (Copelovitch 2005:35). The provision of liquidity allows debtors to continue servicing their loans, thus benefiting many actors in the lending process. Those who benefit include state creditors, private creditors and the IMF itself, which can increase its resources by lending more. Keeping debtors liquid might also have a pacifying effect on the international financial system by preventing the spread of a financial crisis to other countries. However, the provision of liquidity also creates the problem of moral hazard. The term ‘moral hazard’ is used to describe a situation where an actor who causes a problem does not suffer some, or any, of its consequences, or may actually benefit (Keohane 1984:93). For example, the availability of IMF assistance in the event of a financial crisis could make such a crisis more likely to occur. Investors lend money with insufficient concern for the risks involved. IMF assistance alters their expectations, as they do not have to carry the burden of adjustment. The logic behind conditionality, among other things, is that it will reduce moral hazard and increase efficiency. However, the process of conditionality is not completely de-politicised. At some point, IMF staff, directors, government officials and others must use discretion, and make qualitative decisions on how to condition lending to make the best trade-off possible. Thus, a key question arises; what combination of political and economic factors determines conditionality?
There are very acute divisions within the IMF and other international financial institutions (IFIs) that are not present in national central banks. Its governance and institutional design are particularly vulnerable to political pressures, as it must aggregate the interests and preferences of 185 states. A heated debate exists between those that want IFIs to become independent of political influence so they can make better and more consistent decisions and those who assert that this is less democratic (Vreeland 2007; Woods 2006). Reform of the international financial institutions is certainly worthwhile. However, existing policies have a profound effect on borrowing countries. In recent years, the scope of conditionality has expanded far beyond balance of payments problems, meaning political influence, if it is a part of IMF programs, should now be even more extensive and spread across a wide range of policies.

In this paper, I begin by discussing the IMF as a technocracy and continue by analysing its behaviour through the lens of principal-agent theory. This theory helpfully illustrates the relationship between the actors that influence the lending process. IMF programs often reflect several influences on the decision-making process – political, technocratic, and bureaucratic. Although the Fund certainly has technocratic and bureaucratic components, they have been overemphasized, leaving a gap in the literature for an explanation of the political determinants of IMF policies. In order to explain how conditions vary across countries, I discuss the key interests, actors, and agents who control IMF policies. This leads me to develop separate theoretical concepts of US control and G7 control of the IMF; effectively, two different configurations for the role of principal. I also discuss the personal preferences of bureaucrats at the Fund, speculating on ways in which they are autonomous from principal preferences, and propose a series of hypotheses to test these concepts.

**The official scope of IMF conditionality: consistency, rules, and discretion**

The IMF Articles of Agreement on organisation and management emphasize the importance of efficiency, technical competence, and freedom from political influence.  

1 The official rules and guidelines for the design of conditionality suggest that IMF...
policies should be dependent primarily on the economic condition of the countries that seek its assistance. However, the rules of conditionality also specify that IMF officials and bureaucrats can exercise a lot of discretion if they require. Where individuals can exercise discretion, the rules specify that they should do this only with the best interests of the borrowing country in mind.

IMF policies should have a technocratic component because individual conditions might be logical and necessary in any given financial crisis. It would be unusual if participation in an IMF arrangement did not influence some economic variables in predictable ways because the Fund is required to correct maladjustments in a country’s balance of payments. However, since the collapse of the Bretton Woods system and the expansion of conditionality, it is no longer appropriate to judge the Fund’s response to its members on balance of payments problems alone. It is only possible to judge if the Fund actually responds to a country’s domestic economic conditions by looking at a wider range of economic indicators.

It logically follows from the guidelines on conditionality that the size and frequency of IMF loans, the number, and strictness of its conditions, waivers, targets, and procedures should be consistent with a country’s international reserve holdings, per capita GDP, external debt to export earnings, balance of payments, interest rates, domestic investment, government expenditure, and exchange rate regime. The IMF should strive for efficiency; this means that staff should alter their expectations depending on how cooperative the recipient country is. If it commits to assist a country, it should select the best policy based on the constraints it faces.

Conditionality has expanded into many policy areas but we should still expect to see countries in similar economic circumstances receive similar loans and conditions based on a wider range of observable economic indicators. More intense crises are more destructive and should require larger loans and more conditions. As the IMF now applies many conditions, waivers, targets and procedures across a range of sectors, the relevance of one condition can become lost among many others. The

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2 This has also been used as a hypothesis or null hypothesis in all of the literature using conditionality as a dependent variable (Dreher and Jensen 2007; Kang 2007; Stone 2007; Gould 2006b).
3 Article I
4 These variables are frequently employed in the literature e.g. Knight and Santaella (1997)
purpose of official rules is to ensure consistency and the equal treatment of borrowing countries. However, when one compares the conditions that countries in similar circumstances receive, the consistency of the IMF’s approach to stabilization is very much in question.

The Funds objectives should also change over the duration of a program. The core components of its approach to economic stabilization are ‘(i) securing sustainable external financing; (ii) adoption of demand-restraining measures—especially in the early stages of a program; and (iii) implementation of structural reforms’ (Mussa and Savastano 1999:19). As the initial crisis abates, or there are further economic shocks, we should expect additional reforms. Changes over the course of a program should relate to technical criteria and not political factors. For instance, countries should receive relatively more (less) waivers depending on changes in their domestic economic circumstances.

**H1. IMF policies vary depending on the domestic economic conditions in the borrowing country**

**Principal agent theory and IMF behaviour**

The delegation of authority from a principal to an agent seems to occur frequently in many different situations, between individuals, and organisations across both the public and private sectors. Recently, scholars argue that the principal-agent relationship also occurs in international relations, between states and international organisations (Hawkins 2006). Although this relationship might sound vague, it can be refined, depending on the international organisation in question. Once specific roles are assigned to the actors involved in the delegation process, it is possible to measure the level of control the principal has over its agent or the independence of the agent. The central tenets of principal-agent theory applied to international organisations are that states are the most important actors in international politics and that they delegate some of their authority to independent agents, like the IMF (Hawkins 2006:6).

Explaining why states delegate to the IMF is a complex question that deserves more attention than I can devote to it here. Why reject alternatives to delegation such as
standard international cooperation? If all goes well, delegation can incur significant benefits for the principal, including increased efficiency, legitimacy, and credibility. However, after delegation, things can and often do go wrong. In the literature, ‘agency slack’ is the term used to describe independent action against the wishes of the principal. ‘Shirking’ occurs when an agent puts in only minimal effort on its principals behalf. ‘Slippage’ occurs when an agent shifts policy away from its principal’s preferred outcome and towards its own preferences (Hawkins 2006:7).

How do these actions manifest themselves in international organisations? According to Vaubel, we should expect to see more agency slack, shirking and slippage in IOs like the IMF because the chain of delegation is longer (Vaubel 2006). He presents evidence of this in the growth of the IMF’s professional staff. It has grown an average of 3.2% since 1952, and this does not reflect annual average growth in its membership of 2.5% since 1950 (Dreher et al. 2006b).

In the case of the IMF, the agent is clearly the organisation’s professional staff of economists. Their agenda setting power gives them the opportunity to negotiate conditions with borrowing countries before they reach the Executive Board (EB) for approval. According to Martin, this makes it very unlikely that the EB will reject a staff proposal. She argues that the EB will only veto a proposal if it finds the status quo of no program, more to its liking (Martin 2006:186). In contrast to this, (Rieffel 2003) argues that the policy-making process is better described from the top-down, where decisions at the G7 filter down to the IMFC, the EB and finally the staff (Fratianni and Pattison 2004:8).

However, the definition of the organisation’s principal is more contentious. IMF members are represented by its Board of Governors, which elects or appoints members to sit on the Executive Board to manage the affairs of the organisation. In the broadest sense possible, the Executive Board is the Fund’s principal, but its composition, and the way IMF quotas are apportioned means that some members have always had more control. The IMF’s Executive Board (EB) consists of 24 Executive Directors (EDs). The five most powerful shareholders each appoint a director and the Funds membership elect the others. The US ED is the most powerful and controls 16.79% of the Fund, giving them the sole power to veto decisions. According to Woods, a senior manager in the IMF would ‘virtually never present a
recommendation which risked US disapproval’ - if it is a sensitive issue it is normally run by the US Treasury first (Woods 2003:15). EDs from developing countries do not have access to the same level of resources, officials, and advice as others, so they are not as well prepared to defend their position. European countries also have a great deal of input into decisions. They traditionally appoint the Managing Director and currently hold eight EDs out of 24. If European Union members reorganised into a single seat at the Fund, they would hold over 30 percent of the votes. However, in its review, the EU Council of Ministers did not suggest consolidation, implying that for the moment, EU members prefer representation at national level (Smaghi 2004:230).

The IMF’s institutional structure prevents debtor countries from effectively forming coalitions or bargaining with creditors. As the number of countries in a constituency increases, it makes it much more difficult to achieve a consensus on any particular issue (see Table 1 for a list of EDs and the number of countries in their constituency). Smaghi argues that because decisions are mainly on the basis of consensus, the strength and cohesion of coalition agreements is more important than overall constituency voting power (Smaghi 2004:242). EDs often find themselves in difficult positions because they might have to represent their country and many others. Where they have very little power relative to others, they face even greater difficulties in accurately representing the members in their grouping. In summary, this institution mediates the interests and preferences of 185 states, but the result is that the US and a smaller group of creditors have the ability to exercise control over decisions. The distinction between debtors and creditors is an important one because it links a basic economic function to political representation.

Historical accounts of international monetary cooperation support the argument that the US or a small group of advanced industrial economies delegated authority to the IMF and contributed to its development (Eichengreen 1996; Bordo and Eichengreen 1993; James 1996; Eichengreen 2007). In the initial negotiations on its design, there was a great deal of debate over how autonomous the institution should be. The British team of negotiators led by John Maynard Keynes advocated complete ‘automaticity’, implying that the institution should be governed by a strict set of rules that allow countries to borrow automatically within constraints. The US team envisioned an institution with more discretionary powers. Indeed, Harry Dexter White, leading the
negotiations, was mindful of how an automatic facility would reduce the United States’ ability to influence decisions (James 1996:64). In the end, the design of the Fund closely reflected US preferences.

Delegation entails a loss of direct political influence and sometimes oversight (Hawkins 2006). In the early days of the Fund, it was clear that the United States was very much in control and not willing to risk delegating significant authority to the IMF. It excluded the institution from taking part in the post-war reconstruction and financing of Europe and instead favoured a more direct approach - the Marshall Plan. Nevertheless, the Fund helped to complete the transition of former Soviet bloc countries after 1989, so in a sense, it finished the job the Marshall plan started.

Although the distant history of the IMF suggests the US was its sole principal, policy coordination began to emerge amongst a core group of states in surveillance over monetary and exchange rate policies. James Boughton describes the formation of ‘a loose institutional structure developed by shifting coalitions of countries with similar economic interests’ beginning with the G10 in 1961 (Boughton 2001:186). The G10 created the General Arrangement to Borrow (GAB) to allow creditor states to by-pass general procedures and lend without any restrictions. This channel allows creditors to offer more lenient terms and bigger loans to countries they favour for political as well as economic reasons. However, the GAB is not frequently used and only where the resources of the Fund are not sufficient to finance a particular loan. The GAB shows that in the early life of the Fund, a key group of member states wanted more control over lending and it is indicative of how they might continue to shape the lending process.

The Fund’s history and design suggest two possible configurations for the role of principal. The first is the United States, which might be the organisation’s sole principal. The second is a larger group of states at the Executive Board which might constitute a ‘collective principal’ (Copelovitch 2006). In the collective principal model, the strategic interaction of the main actors can result in increased autonomy for the agent, if the principals cannot agree on an issue. Other authors have applied this framework to explain variation in lending and conditionality. Martin (2006:221) argues that states delegate powers to bureaucracies when they are dissatisfied with the status quo. When state preferences diverge, we should expect staff autonomy to
increase. States are generally more willing to delegate when staff preferences are close to their own preferences. This implies that bureaucrats might internalise states’ interests and do not make decisions with complete independence. Gould (2006a) argues that the way bureaucrats might influence conditionality varies, depending on the particular terms of the agreement. Although the number and type of conditions might appear to deviate from principal preferences, this does not necessarily, represent the preferences of the bureaucracy. In reality, she argues that economists at the IMF prefer that the scope of conditionality remain limited to quantitative performance criteria, and that they often feel uncomfortable setting broader and sometimes quite vague, structural conditions. In addition, she argues that key IMF shareholders have also argued for conditionality to be limited to key quantitative criteria.

Principal and agent interests

IMF principals (of either configuration) should generally favour policies that benefit the international financial system by stabilising economies, preventing the disruption of trade and capital flows and reducing the risk of ‘contagion’ where a financial crisis in one country spreads to another. Although individual borrowing states can lose from the Fund’s existence, the most developed countries do not risk a great deal by participating as a creditor. They share the burden through the quota system, which has proven remarkably stable throughout the harshest global crises. It is also easier for them to overcome collective action problems and form coalitions, because of the Fund’s institutional design, constitution and official rules. Over the decades, the main creditor states have reduced their relative financial contribution to the Fund’s general account significantly, shifting the burden to borrowing countries.

IMF principals might also use the institution to protect their political and economic interests. They have a range of tools at their disposal to achieve this, including policy conditions, waivers, targets, and procedures to reward political allies or protect economic interests. If the ‘collective’ rather than sole principal model better explains the empirical puzzle surrounding conditionality, then it follows that policies on lending and conditionality might vary depending on the intensity and heterogeneity of collective principal interests. Copelovitch contends that this is the case with IMF policies on lending and conditionality and G5 interests. He argues that this group
effectively controls decisions as a ‘collective principal’ (Copelovitch 2006). If disagreements occur among the main shareholders, the possibility for more agency slack, shirking and slippage increases. To elaborate on this, I discuss the principals’ interests in two separate sections, US and G7 control, later in this paper.

In addition, I propose that the personal preferences of bureaucrats might cause policies to vary in a separate section on ‘bureaucratic preferences’. According to Copelovitch, the IMF staff is incentivised to want larger and more frequent loans with stricter conditions, to maximise their power, autonomy and budget (Copelovitch 2005:40). However, Gould argues contrary to this, saying that staff actually prefer the scope of conditionality to be reduced somewhat, to better reflect their level of technical expertise in macroeconomics. From this, we might expect staff to prefer stricter quantitative performance criteria, as these types of conditions fit their expertise closely – but IMF principals might prefer the opposite where their political and economic interests are at stake.

**US Control**

The United States is undisputedly the most powerful IMF member for a number of reasons that have been well documented in the literature (Kahler 1990; Woods 2003; Woods and Lombardi 2006; Swedberg 1986; Woods 2006). The list of exclusive privileges held by the US includes strong institutional links between the IMF, US Treasury Department and US Congress, and the ability to veto all decisions and adjust the organisation’s budget and quota. However, it is still not clear if this translates into control over decisions and the policy-making process. Does the US continually effect IMF operations, or does it just reserve its power for special or rare occasions? Several other important actors might also influence IMF policies but, ultimately, there is ‘no single mechanism of control that accounts for all of the actions of the IMF’ (Vreeland 2007:48). Decisions emerge from the interaction of economic policy, bureaucratic, international and domestic politics. Nevertheless, the option to intervene if it needs to gives the US a distinct advantage in negotiations. Simply having the ability to strategically intervene or exercise veto power over a decision conditions the behaviour of other actors and the choices they make.
The ability of the US to influence decisions and to condition the behaviour of other actors means it might also influence the content of IMF arrangements. The existing literature has already documented its influence over the, size, odds and frequency of IMF loans to developing countries. It is now important to take the next step and show how and why it might cause the content of IMF arrangements to vary. If its influence extends this far, the IMF is best described as a tool to support its political and economic interests. Before a country even approaches the Fund, their political links to the US might determine their future treatment. After a country receives assistance, the IMF might treat them very differently, depending on their political association with the United States. For example, it could alter the number of policy conditions a country receives, or change specific conditions or ask that a particular difficult condition is waived. From the outset, agreements could be associated with US political and economic interests. As these agreements evolve over time, there could be further opportunities for the Fund to ease conditions and waivers for those that have strong political and economic links to the United States.

The most likely economic gain the US could make through an institution like the IMF is by using it to protect its commercial banks. If a developing country is in a financial crisis, investors and enterprises of all sorts will want to protect their interests in that country and governments are no different. US commercial banks are better placed to receive favourable treatment than other investors are. Bondholders are too numerous and diverse to lobby for protection, too difficult to individually compensate, and unlikely to intervene in domestic politics. Where borrowing countries have significant debt obligations to a US commercial bank, it follows that the US might strategically intervene to make it easier for such a country to meet its repayments. The most likely political interest that the US would want to achieve through the IMF is to protect or reward its close political allies with less strict conditionality and bigger loans. As the only remaining superpower, the US has foreign policy objectives that many other G7 members do not. It already offers general financial and military support to a number of states in very volatile political and military situations.

**H2. Political allies of the US should receive easier conditionality**

**H3. Countries where the US has significant economic interests should receive easier conditionality**
G7 Control

“We will continue to work to enhance discipline on the size of IMF assistance packages, and define more precisely the circumstances where exceptions might be justified.”

In this section, I describe how a number of creditor states and groups might influence decisions and propose hypotheses to test their influence. In particular, the G7 and the International Monetary and Financial Committee stand out as the main focal points for powerful IMF members when it comes to major decisions that affect the international financial system. A number of other groups and committees such as the G30 and the Joint IMF-World Bank Development Committee do not have much input into day-to-day operations except for its consultative role and input into the Funds governance and major system changes. Although borrowing countries also possess similar groups and intermediate forums, they are not as effective, but I review them here because they usefully illustrate the political divisions in the IMF.

IMF member states divide into two distinct groups – powerful creditor states and everyone else. The institutional design of the Fund makes it difficult for most states, except its most powerful shareholders to form decision-making coalitions. Even the shareholders who can form such coalitions still use intermediaries in order to reconcile their different preferences and share information. Both debtors and creditors use these intermediaries and they have varying levels of influence over the policy process. The G8 allows the heads of state or government in eight major industrial countries to meet at an annual summit to discuss a host or major economic and political issues. G7 finance ministers and central bank governors (the G8 excluding Russia) continue to meet semi-annually to monitor major developments in the world economy. The G7 and G8 are intergovernmental forums that commit to issues as diverse as security and development and are particularly important for major decisions and system level changes. In addition, the members of the G7 are in constant contact with IMF officials and the US Treasury. The G7 possesses all five appointed Executive Directors and they could discuss and develop policies before the IMF EB meet to discuss them. I argue that Russia (a G8 member), China, and Saudi Arabia are not yet part of the consensus coalition. Although each can elect their own ED, they are

not networked to the same extent as G7 representatives and do not maintain the same
continuous dialogue with the Fund staff.

An intermediate forum like the G7 facilitates cooperation among the IMF’s major
shareholders. It allows them to coordinate their actions, share information, and reach
consensus on issues outside of the formal decision-making structure of the IMF. They
can achieve their goals through a forum like this more effectively than through
bilateral negotiations alone. It allows them to act more cohesively in formal
institutional settings. The G7 is also a crucial interface between the Executive Board
and the IMF’s professional staff. Because it holds a constant dialogue with the staff, it
allows states to signal their preferences to the staff, over the design of loans,
programs, and conditions. According to Rieffel (2003), decisions flow from the top-
down – from the G7 finance ministers who regularly meet to discuss important issues
(Fratianni and Pattison 2004). G7 decisions are mostly consensus driven, but each
member has their own interests and preferences – the strategic interaction between
these countries should lead to demands for changes in general IMF policies and
interventions to change the terms in individual IMF programs.

The G7 ‘holds a constant dialogue with the Fund staff and management’, allowing it
to articulate its position clearly and influence staff decisions before a final vote
(Smaghi 2004:242). G7 decisions are passed down to the International Monetary and
Finance Committee which brings together the world’s most powerful central bankers
and finance ministers to consider the transfer of resources to developing countries
(among other functions). Finance ministers then instruct Executive Directors to take
action at the Executive Board and inform IMF staff and management, in order to
develop policies and share objectives. What this points to is a much broader range of
actors who are involved in international financial governance. While many previous
authors argue IMF decision-making is a two-player game between staff and the
Executive Board, in reality, many more actors are involved in decisions, such as key
central bankers, highly placed officials in finance ministries and officials from a range
of other international organisations. When it comes to decisions over specific IMF
programs and policies, G7 countries (particularly finance ministries) communicate
their preferences directly, to their national representative at the IMF, and ask them to
act accordingly.
Creditors also constrain staff behaviour from outside the institution, with regular quota reviews and coordination with other international organisations such as the World Bank, the Bank for International Settlements and the Paris Club. For example, the division of labour in the international financial system between the IMF and the WB both restricts the independence of each organisation and strengthens their legitimacy. Cooperation ensures that policies and advice offered by one institution will not contradict or be inconsistent with the advice coming from the other. In particular, Fund-Bank cooperation exists in long-term concessional lending programs such as the SAF, ESAF, and now PRGF programs.

Other forums facilitate cooperation on the ‘big issues’ in international financial governance. The G10 helps to administer the General Agreement to Borrow (GAB), which is a special fund outside of the IMF’s general account. However, members only use it in high profile cases where the resources of the Fund are not enough to finance a loan. The last country to draw on the GAB was Russia. Woods (2006) has carefully documented how political pressure to ease conditionality was particularly intense in this case, as it normally is in GAB transactions. The G20 consists of major industrial economies and emerging markets. The IMF treats emerging markets quite differently than other borrowers – they tend to receive larger loans, as they have larger quotas (Kang 2007). The establishment of this group in 1999 after the Asian financial crisis is evidence of the importance of emerging market economies. In brief, the G10 and G20 do not influence the day-to-day operations of the Executive Board. However, they represent and aggregate the interests of specific groups of creditor states within its membership. The G7, other international organisations, and debt rescheduling clubs are more likely to influence decisions, and because of their possible influence, I extend the same US control hypotheses to the G7:

**H4. Political allies of G7 countries should receive easier conditionality**

**H5. Countries where G7 members have significant economic interests should receive easier conditionality**

*Developing Country Groups*
Developing countries also use informal groups to help them share information, develop ideas, and strengthen their bargaining position in more formal institutional settings. The Group of 15 represents 17 countries (including emerging markets). Their stated aim is to allow cooperation among developing countries in investment, trade, and technology. The Group of 24 states that its aim is to cooperate on international monetary and development finance issues to ensure that members are well represented in negotiations at the IMF’s committees. Finally, the Group of 77 (actually representing 131 developing countries) aims to strengthen the negotiation capacity of its members on major international economic issues. It is very difficult for such a large group to do so. Invariably, developing countries are part of larger groups whose officials have fewer resources and cannot negotiate as effectively as those in smaller groups can.

In particular, the G77 with 131 members is too large, meets too infrequently, and has too few resources to influence IMF decisions. It is unlikely that it strengthens their joint negotiating capacity nearly as much as the G7 does for its members. The G15 and G24 allow members to discuss items that are due to appear on the agenda of the IMF committees that report to the governing authority. The G24 allows its members to better articulate and act in concert on some issues, but even with complete G24 consensus on an issue, their input into final decisions is limited. Where these groups and committees deal with international financial issues, they are most effective over systemic reforms and not individual cases or operational decisions. For instance, there is no formal gathering of state representatives to discuss upcoming items on the agenda of the Executive Board.

**Bureaucratic Preferences**

In this section, I consider how the autonomy of the IMF from its political masters might effect its decisions over loans and conditions. Unfortunately, it is difficult to test its autonomy and I do not propose a hypothesis to do so. However, it is possible to test the personal preferences of individual bureaucrats at the Fund. These might also diverge significantly from their political masters and cause policies to vary.

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**Bureaucratic autonomy.** As an organisation, the Fund has specific interests that might motivate or influence its decisions. Public choice theory tells us that such organisations will want to maximize their ‘power, prestige and amenities’ (Vaubel 1983, 1991, 1996). Principal-agent theory assumes that bureaucrats will behave in predictable ways after the delegation of authority to them. Although the bureaucracy has agenda-setting power in most matters, their ability to control policies depends on their level of independence from their political masters. If one applies Haftel’s method for measuring the independence of international organisations, the IMF scores at the upper end of the scale relative to other organisations (Haftel and Thompson 2006). In particular, its independent financing from membership subscriptions makes it difficult to observe a change in its policy output relative to a change in its financing.

The only exception to this severe limitation occurs during quota reviews. The IMF is more vulnerable to political pressure, specifically from the United States, during quota reviews than at any other time because the US has the sole option to veto a quota increase. This allows researchers to capture the relative power of the staff versus the Executive Board. A typical quota review should consider changes in the world economy, changes in the needs of individual members, and changes in the needs of borrowing countries and the ability of the Fund to meet those needs. However, the key decision-makers in the quota review process are members of the United States’ Congress, who have very different interests and preferences than IMF borrowing countries. Indeed, they seem to vote consistently for quota increases across a range of international organisations, depending on campaign contributions and the profile of their electorate (Broz and Hawes 2006a, 2006b; Broz 2005, 2007). In brief, this variable might be a suitable measure of bureaucratic influence – but US domestic politics complicates matters considerably. In addition, these reviews are not frequent enough to capture changes in the time period of this analysis, as there have only been 13 general reviews since 1959, only two of which recommended no increase in quota (Woods 2006).

Public choice theory predicts that the IMF should want to increase its resources, and the most logical way for it to do this is to increase its lending and set conditions that

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only temporarily improve a country’s performance so it can repay the loan, but not to permanently resolve its economic flaws. In reality, the picture is mixed. On the one hand, there is evidence to suggest that the Fund engages in ‘hurry-up-lending’ just before quota reviews, as public choice theory predicts, and that its staff grows inordinately because of principal-agent related problems (Vaubel 1996, 2006). In addition, the scope of conditionality has expanded even though academics, politicians, and civil society groups from across the political spectrum have all recommended the opposite. It is quite rare for so many individuals and groups to agree on one action and indicates that the Fund might want to preserve its influence in this sphere. On the other hand, the Fund has become much smaller since its inception, relative to changes in the global economy. After the Asian financial crisis, its resources declined even further and some developing countries are now consciously pursuing policies, such as inflation targeting and building sufficient international reserves, to ensure that they will never need Fund assistance in future.

**Personal Preferences.** Although IMF bureaucrats are neither debtors nor creditors, it is not immediately clear how different their preferences are from the Fund principals. Principal-agent analyses of the Fund often pose this question because the narrow job specification of an IMF economist might ensure that agent preferences are always close to their principals. Although many IMF economists are nationals of borrowing countries, the Fund has a tendency to recruit individuals who were trained in Anglo-American institutions (Momani 2007a, 2007b, 2005b, 2005a, 2004b). However, this leaves open the possibility that bureaucrats from borrowing countries might favour their country of origin in the lending process. If this is true, I expect that more own-country nationals on the IMF staff might result in easier conditionality. Even though this is just one possible way of measuring the strength of bureaucratic politics, it could reveal the extent to which bureaucrats are key decision-makers and are autonomous from the control of major shareholders. This proxy is important because it resolves the problem of whether agent preferences are endogenous to principal preferences.

The fear of ‘going native’ is a concern shared by foreign ministries and international organisations across the world. The IMF is no exception, and seeks equal treatment for its members, although it often seeks advice and input from nationals of the borrowing country who are staff. According to Barro and Lee, in the IMF Code of
Conduct for Staff, it states that ‘the IMF will seek to avoid assigning nationals to work on policy issues relating specifically to IMF relations with their home country, unless needed for linguistic or other reasons’ (Barro and Lee 2005:1250). Quoting Mussa (2002), they present anecdotal evidence of this, arguing that the IMF’s relationship with Argentina was not objective because it became too close to its client, resulting in the prompt dismissal of an Argentine economist and the head of the Latin America Department after the economy collapsed there in 2001. If this sort of experience occurs more generally, it would mean that some bureaucrats have surmounted the institutional obstacles that prevent them from favouring some countries for non-technical reasons. If this is true, then it will show that the professional-staff are indeed very influential and independent of the Executive Board, although they still might have internalised EB preferences for other countries besides their own. The question remains: to what extent do nationals of borrowing countries who are also IMF staff influence the decision-making process. I also expect that staff will have different levels of influence depending on the stage in the lending process. For instance, they should have more influence over the number of waivers a country receives, as they have autonomy to decide some waivers (Momani 2004a).

H7. Countries receive easier conditionality where they have more of their nationals on the IMF staff

In conclusion, I argue that the best explanation of why some countries receive easier conditionality is the G7 control concept. It is very likely that the interaction of these powerful countries causes changes in IMF policies. Where they bargain, compete, and cooperate, we should expect the terms of individual conditionality agreements to vary across countries. When their interests are aligned, we should expect less agency slack. But when they are divided and diffuse we should expect more agency slack and in the form of more efficient programs, or possibly bureaucratic influence. In a subsequent paper, I introduce a number of measures for the dependent variable conditionality (summarized in table 2). I also discuss measures for the independent variables that I hope will explain changes in conditionality, beginning with the null hypothesis – domestic economic conditions in borrowing countries and continuing with those that apply to the concept of G7 and US control and bureaucratic preferences.
If political influence over conditionality exists, as I argue throughout this paper, what might be suitable measures for reform? Unlike other international organisations, the IMF’s function, operations, and mission can be clearly defined, limited, and controlled. It operates in a similar manner to a central bank and its culture is very much that of a central bank. It has embraced some challenges better than others; increasing transparency and accountability but only making superficial governance changes. Its new financing model and existing organisational checks and balances mean that staff rent seeking is not the problem that it might have been. However, the problem of political influence over decisions remains, and democratic reforms (substituting one set of political masters for another) will not necessarily fix the problem. On balance, the best solution is an IMF that is free from political influence, implying an independent Executive Board. This sort of reform might not work in all international organisations, but because of the IMF’s particular functions, it is perhaps more appropriate.
### Table 1: Distribution of Voting Power at the IMF

<table>
<thead>
<tr>
<th>Country with Executive Director (ED)</th>
<th>Countries in Group</th>
<th>ED Control of Group (%)</th>
<th>Size of Group in IMF (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The United States</td>
<td>Appointed</td>
<td>-</td>
<td>16.79</td>
</tr>
<tr>
<td>Germany</td>
<td>Appointed</td>
<td>-</td>
<td>5.88</td>
</tr>
<tr>
<td>France</td>
<td>Appointed</td>
<td>-</td>
<td>4.86</td>
</tr>
<tr>
<td>Japan</td>
<td>Appointed</td>
<td>-</td>
<td>6.02</td>
</tr>
<tr>
<td>The United Kingdom</td>
<td>Appointed</td>
<td>-</td>
<td>4.86</td>
</tr>
<tr>
<td>China</td>
<td>1</td>
<td>100</td>
<td>3.66</td>
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<tr>
<td>Russia</td>
<td>1</td>
<td>100</td>
<td>2.7</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1</td>
<td>100</td>
<td>3.17</td>
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<tr>
<td>Belgium</td>
<td>10</td>
<td>40.6</td>
<td>5.15</td>
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<tr>
<td>Netherlands</td>
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<td>4.76</td>
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<tr>
<td>Italy</td>
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<td>77.8</td>
<td>4.11</td>
</tr>
<tr>
<td>Finland</td>
<td>8</td>
<td>16.8</td>
<td>3.44</td>
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<tr>
<td>Switzerland</td>
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<tr>
<td>Australia</td>
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<tr>
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<td>79.2</td>
<td>3.64</td>
</tr>
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<td>27.2</td>
<td>4.45</td>
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<tr>
<td>Egypt</td>
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<tr>
<td>Indonesia</td>
<td>12</td>
<td>30.4</td>
<td>3.12</td>
</tr>
<tr>
<td>Iran</td>
<td>7</td>
<td>28.3</td>
<td>2.42</td>
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<tr>
<td>Brazil</td>
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<td>57</td>
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<td>India</td>
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<tr>
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<td>2.94</td>
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<tr>
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<td>3.4</td>
<td>1.39</td>
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### Table 2: IMF conditionality dataset, summary statistics

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<th>Category</th>
<th>mean</th>
<th>median</th>
<th>min</th>
<th>max</th>
<th>stdv.</th>
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<tr>
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<td>0</td>
<td>12</td>
<td>1.91</td>
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References


