Need for Speed: The Lending Responsiveness of the IMF*

Daniel McDowell†

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[Work in Progress]

Abstract

How responsive a lender is the International Monetary Fund (IMF)? In this paper, I introduce new data on IMF loan approval periods: The days that transpire between when a borrower submits a "Letter of Intent" to the Executive Board requesting a loan and when the Board approves that request. The data reveal considerable variation across requests and time raising two central questions. First, why are some loan requests approved swiftly while others wait much longer for approval? Second, what explains the IMF's improved response speed over the past three decades? To answer these questions, I argue we need to consider (1) structural change in the international financial system over time that altered the method by which the IMF worked to catalyze private capital flows and (2) variation in the financial interests of the G-5 countries. I expect that during much of the 1980s, as G-5 commercial bank exposure increases, borrowers will face longer waits for approval. In these cases, the Fund should have been more likely to implement the "concerted lending" strategy to catalyze private financing behalf of those countries–an approach that delayed loan approval. Into the 1990s and 2000s, global capital flows grew more complex and catalyzing private capital flows required a swift response. Thus, during these years I expect increased G-5 bank exposure to be associated with speedier loan approvals. Statistical analyses of 275 loan requests from 1984-2009 support these expectations.

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†Assistant Professor, Department of Political Science, Maxwell School, Syracuse University, Syracuse, NY 13244. E-mail:dmcdowel@maxwell.syr.edu Web:danielmcdowell.net

1 Introduction

In recent years, scholars of political economy have built an impressive, cohesive literature analyzing the lending practices of the the International Monetary Fund (IMF). This research has produced important new knowledge about the factors that influence variation in IMF loan selection, loan terms, and loan size. Most notably, a number of studies have found consistent evidence that the economic and geopolitical interests of the dominant countries within the institution influence IMF lending behavior (Broz and Hawes 2006; Copelovitch 2009; 2010; Dreher and Jensen 2007; Dreher, Strum, and Vreeland 2009; Oatley and Yackee 2004; Thacker 1999; Stone 2004, 2008, 2011; Vreeland 2003, 2005). Yet, despite this rich body of literature, there is one component of IMF lending we know strikingly little about: the Fund's lending responsiveness. By responsiveness, I mean the speed with which the Executive Board (henceforth, Board) approves government loan requests once they are formally submitted to that body. The issue of IMF lending responsiveness is important given the fact that the Fund has assumed the role of *de facto* international lender of last resort (ILLR) for more than three decades (Boughton 2000; Sachs 1995). Since Walter Bagehot's (1873) essay *Lombard Street: A Description of the Money Market*, it has been understood that effective management of financial crises requires the lender of last resort to bring substantial resources to bear and that it do so *swiftly*.[1] Indeed, in today's global financial system, the speed with which an economy in crisis can acquire emergency funding is arguably as important as the size of the loan itself (Bordo and James 2000; Fernández-Arias 2010). For instance, Fernandez-Arias and Levy-Yeyati (2012, 54) recently argued that an ILLR should ideally provide "timely, immediate disbursements" to prevent or mitigate financial crises. What good is a fire truck if it arrives after the house has already burned to the ground?

Historically speaking, the IMF's reputation as a speedy lender has not been very good.

[1]Bagehot asserted that during crises the Bank of England "should lend to all that bring good securities quickly, freely, and readily. By that policy they allay a panic; by every other policy they intensify it" (Bagehot 1873).

Several scholars have acknowledged the institution's poor record as a "rapid responder" to financial crises (Fischer 1999; Schwartz 2002; Munk 2010). But, is this characterization fair? In truth, we know very little about how quickly the Fund responds to borrower requests because so little empirical work has been conducted on the topic.[2] As a step toward addressing this gap in our knowledge about IMF lending, this paper introduces and analyzes new data on what I refer to as IMF loan approval periods: The number of days that transpire between the date an IMF member country formally submits a "Letter of Intent" to the Board requesting a loan and the date the Board approves that request. The data reveal an interesting degree of variation in the Fund's responsiveness across requests. While some are approved quickly, others languish much longer prior to approval. The data also reveal an interesting trend over time: over the last three decades, the Fund has become a much more responsive lender on average. These observations raise two important questions about the IMF's responsiveness. First, why are some loan requests approved more swiftly than others? Second, what explains the IMF's improved speed over time? I argue that to answer these questions, we need to consider two things: (1) structural change in the international financial system over time and (2) geographic variation in the financial interests of major IMF shareholders.

During the 1980s, a relatively small number of Western commercial banks were responsible for the bulk of private international capital flows to developing countries. However, beginning in the 1990s, the composition of private international capital flows grew more complex as bondholders and equity investors joined banks in the increasingly open international financial system (Copelovitch 2010). This structural change in the composition of financial flows affected the strategy used by the IMF to catalyze private capital flows on behalf of afflicted economies. In the 1980s, the Fund could forcibly catalyzed private capital flows by issuing an ultimatum banks: continue lending to the borrower in question or the IMF will not approve

[2]To my knowledge, Mody and Savaria (2013) is the only existing study on the IMF's response speed. However, as I will explain below, this paper defines responsiveness differently.

its loan request. One important side effect of this "concerted lending" strategy, however, was that borrowers were often forced to wait longer for their requests to be approved as negotiations with the banks took time. Things changed around the turn of the next decade as developing countries began to liberalize their financial systems. As international investors grew more disaggregated and heterogeneous, such threats from the Fund were no longer an effective way to catalyze capital flows. Instead, the best way to convince investors not to stampede out of an economy was to approve large loans *as quickly as possible*.

While this structural shift helps explain the Fund's improved responsiveness over time, it does not explain variation in loan approval periods across requests. To understand this, I contend we need to account for geographic variation in the financial interests of the IMF's major shareholders. In particular, I focus on the collective financial interests of the "G-5" economies because of their powerful position with in the Fund.[3] The effects of foreign financial crises often spill across borders. In some cases, they can threaten the stability of creditor country financial systems if they are sufficiently exposed to the afflicted economy. I expect that the strength of the G-5's preference for catalytic finance increases as their commercial banks become more exposed to the borrower country. When the stakes are high, I expect the G-5 will use their influence within the Fund to improve the expected catalytic effect of its response. During the 1980s, when the Fund implemented the concerted lending strategy, this should result in *longer* waits for countries where G-5 banks are highly exposed. In the 1990s and beyond, the relationship should invert: waits should be *decrease* as bank exposure increases. Ultimately, empirical analysis of 275 IMF loan approval periods for 86 countries between 1984 and 2009 supports these expectations.

This study tells a compelling story about how multilateral institutions adapt to changing external environments. As the structure of the global financial system changed, so did the need for speed in crisis response. As the need for speed increased, the Fund became a more responsive ILLR. This, in and of itself, is a valuable and novel finding. Yet, while the Fund

[3]The G-5 includes the United States, United Kingdom, Germany, Japan, and France.

clearly has developed into a speedier crisis manager over time, I find that it does not apply the same sense of urgency equally across loan requests. Rather, the priority the Board gives to a particular request is dependent on both (1) the temporal context within which a request is made and (2) the extent to which the G-5 have a large financial stake in the borrower.

This paper is organized as follows. First, I present the puzzle this paper aims to explain: variation in the duration of loan approval periods. Here I introduce my newly collected data on IMF lending responsiveness by describing how I operationalize the dependent variable and examining its distribution across requests and time. Next, I present my argument, develop testable hypotheses and introduce my research design. Finally, I summarize my empirical results before offering some concluding thoughts.

2 The Puzzle: Variation in Loan Approval Periods

As noted in the introduction, the primary goal of this paper is to determine what factors influence the time it takes for the Board to approve a borrower's request for assistance. I refer to this as the the *loan approval period*. But, before we can begin analyze the lag time between request and approval, we first need to determine how to best measure this. Since the IMF does not provide its own measurement, I develop my own. In the first subsection below, I outline how I measure this, explain why it is appropriate for this study, and then briefly present my descriptive data.

2.1 Measuring IMF Lending Responsiveness

The process by which a member country obtains financial assistance from the IMF can be divided into three main stages depicted in Figure 1. *Stage 1* begins when there is the onset of a crisis or financial hardship in the borrower country. The duration of this stage is almost wholly dependent on the borrower country government and when it determines it

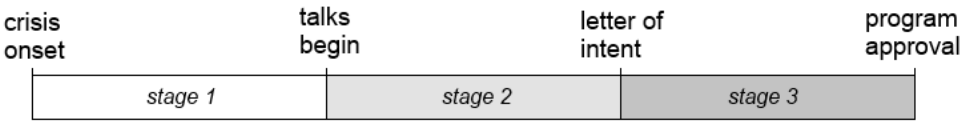

Fig 1: IMF Loan Request and Approval Stages

must approach the IMF for assistance. *Stage 2* begins when the member country initially approaches the Fund and expresses its interest in seeking assistance. Before formally requesting a loan, the country must enter into negotiations with IMF staff which determines the proposed loan's terms including its size, maturity, and conditionality. The duration of this stage is jointly dependent on the borrower country government and IMF staff. That is, variation in the negotiation time between the borrower country and IMF staff does not necessarily reflect on the IMF's lending responsiveness since in such bargaining situations, the length of negotiations are a function of the preferences and strategies adopted by *both* parties.[4] *Stage 3* begins after negotiations have completed resulting in an official "Letter of Intent" and "Memorandum of Economic and Financial Policies" (henceforth "Letter" and "Memo") outlining the objectives and macroeconomic and structural adjustments that the borrower government has agreed to implement in exchange for the loan. These documents are circulated among the 24 Board members (known as Executive Directors) for review. The Managing Director (or First Deputy Managing Director) then places the request on the Board's agenda for consideration at some future date.[5] On that date, the Board decides, by way of a simple majority vote, whether to approve or reject the request. The duration of the third stage, then, is a function of the priority that the Board gives to a particular request.

In the one existing study on the topic, Mody and Saravia (2013) adopt an approach that defines IMF responsiveness as consisting of all three stages. The authors measure the time

[4]From a practical perspective, there is also no readily available record of when each country first began negotiations with Fund staff.

[5]This procedure was confirmed in a conversation with a high level IMF official.

that transpires between the initial onset of a crisis and the approval of a loan program. On one hand, this approach may be viewed as the most appropriate for measuring the Fund's response speed since it adopts a holistic view of the concept. On the other hand, a definition that encompasses all three stages is, in fact, measuring far more than just the IMF's responsiveness. It is also taking into account a number of factors that lie outside of the IMF's control, namely the borrowing country government's sense of urgency and resolve in negotiations. Moreover, since the onset of financial crises do not come with dates attached, the accuracy of this approach depends on the way in which *financial crisis onset* is measured. That is, the authors create an *objective* measure of when a crisis begins. However, this may not necessarily coincide with the actual date on which policymakers *subjectively* interpreted their economies as being in real trouble. Thus, while such a measure may be seen as more complete, it is also more complex. In short, it is a very noisy indicator of the IMF's lending responsiveness. In contrast, I focus on the duration of *Stage 3*. While this is admittedly a more narrow interpretation of responsiveness, it isolates Fund behavior from a number of influences outside of its direct control. Thus, while more narrow it is considerably less noisy.

2.2 Examining the Dependent Variable

I focused my data collection efforts on the Fund's two primary non-concessional lending facilities: the Stand-by Arrangement (SBA) and the Extended Fund Facility (EFF).[6] For sixty years, the IMF's workhorse emergency lending mechanism for countries facing short-term balance-of-payments problems has been the SBA. In the mid-1970s, the Fund introduced the EFF as a complement to the SBA for countries needing medium-term balance-of-payments assistance. Together, these facilities account for the vast majority of the Fund's non-concessional lending activities dating back to the institution's creation. To calculate the

[6]The IMF's concessional loan programs are primarily designed to promote economic development and reduce poverty rather than respond to financial crises. Thus, from this paper's perspective, they fall outside of the scope of the IMF's ILLR actions. By comparison, Mody and Saravia (2013) only look at SBAs.

loan approval period for each request, I recorded the date on each Letter that was submitted to the IMF between 1984 and 2009. I then calculated the number of days that transpired between the date of the Letter and the date at which the Board approved the request. Identifying the date on the Letters enabled me to adopt a consistent and clear method for establishing when a loan request was *formally submitted* to the Board for approval.[7]

Figure 2 presents variation in the duration of approval periods, defined as the number of days between a formal request via a Letter of Intent and loan approval by the Board. As the figure reports, there is a considerable amount of variation across loan requests. The mean lag time between request and approval for the population of 276 loan requests is 39.8 days with a standard deviation of 29.3 days. About 60 percent of loan requests fall above the mean approval duration period while about 40 percent fall below this. The award for longest wait in the sample goes to a 1995 SBA request from Belarus at 277 days from request to approval. Costa Rica's 1987 SBA request tallies the second longest wait at 186 days. The award for shortest wait goes to a 1993 EFF request from Peru which was approved on the same day the Letter was filed. South Korea's 1997 SBA request is a close second with an approval period of just one day. 13 loan requests in my sample were approved in fewer than ten days. All of these rapid approvals occurred since 1991.

The last point speaks to a notable and important pattern in the data: Over time, the IMF appears to have become a more responsive lender. In Figure 3, I plot approval periods by year.[8] The longest waits are clustered in the first several years of the data. The secular trend toward improved responsiveness over time is obvious and quite substantial. For instance, the average lag time between request and approval from 1984 to 1987 was about 64.4 days. The average loan approval period was less than one third this amount between 2006 and 2009 at just under 14 days. Thus, over time the Fund appears to have evolved into a speedier lender.

[7]SBA dates were collected by the author at the IMF archives in Washington D.C.; EFF dates were collected by a research assistant via the Fund's digital archive.

[8]In order to improve interpretation, the y-axis is capped at 200 days which excludes a 1995 Belarus request from the figure.

In the following section, I develop my own argument about what drives this variation in loan approval periods below and propose testable hypotheses.

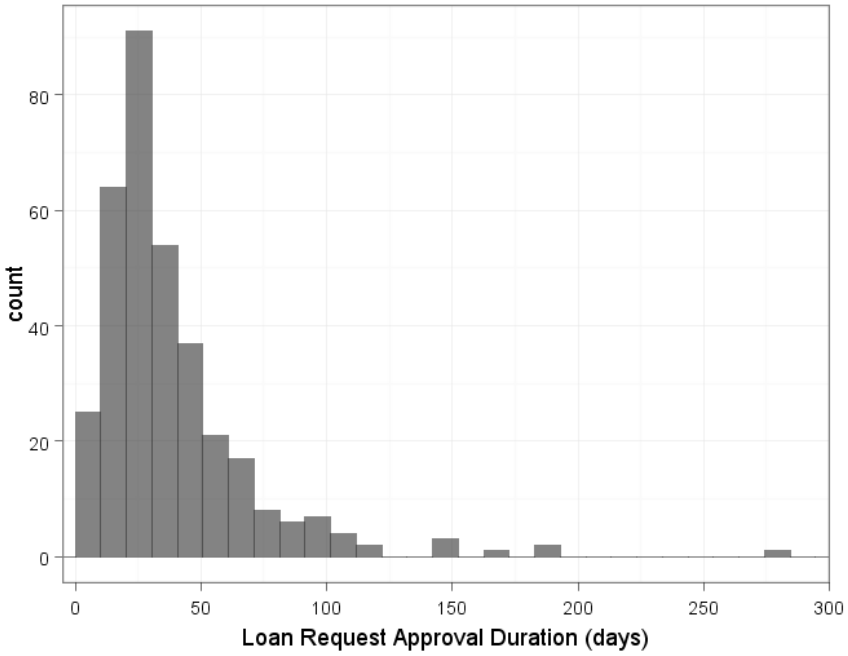

Fig 2: Days from Loan Request to Approval

3 Explaining Variation in Loan Approval Periods

In the simplest sense, the factor that ultimately dictates the duration of the loan approval period is the date on which a loan request is scheduled for consideration (and approved) by the Board. In general, the Fund follows a standard set of scheduling protocol. In order to make an informed vote, Directors are afforded a standard period of time–known as the "circulation period"–to review the borrower's request and program details. A *minimum* circulation period of four weeks was established in 1982 and was revised down to two weeks in 1996 (EBD 1985; EBD 1996). Borrowers are not guaranteed that their request will be considered following the expiration of this period, however. Many requests, in fact, languish long after this has passed. Others are approved on or shortly after the conclusion of the

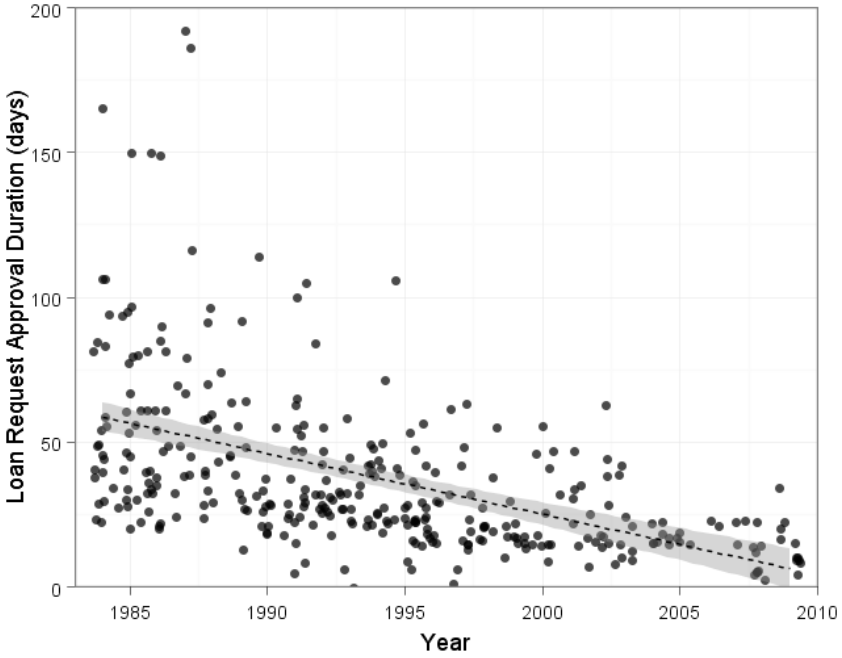

FIG 3: Loan Approval Periods by Year, 1984-2009

circulation period. Outside of these standard scheduling decisions, borrowers that have formally submitted their loan request can ask the Board to waive the minimum circulation period to ensure speedier approval. So long as no member of the Board objects to that request, a vote may be scheduled prior to the expiration of the minimum circulation period. However, even if the Board agrees to the waiver request, the precise date on which a vote is scheduled remains under the control of the Managing Director. Thus, IMF responsiveness is always (1) a function of the priority given to a request by the Managing (or First Deputy Managing) Director and (2) in some cases also a function of a borrower's willingness to ask for a favor and the Board's unanimous acquiescence to that request.

Based on the bureaucratic process through which requests are scheduled for a vote and the way power is distributed within the institution, I anticipate that the interests of major Fund shareholders influence IMF lending responsiveness. The position of Managing Director, the top spot at the institution, has always been held by a European. During the period

under investigation here, five out of six (accounting for 22 of 26 years) have hailed from G-5 countries: four from France and one from Germany.[9] The position of First Deputy Managing Director, the number two spot at the Fund, has always been held by an American.[10] Additionally, G-5 countries are the only member states that have permanent Executive Director (henceforth, Director) seats on the Board. This guarantees them regular access to the Managing Director, her top deputy, and directly involves them in any decision to grant a waiver of the circulation period. In sum, G-5 countries hold considerable sway over when the Board considers a loan request. Consequently, they have unrivaled capacity intervene in ways that speed up (or slow down) the approval of governments' loan requests.

Below I develop my argument as to how major shareholder financial interests should impact Fund lending responsiveness. As I will explain, I expect these relationships are mediated by the time period in which a loan request was made.

3.1 The Debt Crisis, Concerted Lending, and IMF Responsiveness

The Least Developed Country (LDC) debt crisis is widely recognized as the defining moment in the IMF's emergence as *de facto* ILLR and necessitated a dramatic revision of the Fund's lending strategy (Boughton 2000; Sachs 1995). Prior to 1982, when a country approached the IMF for a loan, it was standard practice for the Fund to first determine how much financing the borrower could expect to acquire from private as well as other official creditors before calculating the amount of financing the borrower needed from the institution. As Boughton (2001) explains, "That strategy collapsed, at least for the most heavily indebted countries, with the Mexican crisis of August 1982" (406). Boughton goes on to explain how, after the Mexican default, commercial banks actively sought ways to reduce their exposure to the most heavily indebted countries. Therefore, as the Fund was increasing its lending to

[9]The remaining Director, Rodrigo Rato, hailed from Spain, and held the position from June 2004 to November 2007.

[10]It should be noted that this position was created in 1994.

the economies in crisis, some commercial banks were planning to do just the opposite.

This was a problem because the Fund simply did not have sufficient lendable resources to keep debtor countries solvent on its own. Without continued financing from the banks, the probability of disorderly default would increase significantly. Were this allowed to happen, one or more highly exposed systemically important Western commercial banks may have been forced into bankruptcy (Sachs 1988, 253). The fundamental problem lie in the collective action problem facing the commercial banks. Despite the fact that it was in the banks' collective interest to continue to roll over the principal on existing loans, individually banks faced incentives to "cut and run." As Boughton notes, again discussing the Mexican crisis,

> The riskiness of loans to Mexico had become great enough that each individual bank had an interest in demanding repayment now, as long as it could do so ahead of any general stampede. The conflict between the individual and collective interest was by this time a quietly but rapidly burning wick (Boughton 2001, 289).

In response to this unfolding dynamic, the IMF altered its traditional approach and adopted a new strategy which became known as concerted lending (henceforth, CL). In short, this approach relied on issuing an ultimatum: The Fund would not approve loan requests until the group of commercial banks (referred to as a "syndicate") agreed to *increase their exposures* to the afflicted economies.[11] Put simply, the strategy was explicitly designed to help banks overcome their collective action problem. All else equal, I expect that the Board should have been more likely to implement CL on behalf of borrower countries where G-5 commercial banks are highly exposed. A disorderly default on the part such borrowers could have had catastrophic consequences for financial stability within the G-5 domestic economies. Thus, in these cases, major Fund shareholders should have been most concerned

[11]Boughton (2001) describes the moment this became the Fund's new approach: "The turning point came at the November 1982 meeting in New York...at which the Managing Director informed the banks that the Fund would not approve Mexico's requests for an extended arrangement until the banks provided him with written assurances that they would increase their exposure by enough to cover a substantial fraction ($5 billion) of Mexico's scheduled interest payments for 1983" (406).

about the inability of banks to overcome the collective action problem and more likely to press the Board to use the ultimatum approach.

Of course, rounding up new lending commitments from banks takes time. The process behind Argentina's 1984 SBA request is illustrative of this. According to the Fund's calculations at the time, Argentina needed approximately $8 billion in financing to repay arrears to banks, official creditors, and to replenish its dwindling foreign exchange reserves. Given the size of Argentina's quota, the Fund could not finance this entirely on its own. So, the Managing Director at the time, Jacques de Larosiere (who also happened to be the architect of the CL strategy) set up a series of bilateral meetings with official creditor countries and bank syndicates in order to round up additional money. Once all parties had signed on, the Board approved the request, making $1.2 billion in IMF financing available to Argentina (Boughton 2001, 393-394). While the Argentine government signed and submitted its Letter of Intent on September 25 the request was not approved until December 28–a 94 day wait. In other words, in exchange for larger overall financing packages, the Fund sacrificed speed.

Over the course of two Board meetings in April 1983, debate raged over how the strategy should be used (if at all). The Italian Director remarked that the so-called "ultimatum" approach resulted in "undue and costly delays." The alternate Director from the United Kingdom (UK) noted that such delays were particularly worrisome in cases "where speed was essential to maintain confidence and momentum of adjustment" (EBM 1983a, 17, 37). Another representative from Italy suggested the IMF find a new management strategy that would not "jeopardize [our] neutrality as an intermediary between debtors and creditors" (EBM 1983b, 29). Indeed, the Director from the Netherlands argued that the Fund had "almost gone to the limit of what was proper in criticizing banks" (EBM 1983a, 13).That is, the strategy seemed to pit the IMF on the side of the borrower against the banks. Yet, at the same time, there were growing concerns that the banks were actually becoming dependent on the strategy; that the actions were being interpreted as a "guarantee by the Fund for the security of bank loans." The Director from Belgium remarked it was "odd" that banks were

"beginning to insist" on the approach (EBM 1983b, 32, 27).

Due to these concerns, Directors from the U.S., Germany, and the U.K. each suggested that CL should only be used in "exceptional cases." Specifically, situations where the stability of the international financial system was threatened (EBM 1983a, 21; EBM 1983b, 22-23; Erb 1983). In most cases, they argued, an ultimatum should not be necessary. IMF approval of loans with sufficiently strong adjustment programs was enough to catalyze private lending by providing "useful information" to banks enabling them to make "their own decisions" about whether to increase exposures (Erb 1983, 6; see also EBM 1983b, 26). Requiring banks to meet an ultimatum prior to approving a program was excessive and unnecessary. Moreover, the alternate Director from the U.K. added that is overuse might render the policy ineffective, a concern echoed by the Director from the Netherlands (EBM 1983a, 26, 28). CL, these directors argued, should be used sparingly when the stakes were highest.

Some at the meetings bristled at the idea that only select borrowers would benefit from this strategy. For example, the Brazilian Director argued against the "exceptional case" approach explaining that it would not be "appropriate for the Fund to make a distinction between large and small countries or between the relative implications of their problems for the stability of the system." Such a distinction, he argued, would jeopardize the institution's principal of uniformity. Similarly, an IMF staff member present at one of the meetings explained he was "troubled by the implication in the remarks of some [Directors] that the line should be drawn between those countries that put the...system at risk and those that did not." He went on adding "it would be most unfortunate if members perceived that the Fund was willing to help only the larger debtors through the [CL] approach" (EBM 1983a, 33). While there was an almost universal recognition by the Board that CL put the IMF in an uncomfortable position and came with a number of other drawbacks–including slowing down its response–the group could not agree on precisely when the strategy should be implemented. Ultimately, the Board never attempted to formally define what would qualify as an "exceptional circumstance" and, so, the IMF continued to implement CL on a case-by-case basis (Boughton 2001, 401, 403).

G-5 country governments had a clear interest in preserving the IMF's impartiality as a financial crisis manager. However, they also had a clear interest in insuring that countries where their commercial banks were most exposed got the financing necessary to stem the crisis and prevent disorderly default. Consequently, the Fund's key shareholders had reason to support an approach that would–on balance–limit the use of CL to preserve its effectiveness and protect Fund impartiality between debtors and creditors *except* when it came to borrowers where their own financial systems were significantly at risk. In those cases, G-5 governments should have been more inclined to support the ultimatum technique because it would provide them with *ex ante* assurances that the banks would overcome their collective action problem and the borrower in question would receive sufficient financing and, thus, remain solvent. Because CL had the effect of delaying the approval of loan requests due to the additional negotiations with banks, I expect that,

H1: All else equal, the duration of loan approval periods during the concerted lending years will increase as G-5 commercial banks are increasingly exposed to the borrower country

3.2 Financial Liberalization and IMF Lending Responsiveness

CL was the Fund's primary strategy for managing the LDC debt crisis until 1987.[12] By that year, the IMF recognized that the ultimatum approach was no longer as effective at catalyzing bank lending and so it sought alternative measures to manage the tail end of the crisis (Boughton 2001, 418). Over the decades that followed the abandonment of CL, IMF lending responsiveness improved considerably and consistently. The Fund's improving responsiveness coincided with another important trend that occurred over the same period of time: the globalization of financial liberalization. As developing countries began to remove barriers to international capital flows in the 1990s, the volume of international capital flows and in the complexity of those flows grew quickly. In particular, it was marked by a surge

[12]Bird and Rowlands (2004) date the strategy from 1982 through 1986 while Caskey (1989) notes that the strategy was adopted during the Mexican debt adjustment program through 1987.

of portfolio capital flows–investments in debt securities (bonds) and equities–from industrial to developing countries (Prasad et al. 2003). [13] Moreover, these investments were driven by institutional and retail investors alike. Copelovitch (2010, 30-35) explains in great detail how, beginning in the 1990s, there was a significant shift in the composition of international lenders. What was once a global financial system dominated by a relatively small number of Western banks had become far more complicated. A growing number of countries found themselves indebted to a "disaggregated, heterogeneous group of private international lenders" (Copelovitch 2010, 9).

The combination of financial openness and the complexity of capital flows had significant implications for the economic stability of emerging market countries. Just as foreign portfolio capital can easily flow in when the capital account is open, it can just as easily flow out as conditions become less appealing to investors. Moreover, improvements in technology now meant that these investments could be pulled out of a country "with little more than the flick of a computer key" (Calvo, Leiderman and Reinhart 1996, 127). Increasingly, the IMF was called upon to help countries dealing with crises that developed quickly in the capital account as a result of such short-term capital movements.[14] Moreover, the IMF was precluded from implementing CL in most cases. Efforts to forcibly catalyze lending from commercial banks in the 1980s was possible due to the relatively small number of institutions involved. Such a strategy would not work when dealing with a "disaggregated, heterogeneous" pool of investors hellbent on pulling their money out of an economy in duress.

The need for speed on the part of the IMF as ILLR increased considerably as a result of these changes. For instance, Guitian (1995, 817) noted that "capital account problems typically require a rapidly agreed and relatively large financial support package, in which a substantial share of the funds is made *available up front*" (emphasis added). Similarly,

[13]For example, between 1990 and 1994, roughly $670 billion of foreign capital flowed into countries in Asia and Latin America as investors around the world began putting their money into emerging market stock markets and securities (Truman 1996, 201; Calvo, Leiderman and Reinhart 1996, 123).

[14]Calvo (1998) referred to the crises that developed in the 1990s as *capital account crises* to distinguish them from current account crises which were the dominant variety in previous decades.

Boughton (2000, 275) explained "What characterizes a twenty-first century crisis is simply the speed and magnitude of the resulting flows...A financial crisis calls for a similar response from the Fund as any other balance of payments problem except that the response *must be quicker* and possibly much larger than in a more traditional case" (emphasis added).

Thus, one interpretation of Figure 3 may be that the IMF has adapted its bureaucratic routines to better fit a changing global financial system where a speedy response to crises is more important. Such an interpretation is bolstered by the actions of the Fund over the last twenty years which indicate the institution has become increasingly aware of the need for speed. For instance, in the aftermath Mexican Peso crisis of 1995 the IMF introduced the Rapid Financing Instrument (RFI), which was set up to provide speedier approval of lending arrangements.[15] A few years later after the Asian financial crisis in 1997-1998, the Fund debuted the Contingent Credit Line (CCL) which was designed to prevent contagion by providing precautionary lines of credit to countries at risk (Bird and Rajan 2002).[16] Additionally, in 1996 the Board implemented new guidelines that reduced the minimum circulation period for loan requests from four weeks down to two weeks (EBD 1996). More recently, in the aftermath of the Global Financial Crisis of 2008, the IMF has introduced three new facilities designed to provide speedier financing to member states facing balance of payments crises: the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the and Rapid Credit Facility (RCL).[17] Even the SBA was recently overhauled in order to make the workhorse arrangement more effective for members who may not qualify for an FCL arrangement "by providing increased flexibility to front-load access" intended to improve its "crisis prevention and crisis resolution" performance (IMF 2009, 3). In sum,

[15]The RFI is sometimes referred to as the Emergency Financing Mechanism. It is not a separate lending arrangement *per se* rather it is a mechanism which can be activated when a member country is "facing an urgent balance of payments need" yet does not need a "full-fledged program" (IMF 2012d).

[16]The CCL proved to be unpopular during the relatively calm 2000s and was allowed to "expire" as a facility in November 2003.

[17]The FCL is designed to provide countries with "strong fundamentals" with access to "large and up-front access to IMF resources with no ongoing conditions" while the purpose of the RCL is to provide "low access, rapid, and concessional financial assistance to [low income countries]" (see IMF 2012a; IMF 2012b).

the evidence suggests that the Fund's broad improvement in responsiveness over time is, in part, the result of bureaucratic learning. The institution has adapted to a changing external environment where speed is necessary in order to stem crises and catalyze private capital flows.

Yet, despite the overall trend toward improved responsiveness, there remains a considerable amount of unexplained variation in loan approval periods *across borrowers*. That is, even if the globalization of financial liberalization, the increased complexity of international financial flows, and the rise of capital account crises led the Fund to respond more quickly to loan requests in general, the institution did not apply this sense of urgency evenly across borrowers (see Figure 3.) What explains the variation in loan approval periods across requests in the post-concerted lending period? Once again, I expect that G-5 interests should impact IMF lending responsiveness, though in different ways than they did during the early-1980s.

In the post-concerted lending years, I anticipate that the Board prioritized requests from countries where G5 commercial banks were significantly exposed. The speed and complexity of financial markets that developed in the 1990s all but eliminated the ability of the IMF to use concerted lending to (forcibly) catalyze financing to countries in financial duress. Crises in emerging market countries put the profitability and, in extreme cases, the solvency of G-5 commercial banks in jeopardy if they are exposed to the afflicted economy. Thus, the effects of foreign crises can spillover and impair the operation and stability of commercial banks which lie at the heart of domestic financial systems. Because of these risks, G-5 countries have a clear interest in stabilizing, as quickly as possible, economies where their banks are most vulnerable. Anecdotally, this expectation is consistent with the IMF's response to Mexico's financial crisis in 1995. The Managing Director placed Mexico's request for assistance on the Board's agenda a mere 6 days after the country filed their Letter. At the meeting, the American Director explained that such a quick response was necessary because "the size of the crisis is...unprecedented and the potential for spillover–an extremely quick spillover–is enormous" (EBM 1995, 53). The Japanese Director noted the Mexican crisis was both

"exceptional and urgent" (ibid, 61). While the German Director complained about the short time frame the Board had been given to consider the request, the request was ultimately approved.[18] In sum, as the global financial system grew increasingly open and complex in throughout the 1990s and 2000s, speed became an increasingly important component of financial crisis management. In this environment, a swift crisis response should be more effective an stemming capital outflows and even catalyzing private capital inflows than a slow response. Thus,

H2: All else equal, the duration of loan approval periods in the post-concerted lending era will decrease as G-5 commercial banks are increasingly exposed to the borrower country

4 Analyzing Variation in IMF Lending Responsiveness

To test my argument, I compile a data set consisting of 275 SBA and EFF loan requests from 1984 through 2009. As I have already discussed the dependent variable in detail above, I turn to the remainder of my research design below where I review the explanatory and control variables employed here as well as my model specifications.

4.1 Independent Variables

To account for the exposure of G-5 commercial banks I construct the covariate *G5bank*. International banking data were gathered from the BIS's Consolidated Banking Statistics database.[19] Specifically, I use the stated foreign claims by nationality of reporting bank, immediate borrower basis.[20] I measure G-5 bank exposure[21] as the natural log of the sum

[18]For a detailed account of the Board's debate surrounding the Mexican request, see Copelovitch (2010, 213-227).

[19]The BIS consolidated bank claims data is the highest level aggregate data type that includes both private and public (sovereign) foreign debts.

[20]Data available at `http://www.bis.org/statistics/consstats.htm`

[21]Formally, bank exposure is measured as the relationship between a bank's loans to a given borrower and its total assets; in this case, what I refer to as bank exposure is technically a measure of the concentration

total of G-5 banks' consolidated foreign claims to country i in year *t-1*. To account for whether a request was made during or after the concerted lending era, I create *Conlend* which is a dummy variable equal to "1" if a request was made between 1984 and 1987–the years in the sample when the strategy was implemented by the Fund. Finally, I interact these to variables in order to assess the effects of G-5 bank exposure on IMF responsiveness contingent on the era in which a request was made.

4.2 Control Variables

It is possible that the geopolitical interests of the G-5 countries also influence IMF responsiveness. For example, it may be the case that the G-5 countries use their influence with the Fund to speed up loan approval periods on behalf of allies or strategically important borrowers. To account for a borrower's status as an important "client" of the major Fund shareholders I construct *G5aid*. Consistent with Stone (2004), I assume that the distribution of aid across recipient countries is reflective of the relative priority donors attach to them. That is, foreign aid can be viewed as an "investment in a valued regime, representing a direct monetary measure of the importance of a particular recipient to a particular donor" (ibid, 579). Using data from the World Bank's World Development Indicators (WDI) database. I measure *G5aid* as the natural log of the sum total of G-5 net official development assistance to (ODA) to country i in year *t-1*. To account for a borrower's status as a geopolitical friend of the G-5 countries, I rely on Strezhnev and Voeten's (2013) "S score" measure of United Nations General Assembly (UNGA) voting affinity. Higher scores indicate more similar voting profiles in that body. Specifically, I construct *G5vote* which is the mean "S" score G-5 countries vis-a-vis country i in year *t-1*.

Because borrower regime type may also influence IMF responsiveness, I include *Polity* in my models. Theoretically, regime type could influence loan approval periods if the Board

of U.S. banks' developing country loans by country.

systematically scrutinizes requests from non-democracies more than those from democracies. Uncertainty surrounding the composition of a borrower's government could also result in approval delays.[22] Using the World Bank's Database of Political Institutions, I construct the dummy variable *election* to control for whether there was a competitive legislative or executive election in the borrower country the year their request was made.[23]

In some cases, countries file their Letter while they are still under a Fund supported program. To control for this, I include a dummy variable *PUP* equal to "1" if a country is presently under a program. In such cases, I expect approval periods will be longer as the Board should be more likely to delay approval of the new request until after the old program has expired. Variation in the Board's workload could influence its responsiveness. Thus, I include *RPM* to control the total number of requests per month since the Board may be unable to respond as quickly when it has more business to conduct.[24] Because the IMF reduced the minimum circulation period from four to two weeks in 1996, I include a dummy variable *Circ.* This takes on a value of "1" for years when the reduced period was in effect as this should increase Fund responsiveness, all else equal.

I include the dummy variable *crash* which is equal to "1" if a country experienced a sharp exchange rate depreciation (a "currency crash") within one year (before or after) they made their request. I include this control since the Fund might systematically respond more swiftly to requests from countries under significant exchange rate pressure or those

[22] Indeed, in a conversation with a high-level IMF official it was suggested that such considerations can result in delays.

[23] *election* is set to one if (1) either a legislative or executive election were held in country i year t and if (2) the mean competitiveness of those elections is greater than 5 on a 7 point scale. I assume that non-competitive elections will not result in high uncertainty surrounding the future make-up of the borrower's government.

[24] Also, I should note that there is no reason to expect that systematic variation in the Board's meeting schedule should affect IMF responsiveness. Since its creation, the Board has functioned in "continuous session at the principal office of the Fund" and meets "as often as the business of the Fund may require (Articles of Agreement, Article XII, Section 3(g)). Van Houtven (2002, 14-15) explained that, at the time of his writing, "total Board meeting time averages more than 12 hours a week and over 600 hours per year, which demonstrates the intense oversight exercised by the Board on activities of the IMF. Nearly one-third of the Board meeting time is devoted to policy issues, about 60 percent to surveillance, and the remainder to administrative and budgetary matters."

having just experienced a crash. Because global macro conditions might also influence IMF responsiveness, I include *Crises* which accounts for the total number of currency crashes worldwide in year*t*.[25]. I rely on Laeven and Valencia (2008) for both of these measures. When *Crises* is high, the IMF might be motivated to respond more quickly to borrower requests in an effort to prevent the spread of instability to other economies. Because the Fund may prioritize requests from large and developed economies, I also include the log of GDP (*GDP*) and of GDP per capita (*GDP pc*). I rely on WDI data for both measures. In line with Copelovitch (2010) I also include regional dummy variables.[26]

Finally, given the substantial change in IMF lending responsiveness over time (see Figure 3) I include a linear time trend in the model to capture the general effects of bureaucratic learning discussed above. In keeping with previous studies, a number of explanatory and control variables are lagged one year, reflecting the fact that most IMF programs are designed and approved based on information and data that lags behind the date of approval (see Knight and Santaella 1997, 413). These are identified in the table below.

4.3 Model Specifications

I fit Cox proportional hazards models of IMF loan request approval duration periods to estimate the effect of G5 interests on IMF lending responsiveness.[27] Models are fitted using the **R** package `Zelig`. A request becomes "at risk" for approval when a country submits a Letter of Intent to the Board and subsequently "fails" when the request is approved. I model the expected duration in days between request and approval as a function of a baseline hazard rate and list of covariates that change this baseline rate. In terms of model specifications, I fit two separate hazard models: one that does not include the interaction between *G5bank*

[25]If there was a crash in the borrower country that same year, 1 is subtracted from *Contagion*.

[26]Regional variables were created in Stata using the "Kountry" command based on the "Middle East broad" classification. Additionally, countries listed as "Oceana" were recoded as Asia resulting in five regional dummies: Africa, Americas, Asia, Middle East/North Africa (MENA) and Europe. In my statistical models, Europe is the baseline category to which other regions are compared.

[27]For handling ties, I use the Efron method.

and *Conlend* and a second that does. Since all loan requests in the sample were approved, there are no censored observations.[28] I compute robust standard errors clustered by country since residuals may be correlated across observations. I also test that the covariates in each model do not violate the proportional hazard assumption.[29]

5 Results

Results for the two hazard models are displayed in Table 5. The estimates are presented in the log hazard (non-exponentiated) metric. Coefficient estimates greater than 0 indicate the covariate is associated with a higher hazard rate, hence, swifter approval. Conversely, coefficient estimates less than 0 indicate the covariate is associated with a lower hazard rate, hence, a longer wait for approval. In other words, factors correlated with with faster approval times display positive coefficients while those correlated with slower approval times are negative.

Overall, the results support the hypothesis that the G-5 countries influence IMF responsiveness contingent on the exposure of their commercial banks and the time period in which a loan request was made. In Model 1 we can see that *G5bank* is positive and statistically significant (albeit at a lower level: p=0.096) indicating that increased bank exposure is associated with swifter approval of IMF loans. Surprisingly, *Conlend* is positive, however it is not statistically significant. Moving on to Model 2, the interaction between *G5bank* and *Conlend* is negative and highly significant (p=0.002) indicating that during the concerted lending years in the sample (1984-1987) increased G-5 bank exposure is associated with *longer* waits for loan approval, as *H1* expects. To illuminate the magnitude of commercial

[28]In my data collection efforts at the IMF archives, there were a total of three Letters of Intent filed for SBAs that I was unable to locate a corresponding approval date. In chronological order, these are: Malawi (8/11/1986), Brazil (9/13/1990), and Paraguay (1/9/1991). I was unable to determine whether these requests were rejected by the Board or withdrawn by the borrower countries. Because of this uncertainty and their rarity, I opted to exclude these cases from the analysis.

[29]Specifically, I calculate Shoenfeld residuals as described in Box-Steffensmeier and Zorn (2001).

	Model 1	Model 2
GDP t-1	-0.134^{+} (0.087)	-0.122^{+} (0.087)
GDP pc t-1	-0.427^{**} (0.110)	-0.410^{**} (0.111)
PUP	0.012 (0.157)	−0.128 (0.165)
RPM	0.014 (0.039)	0.026 (0.039)
Circ	−0.094 (0.261)	−0.166 (0.262)
Polity t-1	0.009 (0.016)	0.001 (0.016)
Election	-0.358^{*} (0.176)	-0.297^{+} (0.177)
Crash t+1, t, t-1	0.530^{**} (0.170)	0.587^{**} (0.172)
Crises	−0.001 (0.014)	−0.001 (0.014)
G5vote t-1	0.934 (0.543)	1.022 (0.540)
G5aid t-1	-0.070^{**} (0.020)	-0.067^{**} (0.020)
G5bank t-1	0.083^{+} (0.067)	0.135^{**} (0.070)
Conlend	0.124 (0.247)	1.322^{**} (0.474)
Africa	-0.928^{*} (0.354)	-1.062^{**} (0.356)
Asia	0.612^{+} (0.334)	0.564 (0.334)
Americas	0.370 (0.288)	0.412 (0.285)
MENA	−0.393 (0.347)	−0.538 (0.350)
Year	0.129^{**} (0.026)	0.132^{**} (0.026)
G5bank*Conlend		-0.227^{**} (0.078)
N	275	275
Number of countries	86	86
R^2	0.474	0.490

TABLE 1: Cox Proportional Hazards Estimates. Robust standard errors clustered by country in parentheses; + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

bank exposure's effect on loan approval periods, I graph simulated survival curve and first difference estimates based on Model 2.

Figure 4 presents these estimates as *G5bank* changes from 1 standard deviation below its mean to 1 standard deviation above its mean, setting *Conlend* equal to "1" while holding all other covariates at their means.[30] The first difference curve in Figure 4 displays the substantive effect of increased G-5 bank exposure on loan approval periods during the concerted lending era. I estimate that after 30 days, a request from a country where G-5 bank exposure is 1 standard deviation above the mean is associated with a 12.4 percent *increase* in the probability of survival (non-approval) relative to a country where exposure is 1 standard deviation below the mean. This difference in survival increases to a maximum of 16.8 percent at 39 days before it begins to decline. In other words, during the concerted lending years, requests from borrower countries where G-5 banks were more heavily exposed were about 17 percent more likely to *still be waiting* on loan approval after about 40 days compared to countries where G-5 banks were exposed at lower levels. This result is consistent with the expectation that the G-5 countries used their influence in the Executive Board to implement the concerted lending strategy as a method to catalyze private financing when their commercial banks were highly exposed to the borrower in question. In doing so, they could acquire *ex ante* assurances that the banks had overcome their collective action problem and the borrower in question would remain solvent. While this served to protecting domestic financial stability in the G-5 countries, it also led to increased loan approval periods for these borrowers.

In the post-concerted lending era, the direction of the effect of G-5 bank exposure inverts. Figure 5 presents survival curve and first difference estimates as *G5bank* changes from 1 standard deviation below its mean to 1 standard deviation above its mean, setting *Conlend*

[30]Based on the Model 2 sample, I generated simulations using the R package `Zelig` to replicate estimates of survival rates at levels specified for covariates of interest while holding all other covariates at their means. Point estimates displayed are the median observation from the simulation at each day after the loan request based on 1000 sample replications. The same process was used to generate all other post-estimation figures.

equal to "0" while holding all other covariates at their means. I estimate that after 30 days, a request from a country where G-5 bank exposure is 1 standard deviation above the mean is associated with a 17.2 percent *decrease* in the probability of survival (non-approval) relative to a country where exposure is 1 standard deviation below the mean. This difference in survival increases to a maximum of 18.3 percent at 35 days before it begins to decline. In other words, in the post-concerted lending era, requests from borrower countries where G-5 banks were more heavily exposed were about 18 percent more likely to *have their request approved* after 35 days when compared to countries where G-5 banks were exposed at lower levels. This result is consistent with the expectation that throughout the 1990s and 2000s the G-5 countries used their influence in the Board to prioritize requests from borrowers where their commercial banks were significantly invested. In an era where financial flows originate from a disaggregated, heterogeneous group of investors and capital can flow in and out of an economy at a moment's notice, concerted lending was no longer a viable approach to catalyzing private financial flows. In its place, large credits provided swiftly became the preferred method of managing financial crises. These findings suggest that when the financial stakes are high for the G-5, the Board systematically responded with a greater sense of urgency.

Turning now to the other covariates in the model, the results indicate that the Board responds more quickly to borrowers when the request comes within one year of a currency crisis as measured by *Crash*. This finding is highly significant and consistent across both specifications. However, the total number of currency crises worldwide, measured by *Crises* does not appear to influence IMF responsiveness. Additionally, *Election*'s negative and statistically significant coefficient shows governments facing a competitive elections tend to wait longer for approval. This suggests that the Board tends to delay votes on loans when there is high uncertainty about the future make-up of the borrower government in question. However, variation in regime type as measured by *Polity* has no systematic effect on responsiveness in either specification. Geopolitical considerations do not appear to systematically impact

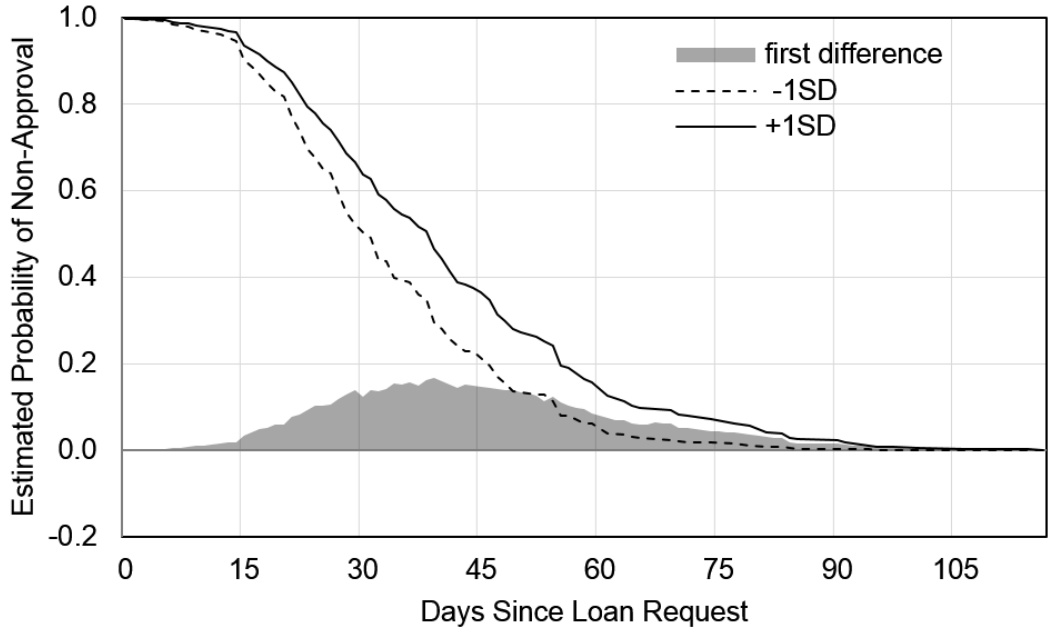

FIG 4: Survival and Difference Estimates - The Effect of G5bank when Conlend=1

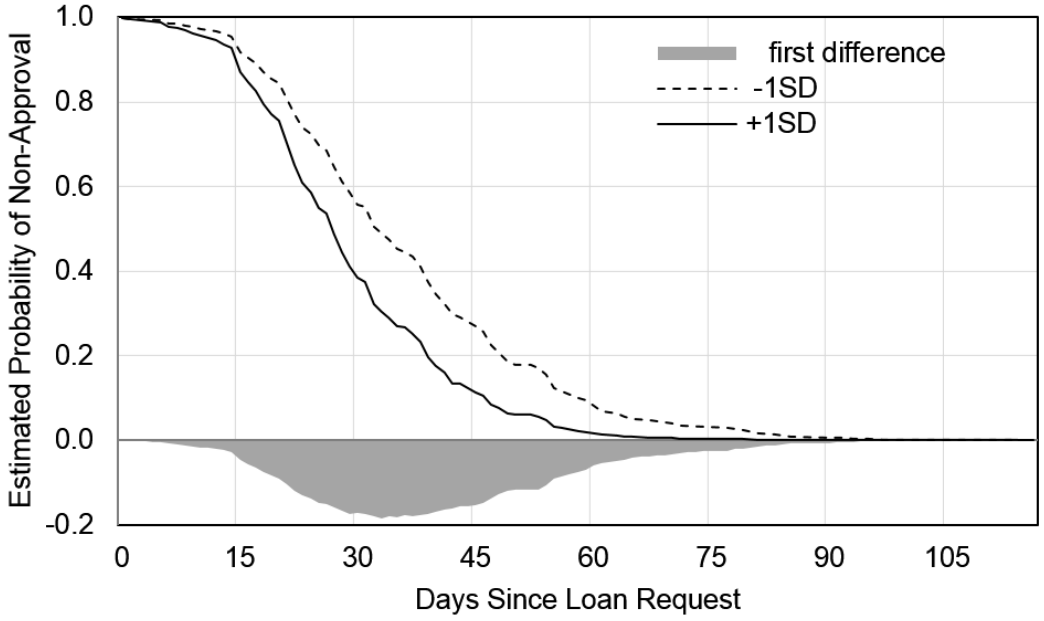

FIG 5: Survival and Difference Estimates - The Effect of G5bank when Conlend=0

IMF responsiveness, either. While *G5vote* is positive, as expected, it is not statistically significant at conventional levels. Thus, countries that vote closely with the G-5 countries in the UNGA do not appear to have their requests prioritized. Even more surprising is the negative and statistically significant coefficient for *G5aid*. Thus, borrowers that receive larger amounts of foreign aid from the G-5 countries face longer waits than countries that receive less assistance. The negative and statistically significant coefficients for *GDP* and *GDPpc* indicate that larger and more developed economies also face longer waits for approval–also somewhat surprising. Neither the work load of the Board (RPM) nor a borrower requesting assistance while still under a Fund supported program (PUP) appear to influence IMF responsiveness. Similarly, the reduction in the baseline circulation period of Board documents from 4 weeks to 2 weeks in 1996 does not appear to have had an independent effect on loan approval periods. Of the regional dummies, only Africa yields a statistically significant–and negative–result across both models indicating that, relative to Europe (the baseline category) African borrowers tend to face longer waits for approval. Lastly, *Year* is positive and highly significant indicating that over time, the Fund has in fact become a more responsive lender as Figure 3 suggests.

6 Discussion and Conclusions

While scholars of political economy have generated substantial new knowledge about variation in IMF lending behavior, little attention has been paid to the speed with which the Fund responds to borrowers requests. Yet, the Fund's responsiveness is an important issue because of the institution's *de facto* role as ILLR. As I noted at the outset, as financial crises unfold in today's globalized financial system, the speed of the response is often as important as the size of the loan itself. In this paper, I have presented new data on the responsiveness on the IMF. Specifically, I calculate the the number of days that transpire between when a country formally requests IMF assistance and when the Executive Board

approves that request–what I refer to as the loan approval period. Analysis of these data reveal two important findings.

First, the IMF has become a more responsive lender over time. Indeed, loan approval periods decreased year-by-year–almost monotonically–across my sample. Coupled with numerous steps taken by the Fund to improve the speed of its crisis response abilities, this trend provides clear evidence that the IMF has adapted its bureaucratic routines to a changing external environment. Thus, critiques of the Fund as an unresponsive lender may no longer be as credible as they once were. For an institution that is often criticized for its inability to reform itself to changing conditions, this is a notable accomplishment. On its own, this trend reflects positively on the Fund's ability to learn and adapt to changing global conditions within which it operates. This paper provides clear evidence that the IMF has evolved into a more effective ILLR over the last three decades–one that is better able to respond rapidly to crises as they develop today than it was in the past. All else equal, the Fund's speed should make it a more effective crisis manager which is a positive development for global financial stability. Yet, even as the IMF's responsiveness improved broadly, the increased sense of urgency over time has not been applied evenly across borrowers.

This points to the second important finding of the study: that G-5 financial interests are associated with IMF responsiveness in systematic ways contingent on the time period in which a request was made. IMF responsiveness, I argue, is directly related to strategies used by the Fund to catalyze private lending on behalf of a borrower. I argue that the strength of the G-5's preference for catalytic finance increases as their commercial banks become more exposed to the borrower in question. During the initial years of the LDC debt crisis, when private creditors were relatively small in number and homogeneous, the G-5 should have had a preference for implementing the "concerted lending" strategy. This enabled banks to overcome their collective action problem and reduced the likelihood that the indebted country would be forced to default on its debts. However, concerted lending resulted in longer waits for approval. Thus, in the concerted lending era, I expected that G-5 country bank exposure

would be associated with longer waits for approval. The strategy for catalyzing private finance changed in the late-1980s as the Fund abandoned concerted lending. In a world where private financiers were large in number and more heterogeneous, such an approach was no longer effective. Instead, effectively managing financial crises required large loans that could be provided *swiftly*. Thus, in the post-concerted lending era, I expected that G-5 country bank exposure should be associated with speedier Board approval. Ultimately, my statistical results support these expectations. In short, I find that when G-5 financial interests are at stake, these major shareholders tend to get what they want. However, what they want changed over time as the structure of the international financial system evolved and the need for speed increased.

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