

Poverty Reduction Strategies and their Impact on Democratization in Developing Countries¹

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Introduced in 1999, poverty reduction strategies (PRS) are currently the World Bank and IMF's main instrument to regulate access to debt relief and concessional financing from both institutions. By replacing the former structural adjustment programs this new approach seeks to increase the participation of civil society in the design and implementation of the national development strategy. As a result, it is expected that the voices of formerly excluded social groups help to formulate more effective development strategies leading to welfare-improving outcomes. In terms of democratization, it is assumed that PRS reduce inequalities within civil society and strengthen democratic accountability of the financial aid-seeking government towards its citizens and versus other political institutions. Theoretically, this paper proposes that World Bank and IMF programs often substantially interfere with domestic politics by changing the prevailing power balance between pro-democratic and anti-democratic forces. Thus, the question arises whether the participation in different types of World Bank and IMF programs also has a different impact on the quality of democracy in recipient countries. Empirically, this paper analyzes the joint effects of World Bank and IMF programs on democratization in 80 developing countries from 1974 to 2007. Our results show that non-concessional programs have no significant effect on the quality of democracy in recipient countries, whereas concessional programs have strong positive effects on different dimensions of democracy. In relation to the new PRS approach, evidence suggests that broad-based participation of civil society in the PRS process does not automatically result in higher participation at the national level. However, a country's participation in poverty reduction programs significantly increases the degree of checks and balances on the government and the level of civil liberties.

1. Introduction

Many developing countries appear to be locked in political balances which are undesirable from a development and democratization perspective. Civil society or major parts of the population are effectively excluded from decision-making processes. They have neither economic nor political power, so that in turn, politicians have no incentive to take any decisions in their favor. One way out of such a situation can be a change of the prevailing national political power balance through external political intervention. Such an intervention can happen in the context of development assistance. Yet, external actors require leverage capacities to bring about changes in political regimes. As the World Bank and the International Monetary Fund (IMF) are the most powerful players within the international donor community, their specific role in this context is particularly interesting to examine.

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Over the past decade, the international financial institutions (IFIs) sought for a renewal of their development strategies when the disappointing poverty reduction performance in most highly indebted and aid-dependent countries throughout the last 20 years could not be neglected anymore. The World Bank and the IMF's structural adjustment programs (SAP) came under rising criticism from civil society for having, in general, negative social and economic impacts on marginalized people and for undermining democracy in recipient countries (e.g., Structural Adjustment Participatory Review International Network 2004). The economic conditions attached to these programs seemed limited as to leveraging critical political and economic reforms. At the same time, there was an increasing awareness on part of the donor community that broadened participation and political competition were crucial ingredients for aid effectiveness and economic progress. As a result, both bilateral and multilateral donors looked for new development strategies, seeing their role not only in the transfer of financial resources, but also in contributing to good governance and in particular to democratization, the issue on which we will focus here. In principle, the official mandate of the IFIs does not allow them any political interference in recipient countries, but in practice, it is assumed that their programs have far-reaching political consequences on politics in developing countries. Since the World Bank and the IMF are the largest contributors of foreign aid in developing countries, the question thus arises, *which instruments the international financial institutions can use to directly and/or indirectly encourage democratization, and how their traditional and more recent types of program lending and accompanying conditions have fared in this respect.*

In this context, a closer analysis of the instrument of poverty reduction strategies (PRS) is particularly warranted. Tied to a set of governance conditions, PRS have placed issues of poverty reduction and good governance at the centre stage of the official agenda in a number of developing countries. Introduced in 1999, PRS are currently the World Bank and IMF's main program type to regulate access to debt relief and concessional financing. By replacing the former SAP, this new approach seeks to increase the participation of civil society in the design and implementation of the national development strategy. The IMF defines the resulting papers as follows: "Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing" (IMF 2009). As a result, it is expected that the voices of formerly excluded social groups help to formulate more effective development strategies leading to welfare-improving outcomes. In terms of democratization, this paper proposes that PRS can contribute to promoting democracy in recipient countries by reducing inequalities within civil society and strengthening democratic accountability of the governments towards their citizens and vis-à-vis other domestic political institutions.

This paper compares the democratic experiences with the PRS approach in recipient countries to other, more established types of IFI program lending since the onset of the third wave of democratization in 1974. The aim of the present paper is to explore, whether the *participation in different types of World Bank and IMF program lending also has a different impact on the quality of democracy in recipient countries*. We thereby distinguish first, between non-concessional and concessional lending²; and second, within concessional lending, between structural adjustment and poverty reduction program lending. *Non-concessional* IFI program lending has no structural conditionality attached and constitutes the vast majority of all programs between the IFIs and the governments in recipient countries during the last 30 years. In contrast, *concessional* IFI program lending includes financial support with structural conditionality attached under both the SAP and the PRS approach. Structural adjustment programs (SAP) normally include a vast array of specific economic policy conditions, ranging from currency devaluation to liberalization and privatization of the public sector. As for the poverty reduction strategy (PRS) initiative, conditionality works mainly through the general process of designing, implementing, and monitoring the national development strategy. In short, traditional conditionality focuses on policy outcomes, whereas “process conditionality” (Foster et al. 1999) focuses on the processes and actions leading to these policy outcomes. The question thus arises if the new instrument of process conditionality can not only enhance aid effectiveness (Hefeker and Michaelowa 2005), but also promote democracy in developing countries. By analyzing the experiences of the World Bank and the IMF’s influence on democratization over a wide range of developing countries and a longer time period than used so far by other studies, we hope to contribute to the development of more general theories of the external-internal links in existing political, economic, and development research.

Adapting Rueschemeyer et al.’s (1992) theoretical concept of political power balances to the context of development cooperation, we distinguish three categories of actors involved: the multilateral donors, the borrower government, and the domestic civil society, who all shape democratization processes through complex and dynamic interaction. Democratization is thereby perceived as an outcome of a conflictual decision-making process between these domestic and international actors, and, as several PRS case studies have shown (e.g., Both 2003; Bierschenk et al. 2003), partially conditioned by formal and informal institutions. Whether various types of IFI program lending have a positive or negative impact on democratization in developing countries depends on the incentives or constraints created for government, civil society, and multilateral donors. We also control for varying individual country circumstances assumingly having a strong impact on democratization in developing countries, such as state of socio-economic development, international exchange, foreign aid and resource abundance.

² Concessional lending by the IFIs includes long-term loans that are given to the poorest of the developing countries at terms that are below market loans.

Empirically, this is the first large-scale, comparative study analyzing the democratization impact of various *types* of World Bank and IMF programs in developing countries. It is based on a panel of 80 developing countries from 1974 to 2007. The time period starts 1974, a year which has often been considered as one of the major turning points in the nature and extent of IFI program lending (Sidell 1988: 6). Methodologically, we build upon previous work in that we analyze the effects of World Bank and IMF programs jointly, in order to avoid misleading results (Abouharb and Cingranelli 2007: 81). Moreover, following Barro and Lee (2003), we correct for selection bias into IFI programs using an instrumental variable approach. And finally, in keeping with Nelson and Wallace (2005), we examine the argument of a time-delayed effect of IFI program lending by analyzing its effect on the level of democracy over different periods of time (using different lags of the IFI program variable).

As opposed to previous studies, we consider these issues jointly. Moreover, we develop a conceptual framework based on Rueschemeyer et al.'s (1992) model of democratic power balances, to provide a sound theoretical basis for our empirical analysis. In line with the model, we differentiate between the effects of IFI program lending on different dimensions of democracy. And finally, we explore a longer time series than previous studies, which allows us to compare not only concessional and non-concessional lending, but also different types of concessional lending including the more recent lending based on PRS. As the latter officially strives for country ownership and broad-based stakeholder participation, it is of particular interest when studying its impact on democratization.

The rest of this paper is organized as follows: In section 2 we will first have a look at important contributions of existing studies. In section 3 we will clarify our democracy concept and move on from there to build our theoretical framework for analyzing the underlying causal mechanisms between the various types of IFI program lending and different dimensions of democracy. Section 4 discusses the data and operationalization of our hypotheses. Section 5 provides an overview of our econometric approach. In section 6 we will present our results, followed by the final section, in which we will discuss the major outcomes of the study.

2. Previous research

2.1. Democratic diffusion and regional organizations

The IFIs' change of development strategies in the late 1990s mirrors a newly generated interest in the international dimension of democratic transition and consolidation in developing countries. In explaining the so-called "third wave", democratization studies have either largely concentrated on political processes and the choices of domestic principal leaders in democratic transitions (e.g., O'Donnell et al. 1986; Di Palma 1990; Przeworski 1991; Higley and Gunther 1992) or focused on national contextual variables such as pre-existing macroeconomic conditions, cultural heritage, class interests, or the existence of a vibrant civil society for explaining democratic consolidation (e.g., Gasiorowski and Power 1998; Diamond 1999; Clague et al. 2001; Linder and Bächtiger 2005). Unfortunately, the international dimension has rarely been examined in the comparative political research on democratization in developing countries. With the possible exception of Rueschemeyer et al. (1992), this literature has not yet produced core theories, which could easily be applicable to the IFIs' influence in this respect. Recent empirical work, however, started to explicitly take international factors into account and to integrate them into more complete democratization models. On the one hand, economic globalization reflected in a country's trade and capital market integration, is perceived as significantly affecting national democracy levels (e.g., Doorenspleet 2004; Rudra 2005). On the other hand, political influences from abroad are considered as having an impact on domestic politics through diffusion processes or demonstration effects, whereby democratizing countries "infect" their more authoritarian neighbors (e.g., Starr and Lindborg 2003; Wejnert 2005; Brinks and Coppedge 2006). Diffusion processes work not only through neighboring countries, but also through regional or, more broadly, international organizations. Pevehouse (2002) shows that the involvement in democratic regional organizations can encourage the process of democratization in member states. This impact grows as the international organization becomes more democratic. Another study in the European context concludes that not only the membership status, but even the offering of a membership perspective in combination with EU political conditionality on democracy, shows a robust and strong effect on political reforms in EU neighboring countries (Schimmelfenning and Scholtz 2008).

2.2. Political economy of international organizations

The Bretton Woods Institutions are completely missing from at least the empirical part of the democratization literature. Yet, they take center stage in the literature on the political economy of international organizations. Theoretically spoken, besides democratic diffusion, external influences on democracy can also come through political conditions attached to foreign development assistance. Whereas globalization and diffusion studies have found an overall positive impact of external linkage, the experience with the leverage efforts of bilateral and multilateral donors is controversial. Applying

a more actor-oriented perspective, Crawford (1997) and Brown (2005) find that restrictive measures imposed by bilateral donors generally have a negative impact on democracy. They see the reasons for the failure of political conditionality either in the weakness of sanctions imposed, or in domestic environments and donor shortcomings, such as lack of commitment and poor understanding of power relations in developing countries as well as competing economic, commercial, and strategic interests. Studies focusing on multilateral donors have mainly concentrated on assessing the *economic* impact of World Bank projects and IMF programs in recipient countries (for an overview, see Killick et al. 1998; Khan and Sharma 2001; Vreeland 2003; Dreher 2006; Abouharb and Cingranelli 2007). Three general conclusions can be drawn from this research:

First, assessing the economic effects of the SAP is difficult due to the underlying selection criteria of the IFIs. The most recent econometric studies on the effects of IMF programs, however, propose the use of two-stage equation models for dealing with issues of selection, endogeneity, and lack of randomization (for an exemplary application of these models, see Przeworski and Vreeland 2000; Vreeland 2003; Barro and Lee 2003; Abouharb and Cingranelli 2009).

Second, strong borrower commitment to structural reform is an important factor for successful implementation of programs. Only few empirical studies address the impact of the World Bank's policy-based lending, as compared to the extensive empirical research on the economic consequences for a country that participates in an IMF program. However, one of the strengths of these studies analyzing World Bank policy-based lending lies in their focus on borrower commitment. Thereby, they prepared the ground for later analysis of the PRS approach, in which the principle of country ownership is a cornerstone (e.g., Mosley et al. 1991; Kahler 1992; Johnson and Wasty 1993; Killick et al. 1998).

Finally, concerning the IFIs impact on economic growth and income equality, most studies – and in particular those who take the selection effects into account – come to negative results. For example, Abouharb and Cingranelli (2007: 7) conclude that the "...structural adjustment did the most damage to the least well off in society. It usually reduced the size of the 'economic pie' to be distributed, and resulted in a more unequal distribution of the pie itself". These results triggered a handful of empirical studies, which, for the first time, looked at the *political* impact of World Bank projects and IMF programs. According to these early studies, IMF-supported economic intervention in borrowing countries does not appear to significantly influence political stability (measured as the avoidance of collective protest and turmoil, internal war, and illegitimate regime change), or even has a negative effect (Sidell 1988; Franklin 1997). These results are confirmed by a recent study by Dreher and Gassebner (2008).

Since, officially, the World Bank and the IMF constrain their activities to those promoting economic development, the emphasis of previous research lies quite naturally on the economic and social effects of the IFIs' development assistance. Nevertheless, there are three global, comparative empirical studies that have taken up the issue of the IFIs' impact on democratization in a systematic way.³ The econometric analysis carried out by Barro and Lee (2003) suggests that IMF programs have a marginally negative effect, directly on democracy and indirectly on economic growth. In contrast, the study by Nelson and Wallace (2005) reveals that countries being under an IMF program show significantly higher democratization levels, and concludes that the conditions attached to the loans disbursed by the IMF have a positive effect on the quality of democratic institutions in participating countries. Interestingly, these positive effects grow over time. For a one-year time lag, no apparent relationship between the provision of an IMF program and the level of democracy is detected. However, in the three-year and five-year lagged models, the coefficients for participating in an IMF program become stronger and statistically significant (ibid: 22-23). Similarly, the path-breaking study by Abouharb and Cingranelli (2007) on the human rights impact of SAP looks at the length of time countries are under World Bank or IMF programs. The authors find that longer exposure to structural conditionality is positively associated with procedural democracy. At the same time, their finding that long-term structural adjustment has a negative impact on a wide range of civil, worker and human rights points to the paradox that structural adjustment "may have led, simultaneously, to advances in procedural democracy and a decline in substantive democracy" (ibid.: 207).

2.3. PRS case studies

The discrepancy between procedural and substantive democracy fostered through external democracy promotion received a lot of attention in a multitude of PRS case studies. A difference can be made between (i) studies comparing the *content* of PRS in several countries and (ii) studies taking a closer look at the consultation and implementation *process* of national development strategies. Case studies looking at the content typically assess the pro-poor focus of different policies contained in the final PRS documents. Most studies, however, look at the individual process leading to this document, i.e. the endeavor of formulating and building consensus around the PRS. The underlying "ownership-effectiveness hypothesis", derived from this literature, assumes that civil society's participation in the PRS process leads to greater national ownership that in turn increases aid effectiveness (Booth 2003: 136). While it is too early to evaluate the success of the new approach in achieving its long-term objectives, especially the extent of poverty reduction (cf. IEO 2004: 3), the mid-term objective of greater national ownership comes to the fore. Yet, results in terms of country ownership are mixed.

³ An early study by Moore and Scarrit (1990) on the impact of IMF conditionality agreement on African polity structures could not find any significant relationship. However, given their limited data and geographical focus we do not include this study in this review of global and statistically robust comparative analysis.

Positive impacts of PRS are seen in three key areas, namely that they contributed to a much stronger focus on poverty inside government; that the PRS consultation process created new space for domestic policy dialogue and resulted in an unprecedented engagement by civil society organizations in poverty policy debates; and that the PRS approach focused attention on donor coordination internationally and at the recipient country level (e.g., Booth 2003; Molenaers and Renard 2003; World Bank and IMF 2005; Driscoll and Evans 2005).

The *challenges* for achieving full national ownership are mainly seen in the areas of institutionalizing sustainable participation and taking the domestic political context into account. First, in many cases participation in the PRS process has often been broad rather than deep. On the government side, only a narrow circle of officials responsible for driving the process participated in a deeper sense, thereby gaining strong ownership of the PRS. Sector line ministries and local governments have not actively engaged in many PRS processes so far. The same can be said for parliamentary institutions and procedures that have regularly been by-passed. On the society side, even though the ownership principle suggests participation of a variety of actors, in practice the PRS process was often characterized by “government ownership” rather than “country ownership”. For example, although a wide range of civil society organizations were consulted in PRS processes, significant organizations such as trade unions and producer associations were excluded from the participation process. Moreover, governments often limited participation by depoliticizing the topics open for discussion and by politicizing the selection of participants (cf. Eberlei 2001; Molenaers and Renard 2003; IEO 2004; World Bank and IMF 2005; Driscoll and Evans 2005; Dürr et al. 2008). The second area that has not attracted enough attention so far is that many PRSP processes have unfolded in semi-democratized states in which domestic politics tend to be patronage-based, with fragmented party systems, politicization of administration, as well as weak state regulatory and implementation capacities. Some case studies indicate that there is a risk that PRS will become identified with the political party in power and be discarded when there is a change of government (e.g., Bierschenk et al. 2003; Booth 2003; World Bank 2003; Dijkstra 2005). In a political context characterized by a culture of patronage, the central question thus arises “...whether PRSP-related changes can get enough of a foothold before being overcome by the very structures and processes they aim to transform” (Booth 2003: 138).

In summary, this paper builds upon three strands of literature in the fields of political science, economics and development studies, all of which have shed light on the topic of interest here. It seeks to advance the research frontier by closing several research gaps that have been identified:

First, we would like to **contribute to theory-building** on the impact of international organizations on democratization by combining ideas from different academic disciplines. Until now, we have found relatively few studies trying to combine the various strands of literature. Democratization studies have rarely taken actors outside the nation-state into account. On the other hand, with the possible exception of a few studies (besides the ones mentioned above, see Nelson and Eglinton 1992; Stewart and Wang 2003; Brown 2004; Dürr et al. 2008), the impact of the IFIs on long-term democratic outcomes has rarely been included within the existing political economy and development policy literature. Two likely reasons for the lack of studies on external influences in democratization research are that core theories explaining outside-in linkages are missing (Pevehouse 2002; Grugel 2003) and that the understanding of the specific causal mechanisms linking international organizations to the quality of democracy in recipient countries is quite limited (Levitsky and Way 2005; Nelson and Wallace 2005).

Second, we will **differentiate between various types** of programs and their respective conditions for both the World Bank and the IMF. Given the potential importance of various forms of conditionality attached to the IFIs' loans and credits, it is surprising to see that, apart from a single study by Figura (2007) on the IMF, this aspect has not been examined by other scholars. The introduction of the PRS approach in the late 1990s in combination with newly available data on World Bank and IMF activities offers a unique window of opportunity to examine potential differences in the impact of non-concessional and concessional lending, and between different types of concessional support (SAP versus PRS). Moreover, we will examine if these potential differences in the impact of IFI program lending change over time. Taking the electoral rhythm into account, we expect IFI program influences on democratic quality to be strongest in the long term (Schimmelfenning and Scholtz 2008).

A *final* research gap we wish to close concerns the **coverage and methods of previous research** on the IFIs' impact on democratization processes. On the one hand, existing statistical studies seldom examine the joint impact of World Bank and IMF programs. Even though the missions of the two IFIs have become more similar during the last decades and there is increasing cooperation between them in the implementation of the PRS approach, they have largely been analyzed separately (Abouharb and Cingranelli 2009: 49) – with the majority of the studies focusing on the IMF. This may create omitted variable bias and thus lead to a wrong interpretation of the impact of any specific program. On the other hand, the use of comparative methods has been scant in most recent research on the PRS approach, especially in the IFIs' own evaluation reports (e.g., IEO 2004; World Bank and IMF 2005). Case studies have provided a wealth of insights regarding PRS processes, particularly in Africa, but they do not provide an appropriate basis for the development of more general theories of the external-internal links in democratization research.

3. Theoretical framework

3.1. Democratic dimensions and deficits in hybrid regimes

Democracy in this paper is defined as a political regime "...that presents a stable institutional structure that realizes the liberty and equality of citizens through the legitimate and correct functioning of its institutions and mechanisms" (Morlino 2004: 12). This procedural definition incorporates the three fundamental principles of equality, freedom, and control, which are, implicitly or explicitly, embodied in most definitions of democracy. Besides, they are constitutive for the empirical measurement of the quality of democracy (cf. Lauth 2004). Whereas Morlino considers several dimensions of democratic quality, special emphasis herein is given to the notion of accountability, which is defined as "...the obligation of elected political leaders to answer for their political decisions when asked by citizen-electors or other constitutional bodies" (Morlino 2004: 17). A government in a democratic polity is accountable in two ways: vertically and horizontally. *Vertical* accountability exists between the governor and the governed, when the former can be removed from power by the latter, usually through elections. This first type of accountability has a periodic nature and is dependent on election dates. The actors involved in vertical accountability are politically unequal. *Horizontal* accountability, on the other hand, is the responsibility governors have to answer to other institutions or collective actors that have the expertise and power to control the behavior of those in power. Horizontal accountability is mainly constitutional and/or law-bound, aimed at controlling whether the established rules for governing are respected. In contrast to vertical accountability, the actors are, for the most part, politically equal (ibid.: 17-18). Besides these two accountability dimensions of democracy, which represent the essence of *procedural* democracy, we consider a third, more *substantive* dimension of democracy delineating the limitations of state power, namely civil liberties and individual freedom from arbitrary state power. This third dimension is more about equality between citizens as a necessary condition for the formal routines of a democratic system. In other words, it is about "the degree to which an individual citizen is able to participate in the decisions which affect his or her life" (Kaldor and Vejvoda 2002: 162). In summary, democratic quality including both procedural and substantive dimensions is conceptualized in this paper as a matter of degree and varies between and within different dimensions of democracy.

Today, many developing countries are moving back and forth along these three dimensions of democracy. They seem to be stuck in a "grey zone" which appears to be the most common political background for the recipients of IFI program lending. In the theoretical realm, this has led scholars to speak of "*hybrid regimes*" that feature both democracy and autocracy (Karl 1995; Carothers 2002). In hybrid regimes access to power is ensured by elections. But besides this, they face serious democratic deficits within all three democratic dimensions:

The deficit in *vertical* accountability is due to procedural deficits in the voting or administrative system, also due to very little effective choice between alternative political programs, or to a weak and divided civil society, controlled by dominant partial interests. The *horizontal* accountability deficit is embodied primarily in an overly powerful and potentially tyrannical executive vis-à-vis the legislative, in widespread corruption, or in an intimidated judiciary and media (Luckham et al. 2001: 23). Finally, *citizenship rights* in the developing world are often hollow. Equal rights and entitlements as citizens can be denied either formally, due to constitutional and legal arrangements, or effectively as a result of gender, societal inequalities, lack of organization, cultures of intolerance or intimidation and violence (ibid.: 23). These democratic deficits are often very long-lasting due to the political leadership's unwillingness to change the prevailing political equilibrium which ensures their power and leadership. The question thus arises how external actors can intervene to change the existing power balances, thereby mitigating the widespread democratic deficits in the developing world.

3.2. Power balances in developing countries

In order to analyze these possible outside-in linkages and their impact on domestic democratization processes, we will adapt the political economy approach of power balances, originally developed by Rueschemeyer et al. (1992). They identify three “balances of power” decisive for consolidating democracy: (i) the balance of power among different classes and class coalitions in society; (ii) the structure, strength, and autonomy of the state apparatus and its interrelations with civil society; and (iii), the impact of transnational power relations on both the balance of class power and on state-society relations. These power balances depend on structural conditions favoring and inhibiting democratization of which capitalist development appears as the main driving force. The development of a modern market economy, according to the authors, “...affects the chances of democracy primarily because it transforms the class structure and changes the balance of power between classes. It is the growth of a counter-hegemony of subordinate classes and especially the working class that is critical for the promotion of democracy” (ibid.: 45-47). Democracy seen from this perspective is first and foremost a matter of power. Democratization is thus a bottom-up process, which gives the many an effective share of power in the institutionally differentiated political sphere.

Applying their relative class model of democratization to the recipient countries of IFI program lending, we will modify it in the following way: *First*, the concept of class is not very useful in analyzing social groups in African or Asian countries. The working class, which is perceived by Rueschemeyer et al. (1992) as the main proponent of democratization in advanced industrialized countries, is weakly developed. This is due to a lack of industrialization in the new democracies where the Western gap between capital and labor has never been accentuated. Societies in the developing world are not so much differentiated between classes than structured along different factional networks. For example, a factional group could range from people living at the edge of society up to

the top of the political pyramid headed by a president being a member of the same social, ethnic, or religious group. Hence, unlike Rueschemeyer et al. (1992) we will not focus on the balances between classes but on the societal balance among the previously excluded groups and the dominant social group in society.

Second, the interactions between the state as a partially autonomous block of power and a highly heterogeneous civil society have received considerable attention in earlier studies on the relationship between civil society and the state in developing countries. We will follow Rueschemeyer et al. (1992) regarding their concept of state autonomy that can be both pro- and anti-democratic. Autonomy from a dominant social group is considered as pro-democratic, whereas autonomy from the population as a whole is conceptualized as anti-democratic. The pro-democratic autonomy refers to the situation where the state is autonomous as to any specific social group, and strives for public welfare. By contrast, anti-democratic autonomy refers to the situation where the state is domesticated by a dominant social group using public resources to pursue its own private ends at the cost of civil society and the general public. In the African context, this pattern of anti-democratic state autonomy has been described as “neo-patrimonial politics”⁴, which highlights the informal and cultural aspects of politics in developing countries as well as the blurring of boundaries between the private and the public (cf. Bayart 1993; Bratton and van de Walle 1997; Chabal and Daloz 1999). Bratton and van de Walle (1997) identify three informal political institutions that are widespread in neo-patrimonial states: (i) the systematic concentration of political power in the hands of one individual (“big man syndrome”); (ii) systemic political clientelism reinforced by the zero-sum nature of neo-patrimonial competition for state power; and (iii), the use of state resources via clientelistic networks dominated by local elites. In the context of IFI program lending, therefore, we will look at the extent of pro- or anti-democratic autonomy of the state with a special focus on neo-patrimonial politics in developing countries.

Third, concerning the impact of transnational power relations, we agree with Rueschemeyer et al. (1992) that political and economic international relations (or dependencies) are vitally important for the internal power balance of a country and thus for the prospects of democracy. However, we complement their perspective of focusing on the system of states and economic dependencies by adding the international financial organizations to their theoretical framework. Since the IFIs are the most powerful players in the context of development cooperation, we will concentrate primarily on the impact of their development policies on democratization processes in recipient countries. Thus, democratization in our theoretical framework is actively driven by internal and external actors, and not

⁴ The origins of the neo-patrimonial approach are found in the socio-anthropological theories of patron-client relations in the developing world. These vertical networks of dyadic alliances are characterized by unequal status, face-to-face contact, and reciprocal exchange (for an overview of the anthropological literature on patronage see Gellner and Waterbury 1977). In political science, the term “neo-patrimonialism” was first used by Eisenstadt (1973) to characterize patrimonial practices in modern contexts. In this regard, he made reference to Max Weber who distinguished ideally between patrimonial rule in traditional societies and rational-legal forms of authority in modern state bureaucracies.

only passively shaped by underlying political and economic forces. Yet, democratization is conditional on various formal and informal institutions influencing the power balances within society, between society and the state, and between domestic and international regimes.

The causal mechanisms through which the international organizations may influence domestic power balances in recipient countries can be either direct or indirect. Democratization in borrowing countries may be affected *directly* through the conditionality attached to IFI loans, credits and grants. Conditionality as it is defined here relates to "...the extent and ways in which aid donors can appropriately and effectively link aid to specific non-economic policy reforms" (Nelson and Eglinton 1992: 6). The policy instruments at hand are two-fold: On the one hand, the threat of negative sanctions in situations of perceived violations of human rights, state corruption, or lack of progress towards democratization provides, theoretically, powerful means for influencing domestic political processes (Crawford 1997). On the other hand, positive support to democratization may be given through technical assistance focusing on electoral processes, the strengthening of governmental institutions, and the promotion of civil society organizations, or, financially, through a temporary "democratic bonus" in cases of major democratic breakthroughs (Nelson and Eglinton 1992: 46). However, democratization may be also influenced *indirectly*, through the IFI programs' impact on economic growth and poverty reduction.⁵ Since we cannot differentiate between the direct and indirect effects of IFI program lending on democratization in this paper, we jointly examine the total effect of the World Bank and the IMF's lending instruments on democratization.

3.3. Hypotheses

In accordance with our theoretical framework we propose that World Bank and IMF programs often substantially interfere with domestic politics (independently of whether this effect is intended by the IFIs or not). Depending on the different types of IFI program lending, each tipping the balance between pro-democratic and anti-democratic forces either accentuates or mitigates the widespread democratic deficits in developing countries. Table 1 provides a first overview of the hypotheses we are going to develop on whether and how the different types of IFI program lending influence the democratic dimensions in recipient countries:

⁵ The strong correlation between economic development and political democracy is one of the most robust empirical findings of the democratization literature (for a good overview, see Doorenspleet 2004). Taking this finding into account and assuming that the IFI programs achieve their proclaimed goal of promoting economic growth and poverty reduction, one would expect an indirect positive effect of IFI program lending on the quality of democracy in recipient countries. However, previous studies on the political economy of international organizations demonstrates quite convincingly that IMF program lending had significant negative effects on economic growth and income distribution (cf. Vreeland 2003; Przeworski and Vreeland 2000; Barro and Lee 2003; Dreher 2006). Thus, whether the indirect impact of IFI program lending promotes or hinders democratic development remains unclear.

Table 1: Theoretical relationships between IFI programs and domestic democratic dimensions

Hypothesis:	Vertical accountability (regular elections)	Horizontal accountability (check and balances)	Civil liberties (rule of law)
(1) non-concessional programs	-	-	-
(2) concessional SAP	-	-	-/+
(3) concessional PRS	+	+	+

Concerning **non-concessional program lending** starting in 1946, we expect an overall negative impact on procedural democracy for countries being under IMF programs and World Bank projects without any conditionality attached. Foreign aid given to borrower governments potentially weakens their accountability towards other domestic political actors. During the period of observation (1974-2007), the majority of the African and Asian countries in our sample were hybrid regimes characterized by dominant power politics and a weak civil society (Carothers 2002: 19). This suggests that, in these cases, state autonomy has anti-democratic effects. Hence, the external backing of the borrowing government with unconditional financial resources by the IFIs reduces the government's dependence on its citizenry for tax revenue. As the financial independence of the government increases, vertical accountability decreases. Non-concessional programs thereby not only contribute to stabilizing the dominant government but also retard the development of a strong civil underpinning democracy and the rule of law (Knack 2004: 253).

A related argument derived from the aid effectiveness literature holds that foreign aid in new democracies often funds projects outside the budget without being subject to parliamentary review (ibid.). Because IFI projects and programs are negotiated between the government of the recipient country and the representatives of the World Bank and the IMF, the legislature is not part of the negotiation process (Alexander 2006, cited in Abouharb and Cingranelli 2007: 204). As a result, not only vertical, but also horizontal accountability of the borrower government is significantly reduced. Thus, we propose the following hypotheses:

Hypothesis (1a): *Non-concessional IFI program lending induces lower levels of vertical and horizontal accountability in developing countries.*

Hypothesis (1b): *Non-concessional IFI program lending hinders the development of a strong civil society, thus leading to a lower extent of civil liberties in developing countries.*

In the 1980s, the IFIs started concessional financing by introducing **structural adjustment program lending**. In hybrid regimes, the external impact of an SAP is assumed to have both positive and negative consequences for different dimensions of democracy.

On the one hand, structural adjustment lending (or development policy lending) provides quick-disbursing assistance to borrower governments to support structural and institutional reforms in a sector or the economy as a whole. In return, the attached economic policy conditions tend to weaken the role of the government sector in all economic activities in order to “liberate” the private sector from the stranglehold of regulation and inefficiency. From the perspective of our power balances approach, this form of external intervention seriously restricts the power of borrowing governments. The lessening state involvement associated with SAP creates a vacuum that is filled by non-governmental organizations providing goods and services for the citizens the state is unable or unwilling to produce. Consequently, the number of non-governmental organizations increases significantly and forms the basis of an emerging civil society in many hybrid regimes (cf. Chazan 1994; Lister and Nyamugasira 2003). The external intervention thus can be evaluated positively as it helps to change the power balance in favor of domestic civil society relative to the (semi-)authoritarian government in hybrid regimes. As a result, the extent of civil liberties increases.

On the other hand, we expect a negative impact of structural adjustment lending on vertical and horizontal accountability of the government. Even though SAP constrain the power of the chief executive, this restriction is not accompanied by an expansion of the political power of domestic accountability groups, but results in a strengthening of the World Bank and the IMF’s power relative to the borrowing country. Generally, governments in hybrid regimes are often not only accountable to their domestic constituencies, but also to the IFIs financing a substantive part of their national development strategies (Luckham et al. 2001). The IFIs’ demands often compete with internal demands of citizens and domestic political institutions for responsive governance. By tipping the international power balance towards external actors, this makes it more difficult for local actors to hold the national government accountable.

A second argument holds that, indirectly, SAP have mainly negative effects on democratic accountability in recipient countries. Critics of IFI adjustment lending programs maintain that the social costs are high. They suggest that the IFIs have neglected the distributional consequences of their SAP and increased the gap between the rich and the poor in recipient countries. To stay in our terminology of power balances, the growing income inequalities also reinforce the power of the dominant social group often controlling the state apparatus in hybrid regimes and weaken the power of the previously excluded social groups. The discontent caused among the affected social groups prompts oppressive actions from the borrowing government implementing the unpopular policies at hand (Abouharb and Cingranelli 2007: 204). Structural adjustment thus leads simultaneously to a polarization at the societal level and a weakening of domestic accountability at the government level. In sum, from the above discussion, we propose the following two hypotheses for concessional IFI program lending via SAP:

Hypothesis (2a): *With regard to procedural democracy, structural adjustment programs of the IFIs have a negative impact on the level of vertical and horizontal accountability of the government in developing countries.*

Hypothesis (2b): *Directly, structural adjustment programs of the IFIs have a positive influence on the extent of civil liberties in developing countries; but indirectly, their impact increases social inequality and reduce the extent of civil liberties; thus, the direction of the total effect of structural adjustment lending on the level of civil liberties is ambiguous.*

In 1999, the World Bank and the IMF launched a new approach of concessional **poverty reduction program lending**. Earlier development strategies have increasingly been criticized as being too much government-centered and neglecting the participation of non-governmental actors in IFI program lending. The underlying principle of country ownership inherent in the PRS approach takes this critique into account. The fundamental intention of this principle is that the borrower countries “must be in the driver’s seat” (Wolfensohn 1999, cited by OECD 2008: 18). They should be in charge of their development goals and strategies. When countries have greater say in shaping political and economic reforms, according to the logic of the IFIs, governments and citizens will be more committed to them, thereby enhancing aid effectiveness. In reference to this ownership-effectiveness hypothesis (cf. Booth 2003), we will propose here a similar ownership-accountability hypothesis that holds if country ownership of the PRS is strengthened, democratic accountability in turn increases. Country ownership thereby is not only about government commitment to reform but depends also on broad-based participation of all relevant stakeholders in the PRS process. Theoretically, the positive effect of country ownership on democratization happens through increasing the essential functions of civil society in and for democracy. This approach has a long tradition in political thought (for an excellent overview, see Merkel 2004: 45-47):

A first democratic function of civil society is the support of the rule of law and the balance of power between state and society (*the Montesquieuan function*). Organized citizens constitute an alternative site of power, independent from the state, and act as pressure groups for democratization (Eriksen 2001: 292). They can limit the power of the assumingly strong central state and can hold powerful actors accountable. Hence, the power of the state is a direct function of the relative autonomy of civil society (Chazan 1994: 258).

Second, civil society organizations can function as “schools of democracy” in stimulating participation and democratic practice beyond elections (*the Tocquevillian function*). More precisely, a rich and pluralistic civil society serves to educate citizens for democracy; articulates and aggregates political interests; recruits and trains political personnel; and strengthens civil society by itself through

providing many goods and services outside the state or profit-oriented market sector (cf. Hadenius and Ugglå 1996; Diamond 1999; Young 2000).

Finally, a third function of civil society in the PRS context is seen in fostering critical discourse in an institutionalized public sphere (*the Habermasian function*). This function has both defensive and offensive aspects in relation to the behavior of civil society organizations vis-à-vis the state: The defensive aspect shows itself in giving voice to traditionally excluded groups. People who are marginalized or disadvantaged can find each other in voluntary organizations to improve their lives through mutual aid and articulation of group consciousness. The offensive aspect consists in gaining influence over policy and changing society through society. A strong civil society can facilitate democratic debate about what should be done by the state, the economic actors, and groups in civil society itself by raising political issues and promoting specific policies (Diamond 1999; Young 2000).

With respect to the PRS process, all of these democratic functions of civil society theoretically contribute to democratization in IFIs recipient countries. In practice, civil society organizations increasingly fulfill the role as “providers of the service of accountability” (Lister and Nyamugasira 2003). They expose the government’s role in formulating and implementing the national PRS to public scrutiny, and consequently oppose the arbitrary exercise of power. As a result, information on government activities is disseminated and vertical accountability is strengthened. Increased horizontal accountability in turn, manifests itself in the extent to which PRS processes are being integrated with other domestic planning and budgeting mechanisms, foster access to information on government activities, and build on existing governance and political systems. Finally, the implementation of the PRS in hybrid regimes acts as “school of citizenship”. Through strengthening the voice of formerly excluded social groups in fostering public discussions of the PRS, the IFIs empower them and mitigate the democratic deficit of hollow citizenship. Hence, our last hypotheses concerning the IFIs poverty reduction program lending impact on democratization in developing countries go as follows:

Hypothesis (3a): *The poverty reduction strategy approach of the IFIs has a positive influence on the quality of democracy in developing countries, including both horizontal and vertical accountability.*

Hypothesis (3b): *By functioning as “schools of citizenship” and strengthening the voice of previously excluded groups in developing countries, the poverty reduction strategy approach of the IFIs has a positive impact on the extent of civil liberties as well.*

4. Data and operationalization

On this theoretical basis, we will empirically analyze whether the IFI influence in general and the PRS process in particular, can be expected to have an impact on democratization in recipient countries. For exploring the variations of IFI program lending, we will undertake a panel data analysis. We have compiled annual data from 1974 to 2007 for 80 African and Asian countries since they gained independence from Western colonial powers.⁶ Some data are not available for all African and Asian countries or years, the panel thus is unbalanced and the number of observations depends on the choice of variables (cf. Annex 2 for the detailed description of the dependent and independent variables).

4.1. The dependent variables

Democratization is captured by three different indicators, each of which stands for a different dimension of democracy. Freedom House and Polity IV data will be used to operationalize the vertical and horizontal accountability of government as well as the extent of civil liberties in a society. So far, there is no single democracy index covering all three dimensions of democracy identified.⁷ However, the disentangling of these two well-known democracy indexes provides great research potential. The use of single democracy components not only makes it possible to place greater confidence in the results, but also provides additional information on the sensitivity of different types of IFI program lending to different dimensions of democracy.

Vertical accountability as our first dimension of procedural democracy is captured by Freedom House's political rights index. This annual index rates the degree of freedom as experienced by individuals themselves in the political process. Regarding content, the political rights index comes very close to our vertical accountability concept. It is grouped into three subcategories: (i) freedom and fairness of the electoral process; (ii) degree of political pluralism and participation; and (iii) accountability of the elected representatives towards the electorate between elections (Freedom House 2009). Together, these three categories provide reliable information on the state of vertical accountability in a country. For better comparability with the indicator of horizontal accountability, the original 7-point-scale was reversed. A rating of 1 indicates the lowest degree of freedom and 7 the highest level of individual freedom from government control and other centers of potential domination.

⁶ We exclude Latin American and Eastern European countries as they differ significantly from the former in regard to their political history and dominance of Western cultural heritage. With the exception of South Korea that became an OECD member only in 1996, the OECD members among our sample of African and Asian countries are excluded too, because they are normally not recipients of IFI programs (cf. Annex 1 for a list of country-years included in the sample).

⁷ For an overview of the literature on measurement of democracy, see Munck and Verkuilen (2002), Lauth (2004), Pickel and Müller (2006) and Bühlmann et al. (2008).

Horizontal accountability is measured by one component of Polity IV's regime index, namely the independence of executive authority. This variable reflects the constraints to which the chief executive is accountable to any other "accountability group" in the polity, be it the legislature, the judicative, the ruling party, a council of nobles, the military, or any other institutional actor (Marshall and Jaggers 2009: 63). Unlike Freedom House, Polity IV country ratings focus on the institutional aspects of democracy rather than the real-world rights and social freedoms enjoyed by individuals. The executive constraints index measures the degree of institutional checks and balances between the various parts of the decision-making process. The 7-category-scale ranges from "no regular limitations on the executive's actions" (1) to "other accountability groups' equal to or greater authority than the executive in most areas of activity" (7).⁸

The **civil liberties** index of Freedom House captures most of the essence of our substantive democracy concept. Country ratings are based on a checklist that is grouped into four subcategories: (i) freedom of expression and belief; (ii) associational and organizational rights; (iii) rule of law; (iv) personal autonomy and individual rights (Freedom House 2009). In sum, these four categories give an estimate of the extent to which citizens are equal before the law and fundamental human rights are realized within the country under consideration. Applying the same procedure as for the political rights index, country ratings are based on a scale ranging from lowest (1) to highest (7) level of freedom.⁹

4.2. The independent variables

Our main explanatory variables relate to the various types of IFI program lending. On the one hand, we use data on World Bank projects that is available online. The World Bank's (2009a) Project Database provides information on different financial lending instruments, the amounts committed, and the implementation period of all projects from 1947 to the present. On the other hand, we use data on IMF lending activities since 1946 that were generously provided by Vreeland (2003). We updated his data up to 2007 by consulting the IMF Annual Reports. Following Vreeland (2003), a country's participation in different types of IFI programs is measured by a dichotomous variable for each type of IFI program lending in a specific year. The variable equals 1 if a country has been either under a World Bank or an IMF program, 0 otherwise. To capture the impact of different development strategies, we distinguish between non-concessional programs, structural adjustment programs, and poverty reduction programs (cf. Annex 2 for the financial instruments summarized under these three types of IFI programs).

⁸ In order to facilitate the use of the executive constraints measure in our panel data analysis, standardized missings codes were converted to conventional polity scores (for details, see Annex 2).

⁹ However, it must be noted that our Freedom House and Polity IV indicators correlate highly (with Pearson's r ranging from 0.69 to 0.86), thus interactions between all three democracy dimensions do exist.

Non-concessional programs are available to all IMF member countries as well as to all International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) borrowers who are not in arrears with the Bank Group. IMF non-concessional facilities assist countries with payment difficulties (for an overview of the IMF's facilities and conditionality, see IMF 2005). The World Bank's non-concessional program types (or investment operations) provide funding to governments for large-scale, economic and social infrastructure projects. Funds are disbursed against specific local expenditures related to the investment project (World Bank 2009b). Both IMF facilities and World Bank projects have no (strong) policy conditions attached. They differ, however, in their time horizon as the length of IMF non-concessional facilities is usually 1 to 3 years, while World Bank investment projects have a long-term focus of 5 to 10 years.

Structural adjustment programs are available only for low-income countries. As for the IMF, the eligibility criteria for the structural adjustment facility are based on a country's per capita income and are linked to the World Bank's concessional lending (IMF 2005: 5). The World Bank thereby assesses eligibility on the basis of a country's performance in implementing policies that promote economic growth and poverty reduction.¹⁰ Structural adjustment lending (or development policy lending) is available to IDA-only countries with heightened risks of debt distress. It provides quick-disbursing assistance to borrowing governments aiming at structural reforms in a sector or the economy as a whole. Even though development policy operations are more short-term (1 to 3 years) than the World Bank's investment projects, they are more frequently part of a programmatic series of operations, in which the Bank supports a medium-term program of policy reform (World Bank 2009b).

Poverty reduction programs are conditional on the foregone formulation of a national Poverty Reduction Strategy Paper (PRSP). As of July 2009, a total of 58 countries have prepared a PRSP. More than half are Sub-Saharan African countries. In addition, 6 countries have prepared Interim-PRSP that may result in full-grown PRSP (World Bank 2009c). The corresponding financial instruments are the World Bank's Poverty Reduction Support Credit (PRSC) and the IMF's Poverty Reduction and Growth Facility (PRGF). Because the PRGF fully replaced the structural adjustment facility in late 1999, a fundamental difference between poverty reduction and structural adjustment programs is the length of time they have been implemented in recipient countries. While structural adjustment lending by the IMF was introduced in 1987 and has lasted for 22 years, the PRGF is a relatively new instrument. In our sample, 8 years (2000-2007) are the maximum number of cumulative years a country can have been under PRGF lending. In contrast, the World Bank's structural adjustment lending has already begun in the mid-1960s. Unlike the IMF's structural adjustment lending, it has not ended with the introduction of the PRS initiative, but has continued to be implemented side by side since the first PRSC was signed in 2001.

¹⁰ For an overview of the Country Policy and Institutional Assessment (CPIA) ratings, which are used in the IDA allocation process, see the IDA's portrait on the World Bank's homepage (www.worldbank.org).

4.3. The control variables

In selecting our controls, we follow democratization studies providing three alternative explanations of democratization. The main data source for alternative explanatory variables, if not otherwise mentioned, is the World Bank's (2008) World Development Indicators (WDI) database.

A *first* explanation, originating in modernization theory, focuses on different levels of socioeconomic development and their impact on democracy. Countries with higher levels of wealth, industrialization, urbanization, and education, the reasoning goes, are more prone to democratization. Because socioeconomic development leads to more economic equality between citizens, it creates the necessary conditions for higher participation of the population in politics. In contrast, if a wide gap between a small elite and an impoverished mass exists, democratic accountability of the government towards its citizens is weak and no democratization results (cf. Lipset 1959; Hadenius 1992; Epstein et al. 2006). To take the level of socio-economic development and the gap between elite and mass population into account, we will measure them by a country's urbanization rate and population density.

A *second* explanation relates to the democratic diffusion literature. According to this strand of literature, integration into transnational economy promotes the diffusion of democratic ideals and values (cf. Rudra 2005; Wejnert 2005; Brinks and Coppedge 2006). Among the causal mechanisms that have been proposed are trade, media exposure through different communication channels, and membership in international networks. We will focus on the first mechanism by measuring it with the sum of imports and exports as percentage of GDP.

A *third* set of controls is derived from the literature on rentier states (cf. Beblawi and Luciani 1987; Karl 1997). A rentier state is characterized by a high dependence on externally generated rents rather than domestically raised taxes. These rents are typically generated from government's exploitation of natural resources (e.g., Ross 2000; Jensen and Watchekon 2004) or the drawing on foreign aid (e.g., Bräutigam and Knack 2004). Due to this "unearned" income (Moore 1998) the government becomes less accountable to its citizens as it has alternative revenue sources at its disposal. As a result, unearned state income can stabilize authoritarian regimes and hinder democratization. Data relating to oil and diamond production (1970-1999) are obtained from Humphreys (2005). We updated his data until 2007 by relying on data compiled from the Energy Information Agency (EIA), the British (BGS) and the US Geological Surveys (USGS). In addition, aid dependency is measured by a country's amount of aid received per capita. Together with our IFI variables, these three sets of controls¹¹ will be used to explore the effects of internal and external factors on democratization simultaneously.

¹¹ To ease interpretation of the models, we divided our variables of urbanization rate, population density, international trade, and foreign aid by 1000. Moreover, negative values for foreign aid (33 observations) and oil production (51 observations) were set to 0, because negative unearned income makes no sense in theory.

5. Estimation strategy

Our data contain 34 annual observations for 80 countries. In order to take into account the nested structure of our data, we use a panel estimation model with fixed effects. A Hausman test strongly rejects random effects for all types of IFI program lending and democracy dimensions. Alternative estimation strategies based on panel corrected standard errors (PCSE) are discarded as the cross-country dimension of our sample clearly dominates. In order to assess the impact of IFI program lending on the level of democracy, we run separate regressions for the three different dimensions of democracy considered in our theoretical framework. In addition, we run separate regressions for the different types of IFI program lending – with different lags to capture short-term and long-term effects. To estimate a short-term effect, we lag the IFI program variable by one period. To estimate a long-term effect, we use a five-year lag whenever possible, and a three-year lag in the case of PRS related lending for which long time series are not yet available. Selection of the one-year and five-year lag is also done to ease comparison of our work with previous research.

The greatest methodological challenge is the appropriate handling of endogeneity.¹² Participation in an IFI program cannot plausibly be considered to be exogenous. Compliance with policy conditionality and even more implicit issues of governance directly related to democratic quality may well drive IFI support in the first place. This would create an issue of reverse causality. Moreover, one can easily think of a variety of factors that we cannot directly control for, which simultaneously influence IFI program lending and the level of democracy. Examples could be the government's propensity to foster development, its ideology, or its willingness to cooperate with the IFIs. If the resulting endogeneity of the IFI program lending variable is not appropriately taken care of, this can result in a serious bias of regression results. Indeed, as we will see later, many of our coefficients change significantly when we compare the results with and without the appropriate estimation approach.

In our paper, we proceed with an instrumental variable approach as suggested by Barro and Lee (2003: 2). An efficient estimator appropriate for panel models can be obtained by using panel GMM (cf. Cameron and Trivedi 2005: 744-753). The specification of the selection equation is not of interest for us, so that we merely need to find variables which can be used as valid instruments. In this context, Barro and Lee (2003) and Knack (2004) suggest to explore the aid allocation literature, making use of exogenous political-economic variables related to donor interest and recipient need. Recipient need is

¹² A vast literature has covered this issue with authors following different estimation strategies. Generally, authors use two-step procedures estimating a selection equation in the first step. The most sophisticated example is provided by Vreeland (2003) who describes the selection into and the continuation of IMF programs as a joint decision making process of the IFI and the country authorities, empirically captured in a dynamic bivariate probit model adjusted to partial observability. As noted by Abouharb and Cingranelli (2007), many other studies do not use appropriate techniques because they simply apply a traditional Heckman approach. This is inappropriate here as we do have observations of the dependent (and all other) variables for the full sample. They thus suggest an adequately adjusted procedure, similar to Heckman.

usually captured by various indicators of income, poverty, human development or economic and political crises, while donor interest is captured by indicators of economic ties, political alliances and international influence, political stability and country size.¹³

Based on these theoretical considerations, we initially select eight variables (GDP per capita, per capita growth, external debt, foreign reserves, population size, UN Security Council membership, domestic and international armed conflict) and proceed with a stepwise reduction procedure to eventually retain the most significant predictors of participation in either of the three different IFI lending programs considered here (cf. Annex 2 for the detailed description of variables and Annex 3 for the summary statistics). We finally keep two instrumental variables for each IFI program type, namely GDP per capita and foreign reserves for non-concessional lending, external debt (% GNI) and log population for SAP, and GDP per capita and log population for PRS related lending.

The econometric results presented in this paper are obtained using the IV/GMM approach and the two-step estimator as implemented by Schaffer (2007) in Stata. The test statistics assessing potential over- or under-identification are generally satisfying. At the exception of our instrumental variables for non-concessional program participation, the Kleibergen-Paap test clearly rejects the hypothesis of weak instruments (underidentification). The Hansen test generally does not reject the hypothesis that our overidentifying restrictions are valid, i.e. that our instruments can be considered as exogenous. All in all, we take these results as a confirmation of our choice of instrumental variables (for a detailed discussion of the test statistics, see Hayashi 2000; Baum et al. 2003; Kleibergen and Paap 2006).

In addition to the selection problem, we face a problem of serial correlation. As democracy is usually not a very fast changing feature in a given country, the level of democracy today is not independent of the level of democracy a year ago. This problem is confirmed when running the test for first order autocorrelation in panel models suggested by Wooldridge (2002: 274f.). Following Beck and Katz (1995), we solve this problem by including a lagged dependent variable in all our models. Notwithstanding the arguments advanced by Arellano and Bond (1991), even without the use of the GMM technique, this should not bias our results since the time series are sufficiently long. However, it appears that even adding the lagged dependent variable as a further control, the problem of correlations between different error terms within countries is not fully solved. In our final specification, we therefore use a variance-covariance estimator which is robust against any kind of serial correlation or heteroskedasticity (cf. Arrelano 1987).

¹³ Note that population is not just important as a determinant of the absolute aid volume allocated, but also for aid per capita as most donors want to be present – at least with some amount – even in relatively small countries. It therefore usually enters the aid allocation regressions in a non-linear way.

6. Empirical Results

All models are estimated both for the conventional fixed effects approach (FE) and our instrumental variables approach (FE/IV). Table 2 presents our results regarding the impact of **non-concessional programs** on the quality of procedural democracy. In general, they indicate that IMF programs and World Bank projects without any specific conditionality attached do not have any significant effects on vertical and horizontal accountability in recipient countries.

Table 2: Impact of non-concessional programs on democratic accountability

	Vertical accountability				Horizontal accountability			
	(1) FE model	(2) FE/IV model	(3) FE model	(4) FE/IV model	(5) FE model	(6) FE/IV model	(7) FE model	(8) FE/IV model
Non-concessional programs (t-1)	-0.07 (0.245)	-0.23 (0.836)			0.02 (0.732)	0.54 (0.630)		
Non-concessional programs (t-5)			-0.04 (0.602)	-1.22 (0.368)			-0.11* (0.087)	0.71 (0.572)
Vertical accountability (t-1)	0.81*** (0.000)	0.80*** (0.000)	0.81*** (0.000)	0.77*** (0.000)				
Horizontal accountability (t-1)					0.87*** (0.000)	0.83*** (0.000)	0.86*** (0.000)	0.82*** (0.000)
Urbanization rate	7.09** (0.033)	7.06 (0.402)	9.23** (0.017)	10.72 (0.222)	10.68*** (0.001)	14.61* (0.064)	13.94*** (0.001)	14.01** (0.045)
Population density	0.60** (0.014)	0.76** (0.036)	0.23 (0.435)	-0.38 (0.646)	1.41*** (0.000)	1.04** (0.012)	1.01*** (0.004)	0.29 (0.572)
International trade	0.06 (0.945)	1.51 (0.393)	0.14 (0.895)	0.40 (0.792)	0.10 (0.902)	1.05 (0.536)	0.45 (0.639)	-0.17 (0.913)
Foreign aid	1.16*** (0.005)	1.07** (0.020)	0.97** (0.013)	1.25 (0.105)	0.80** (0.038)	0.70 (0.135)	0.88** (0.043)	1.15 (0.137)
Oil production	0.09 (0.457)	0.49*** (0.002)	0.08 (0.518)	0.17 (0.432)	-0.03 (0.636)	0.02 (0.900)	0.03 (0.720)	0.10 (0.913)
Diamond production	-0.02* (0.080)	-0.03 (0.761)	-0.02 (0.107)	-0.16 (0.322)	-0.01 (0.440)	0.05 (0.635)	-0.02 (0.182)	0.08 (0.603)
Observations	2209	1474	1964	1238	2116	1418	1876	1194
Countries	78	71	77	70	77	69	76	69
R-squared	0.67	0.64	0.67	0.59	0.78	0.73	0.76	0.70
Kleibergen-Paap Test		3.65 (0.161)		3.66 (0.161)		3.79 (0.149)		3.77 (0.152)
Hansen Test		0.28 (0.599)		0.12 (0.727)		0.74 (0.389)		0.62 (0.433)

Note: Constant term not reported; robust p-values in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Columns 1 to 4 report our results for Freedom House's political rights index (vertical accountability), while Columns 5 to 8 give estimation results for Polity's executive constraints index (horizontal accountability). Comparing the two accountability dimensions, we can see that the negative effect of non-concessional IFI program lending remains constant and insignificant for Freedom House's political rights index, but is growing and becomes significant after five years for Polity's executive constraints index (Model 7). This finding suggests that participation in non-concessional programs

weakens the checks and balances on the chief executive in recipient countries in the long term, but not in the short term. Alternatively, only a longer exposure to non-concessional IFI program lending might cause a negative impact on horizontal accountability. Since the IMF's non-concessional programs last 1 to 3 years, this significant effect may be attributed to the consecutive implementation of several non-concessional IMF programs and to the implementation of major long-term investment projects by the World Bank. Overall, there is partial evidence for Hypothesis (1a). Non-concessional IFI programs induce lower levels of horizontal accountability, but only in the long term. In contrast, no significant impact is found for vertical accountability, and short-term effects on both accountability dimensions.

Table 3: Impact of concessional structural adjustment programs on democratic accountability

	Vertical accountability				Horizontal accountability			
	(1) FE model	(2) FE/IV model	(3) FE model	(4) FE/IV model	(5) FE model	(6) FE/IV model	(7) FE model	(8) FE/IV model
Structural adjustment programs (t-1)	0.09* (0.073)	0.27** (0.025)			0.10* (0.051)	0.54*** (0.001)		
Structural adjustment programs (t-5)			0.11** (0.028)	0.26* (0.077)			0.15*** (0.004)	0.80*** (0.001)
Vertical accountability (t-1)	0.81*** (0.000)	0.79*** (0.000)	0.80*** (0.000)	0.78*** (0.000)				
Horizontal accountability (t-1)					0.86*** (0.000)	0.84*** (0.000)	0.85*** (0.000)	0.80*** (0.000)
Urbanization rate	5.37 (0.105)	-0.11 (0.977)	5.87 (0.116)	-0.08 (0.989)	8.60** (0.010)	-2.24 (0.625)	9.37** (0.036)	-11.31 (0.247)
Population density	0.61** (0.010)	0.79** (0.045)	0.27 (0.327)	0.32 (0.539)	1.48*** (0.000)	2.20*** (0.000)	1.15*** (0.004)	2.25** (0.014)
International trade	0.01 (0.993)	0.12 (0.909)	-0.04 (0.972)	-0.16 (0.905)	0.22 (0.782)	0.90 (0.351)	0.10 (0.914)	-0.23 (0.871)
Foreign aid	0.94*** (0.006)	0.45 (0.343)	0.91** (0.015)	0.91* (0.058)	0.62* (0.054)	-0.63 (0.244)	0.75** (0.045)	0.50 (0.307)
Oil production	0.09 (0.480)	0.67* (0.080)	0.08 (0.523)	1.08 (0.100)	-0.04 (0.594)	-0.42 (0.657)	0.01 (0.815)	0.85 (0.645)
Diamond production	-0.01 (0.307)	0.01 (0.653)	-0.01 (0.459)	0.01 (0.642)	-0.00 (0.827)	0.03** (0.020)	-0.00 (0.976)	0.07** (0.036)
Observations	2209	1953	1964	1673	2116	1864	1876	1595
Countries	78	69	77	69	77	67	76	67
R-squared	0.68	0.65	0.67	0.64	0.78	0.75	0.77	0.72
Kleibergen-Paap Test		20.71 (0.000)		20.78 (0.000)		20.86 (0.000)		19.61 (0.000)
Hansen Test		0.02 (0.895)		4.41 (0.036)		0.56 (0.455)		0.73 (0.394)

Note: Constant term not reported; robust p-values in parentheses; *** p<0.01, ** p<0.05, * p<0.1

In opposition to non-concessional IFI programs, **structural adjustment programs** with economic policy conditions attached have a strong positive and significant impact on democratic accountability in developing countries. As can be seen in Table 3, this rather surprising finding stays robust over all models. The results clearly reject Hypothesis (2a). Structural adjustment programs of the IFIs have a significant positive – and not negative – impact on the level of vertical and horizontal accountability in

developing countries. Similar to non-concessional program types, the effect of structural adjustment lending tends to stay constant over time for vertical accountability, but shows a tendency to increase in size and significance over the five-year period for horizontal accountability. Again, this trend effect may be caused by the consecutive implementation of several structural adjustment programs by both IFIs. Since the conditionality attached to structural adjustment programs usually is aiming at mid-term policy adjustment, its impact on the independence of the chief executive seems to be time-delayed.

Since the new **poverty reduction programs** of the World Bank and the IMF are conditional on civil society's participation in the formulation and implementation of the national development strategy, their democratic record in particular, is interesting to examine. Turning to Hypothesis (3a), the results of Table 4 provide significant differences in regard to the two accountability dimensions.

Table 4: Impact of concessional poverty reduction programs on democratic accountability

	Vertical accountability				Horizontal accountability			
	(1) FE model	(2) FE/IV model	(3) FE model	(4) FE/IV model	(5) FE model	(6) FE/IV model	(7) FE model	(8) FE/IV model
Poverty reduction programs (t-1)	0.10 (0.100)	0.23 (0.237)			0.10 (0.181)	0.69*** (0.002)		
Poverty reduction programs (t-3)			0.09 (0.168)	0.48 (0.127)			0.13 (0.143)	1.08*** (0.005)
Vertical accountability (t-1)	0.81*** (0.000)	0.79*** (0.000)	0.81*** (0.000)	0.77*** (0.000)				
Horizontal accountability (t-1)					0.86*** (0.000)	0.83*** (0.000)	0.86*** (0.000)	0.82*** (0.000)
Urbanization rate	6.66** (0.049)	8.08* (0.073)	6.40* (0.081)	8.19 (0.160)	10.13*** (0.002)	7.99 (0.154)	11.25*** (0.002)	10.78 (0.109)
Population density	0.45* (0.050)	0.29 (0.437)	-0.05 (0.881)	-0.05 (0.928)	1.30*** (0.000)	0.02 (0.963)	1.06*** (0.004)	0.05 (0.935)
International trade	-0.20 (0.828)	0.65 (0.621)	0.06 (0.948)	0.48 (0.718)	0.01 (0.993)	-0.24 (0.840)	-0.00 (0.998)	-0.62 (0.633)
Foreign aid	1.03*** (0.008)	1.01** (0.014)	0.88** (0.022)	1.19** (0.017)	0.74** (0.048)	0.29 (0.516)	0.73* (0.061)	0.62 (0.172)
Oil production	0.09 (0.475)	0.25 (0.174)	0.10 (0.367)	-0.03 (0.872)	-0.04 (0.604)	-0.01 (0.889)	0.01 (0.828)	0.02 (0.892)
Diamond production	-0.02 (0.164)	-0.01 (0.372)	-0.01 (0.296)	-0.01 (0.579)	-0.01 (0.452)	0.00 (0.939)	-0.01 (0.472)	-0.01 (0.752)
Observations	2209	1778	2087	1629	2116	1691	1996	1547
Countries	78	75	78	74	77	73	77	72
R-squared	0.68	0.66	0.67	0.64	0.78	0.74	0.77	0.71
Kleibergen-Paap Test		23.31 (0.000)		19.57 (0.000)		21.36 (0.000)		17.62 (0.000)
Hansen Test		0.82 (0.365)		1.06 (0.303)		0.03 (0.864)		0.07 (0.797)

Note: Constant term not reported; robust p-values in parentheses; *** p<0.01, ** p<0.05, * p<0.1

On the one hand, we find that the combined poverty reduction program lending by both IFIs increases the constraints on the executive's power, thereby strengthening horizontal accountability significantly.

Just as for the other program types, we observe for PRS' impact on horizontal accountability an increase in the size and significance over time. On the other hand, our empirical results suggest that the implementation of IFI poverty reduction program lending so far has had no significant impact on vertical accountability in relation to the citizens' political rights in recipient countries. Although the coefficient of Freedom House's political rights index is positive in all Models (1 to 4), it remains insignificant statistically. In other words, broad-based participation of civil society in the PRS process does not automatically result in higher political participation at the national level. Nevertheless, the involvement of civil society in the PRS process appears to counterbalance the power of the chief executive authority more generally, thus leading to an increase in the quality of democracy in developing countries. Hypothesis (3a) thus may be refined in that the poverty reduction approach of the IFIs has a positive long-term influence on the level of horizontal accountability, but none on the level of vertical accountability.

With respect to the more substantive dimension of democracy, Table 5 presents the results for all three types of IFI program lending with Freedom House's **civil liberties** index as the dependent variable. The IFIs' concessional lending types have a positive and highly significant impact on civil liberties, while non-concessional lending by both IFIs has no significant effect. Results for short-term effects of different types of IFI programs on the extent of civil liberties are not reported here (cf. Annex 4), but they reaffirm this finding. The results thus support our Hypothesis (1b) that non-concessional IFI program lending hinders the development of a strong civil society and lowers the extent of civil liberties in recipient countries. By contrast, the newly introduced poverty reduction programs seem to function as "schools of citizenship", thereby having a strong positive impact on the level of civil liberties (Hypothesis 3b). Finally, in regard to Hypothesis (2b) postulating an ambiguous relationship, empirical evidence suggests that the positive effects of structural adjustment lending outweigh their negative effects in recipient countries.

Turning to our three alternative theoretical explanations of democratization, namely modernization, transnational exchange, and earned state revenues, some general observations can be made. *First*, the urbanization rate has a very strong and positive impact on the quality of democracy in the majority of the models. Among our control variables, the urbanization rate shows the strongest effect on the extent of civil liberties and respect for human rights. This finding corroborates modernization theory in that development sets the stage for more civil liberties, which in turn act as a precondition for deepened democratic procedures. Here then, our second indicator of socio-economic development, population density, comes into focus. According to our results, the denser a country is populated, the more horizontally accountable the government is to other groups in the polity. This significant positive relationship between population density and Polity's executive constraints index is highly robust to alternative estimation methods.

Second, unlike modernization theory, the hypothesis of democratic diffusion through transnational exchange is not supported by our empirical results. We could not detect any significant relationship between the international trade of a country and its level of democracy in all of our estimation models.

Finally, we found contradictory results for different sources of “unearned” state revenues. Oil production as model source of unearned state revenue remained insignificant in most models, but when it became significant its effect was mostly positive. Even though this result does not support our expectations, no positive impact of oil production on horizontal accountability was found. As for diamond as a natural resource, we observe consistently negative influences on the extent of civil liberties and vertical accountability. Yet, horizontal accountability appears to be positively correlated with diamond production in some models. Thus, results regarding natural resource abundance must be interpreted cautiously. The most significant impact of all externally generated rents, however, was shown by the amount of foreign aid that is positively correlated with Freedom House’s political rights index (vertical accountability). This unexpected result might be explained with foreign aid coming from other sources where the policy is to allocate more aid to countries holding regular elections.

Table 5: Long-term impact of different types of IFI programs on the extent of civil liberties

	Civil liberties					
	(1) FE model	(2) FE/IV model	(3) FE model	(4) FE/IV model	(5) FE model	(6) FE/IV model
Non-concessional programs (t-5)	0.05 (0.345)	-0.08 (0.922)				
Structural adjustment programs (t-5)			0.08** (0.011)	0.36*** (0.002)		
Poverty reduction programs (t-3)					0.15*** (0.008)	0.81*** (0.004)
Civil liberties (t-1)	0.80*** (0.000)	0.76*** (0.000)	0.79*** (0.000)	0.75*** (0.000)	0.80*** (0.000)	0.74*** (0.000)
Urbanization rate	14.21*** (0.000)	12.67** (0.022)	12.03*** (0.000)	0.96 (0.851)	11.59*** (0.000)	15.42*** (0.001)
Population density	0.33 (0.123)	0.22 (0.481)	0.37* (0.050)	0.72** (0.016)	0.12 (0.597)	-0.50 (0.144)
International trade	0.42 (0.580)	0.59 (0.595)	0.45 (0.536)	0.29 (0.741)	0.25 (0.722)	-0.54 (0.609)
Foreign aid	0.21 (0.548)	-0.05 (0.946)	0.22 (0.506)	-0.03 (0.934)	0.16 (0.626)	0.27 (0.613)
Oil production	0.02 (0.793)	-0.50* (0.067)	0.02 (0.788)	0.81 (0.174)	0.15** (0.011)	-0.18 (0.593)
Diamond production	-0.03** (0.017)	-0.02 (0.822)	-0.02** (0.039)	0.02 (0.343)	-0.02** (0.031)	-0.02 (0.189)
Observations	1964	1238	1964	1673	2087	1629
Countries	77	70	77	69	78	74
R-squared	0.69	0.63	0.69	0.66	0.69	0.64
Kleibergen-Paap Test		3.39 (0.183)		20.16 (0.000)		18.95 (0.000)
Hansen Test		3.01 (0.083)		0.21 (0.649)		0.41 (0.524)

Note: Constant term not reported; robust p-values in parentheses; *** p<0.01, ** p<0.05, * p<0.1

7. Discussion

This paper presents evidence that participation in different types of World Bank and IMF programs has different impacts on the quality of democracy in recipient countries. Our conceptual framework of power balances has proven to be a useful theoretical device in predicting the effects of IFI program lending on the level of democracy in hybrid regimes. Moreover, it helps to explain conflicting results of previous studies on the IFIs' impact on democratization in developing countries.

According to our results, **non-concessional programs** seem to have none or, if the coefficient turns significant, a weakly negative impact on the quality of procedural and substantive democracy in recipient countries. This finding confirms previous research on the political consequences of IMF program lending on similar measures of horizontal accountability (Moore and Scarritt 1990), vertical accountability (Barro and Lee 2003), and the extent of civil liberties (Sidell 1988; Franklin 1997). Since all of these authors measured IMF program lending with a country's participation in non-concessional program types, they considered the overall impact of IMF programs on domestic political processes to be either irrelevant or negative.

By contrast, we find that **concessional structural adjustment programs** are positively and strongly correlated with the level of both procedural and substantive democracy. This conclusion has been reached by more recent studies measuring specifically the impact of SAP by the World Bank and the IMF on procedural democracy (Abouharb and Cingranelli 2007) or measuring the IMF's influence in general, without making any differentiation between concessional and non-concessional programs (Nelson and Wallace 2005). However, following our theoretical framework, we expected a negative impact of structural adjustment lending on procedural democracy due to the specific policy conditions attached. Yet, it seems that in hybrid regimes characterized by severe accountability deficits as well as neo-patrimonial politics, i.e. in situations where the state is domesticated by a dominant social group using public resources to pursue its own private ends at the cost of civil society and the general public, the increase of the IFIs' power can simultaneously lead to a strengthening of procedural democracy. Their demands for sound financial management and results-oriented performance may coincide with citizens' demands for greater vertical accountability and increase the constraints under which the government is accountable to the IFIs similar to any other accountability group in the domestic polity.

Finally, regarding **concessional poverty reduction programs**, our empirical evidence suggests that they strengthen horizontal accountability, but do not have any effects on vertical accountability. Furthermore, they show a strong impact on substantive democracy by increasing the extent of civil liberties in recipient countries. These results confirm previous findings of PRS case studies who have shown that the PRS consultation process created new space for domestic policy dialogue and resulted in an unprecedented engagement by civil society organizations in poverty policy debates (e.g., Lister

and Nyamugasira 2003; Molenaers and Renard 2003; Driscoll and Evans 2005). Thereby, civil society organizations expose the government's role to public scrutiny, and consequently increase horizontal accountability. Moreover, through strengthening the voice of formerly excluded social groups in fostering public discussions of the PRS, the IFIs empower them and increase the degree of civil liberties in recipient countries. However, we also find evidence that broad-based participation of civil society organizations in the PRS process does not automatically result in higher levels of citizens' engagement with the state on the national level. Vertical accountability in recipient countries has not been strengthened through the introduction of the PRS initiative. This may be caused by a lack of institutionalized participation following the PRS consultation process, as several case studies have shown (e.g., Eberlei 2001; Molenaers and Renard 2003; Driscoll and Evans 2005). Alternatively, our time period for empirical analysis may have been still too short to derive robust statistical findings that can be generalized.

Consequently, promising directions for future research point to the analysis of the PRS process and its interactions with different dimensions of democracy more in depth in countries, which have been under PRS for a longer time period. In addition, more detailed data on IFI conditionality carry the potential to shed some light on the actual working of different forms of conditionality attached and their consequences for democratization in developing countries. Moreover, the interplay of different bilateral and multilateral donors' efforts in encouraging democracy is still an underdeveloped research field. In practice, the 2005 Paris Declaration on Aid Effectiveness sets the stage for increased partnership and mutual accountability between development partners. The joint review of the PRS approach by the IFIs (World Bank and IMF 2005) suggests that there is a general interest in more detailed information on how this approach can be tailored to specific country contexts in order to make its implementation more efficient. The academic community through incorporating the international dimension in their research could make a significant contribution to this end. Gaining more detailed information is relevant not only for the IFIs, but also for governments and civil societies in developing countries. They can profit from the information derived from these studies in order to make decisions on their own national development strategies.

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Annex 1: Country-years included in the sample

Country	Years in Sample	Country	Years in Sample
Afghanistan	1974-2007	Liberia	1974-2007
Algeria	1974-2007	Libya	1974-2007
Angola	1975-2007	Madagascar	1974-2007
Bahrain	1974-2007	Malawi	1974-2007
Bangladesh	1974-2007	Malaysia	1974-2007
Benin	1974-2007	Mali	1974-2007
Bhutan	1974-2007	Mauritania	1974-2007
Botswana	1974-2007	Mongolia	1974-2007
Burkina Faso	1974-2007	Morocco	1974-2007
Burundi	1974-2007	Mozambique	1975-2007
Cambodia	1974-2007	Myanmar	1974-2007
Cameroon	1974-2007	Nepal	1974-2007
Central African Republic	1974-2007	Niger	1974-2007
Chad	1974-2007	Nigeria	1974-2007
China	1974-2007	Oman	1974-2007
Congo, Democratic Republic	1974-2007	Pakistan	1974-2007
Congo, Republic	1974-2007	Papua New Guinea	1975-2007
Côte d'Ivoire	1974-2007	Philippines	1974-2007
Djibouti	1977-2007	Qatar	1974-2007
Egypt	1974-2007	Rwanda	1974-2007
Equatorial Guinea	1974-2007	Saudi Arabia	1974-2007
Ethiopia	1974-2007	Senegal	1974-2007
Fiji	1974-2007	Sierra Leone	1974-2007
Gabon	1974-2007	Solomon Islands	1978-2007
Gambia	1974-2007	Somalia	1974-2007
Ghana	1974-2007	South Africa	1974-2007
Guinea	1974-2007	Sri Lanka	1974-2007
Guinea-Bissau	1974-2007	Sudan	1974-2007
India	1974-2007	Swaziland	1974-2007
Indonesia	1974-2007	Syria	1974-2007
Iran	1974-2007	Tanzania	1974-2007
Iraq	1974-2007	Thailand	1974-2007
Jordan	1974-2007	Togo	1974-2007
Kenya	1974-2007	Tunisia	1974-2007
Korea, North	1974-2007	Uganda	1974-2007
Korea, South	1974-2007	United Arab Emirates	1974-2007
Kuwait	1974-2007	Vanuatu	1980-2007
Laos	1974-2007	Vietnam	1976-2007
Lebanon	1974-2007	Zambia	1974-2007
Lesotho	1974-2007	Zimbabwe	1974-2007

Annex 2: List of variables, indicators and sources

Variable	Indicator	Source
Horizontal accountability	Executive constraints index; scale ranging from “unlimited authority” (1) to “executive parity or subordination” (7); cases of “foreign interruption” (-66) and “interregnum” (-77) were coded as missing, while cases of “regime transition” (-88) were interpolated	Polity IV (2009)
Vertical accountability	Political rights index; inversed and transformed scale ranging from lowest (1) to highest (7) level of political rights	Freedom House (2009)
Civil liberties	Civil liberties index; inversed and transformed scale ranging from lowest (1) to highest level (7) of civil liberties	Freedom House (2009)
Non-concessional programs	Dummy variable coded 1 for the country-years when there was a non-concessional program in force, 0 otherwise; including following instruments: WB: Specific Investment Loan (SIL), Sector Investment and Maintenance Loan (SIM), Adaptable Program Loan (APL), Learning and Innovation Loan (LIL), Technical Assistance Loan (TAL), Financial Intermediary Loan (FIL), Emergency Recovery Loan (ERL); IMF: Stand-by Arrangement (SBA) and Extended Fund Facility (EFF)	World Bank (2009a); Vreeland (2003)
Structural adjustment programs	Dummy variable coded 1 for the country-years when there was a SAP in force, 0 otherwise; including following instruments: WB: Structural Adjustment Loan (SAL), Sector Adjustment Loan (SAD), Rehabilitation Loan (RIL), Debt and Debt Reduction Service Loan (DRL); IMF: Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF)	World Bank (2009a); Vreeland (2003)
Poverty reduction programs	Dummy variable coded 1 for the country-years when there was a PRS in force, 0 otherwise; including following instruments: WB: Poverty Reduction Support Credit (PRSC); IMF: Poverty Reduction and Growth Facility (PRGF)	World Bank (2009a); IMF Annual Reports (various issues)
Urbanization rate	Urban population as percentage of total population; for clarity reasons divided by 1000	WDI (2008)
Population density	Population density measured as number of people per square kilometer; for clarity reasons divided by 1000	WDI (2008)
International trade	Sum of exports and imports as percentage of GDP; for clarity reasons divided by 1000	WDI (2008)
Foreign aid	Aid per capita in current US\$; for clarity reasons divided by 1000	WDI (2008)
Oil production	Barrels per person per day	Humphreys (2005); IEA (2009)
Diamond production	Carats per person	Humphreys (2005); BGS (2007a, 2007b, 2007c); USGS (2009)
GDP per capita	GDP per capita measured in PPP and constant 2005 US dollars	WDI (2008)
GDP per capita change	Annual percentage of GDP per capita growth	WDI (2008)
External debt	Total external debt as percentage of GNI	WDI (2008)
Foreign reserves	Total foreign currency reserves in months of imports	WDI (2008)
Population size	Log of total population	WDI (2008)
UN Security Council member	Dummy variable coded 1 for the country-years when a country was a member of the UN Security Council, 0 otherwise	Dreher et al. (2009)
Domestic conflict	Intensity of internal armed conflict; 3-point ordinal scale with the categories “no conflict” (0), “minor conflict: between 25 and 999 battle-related deaths in a given year” (1), and “war: at least 1,000 battle-related deaths in a given year” (2)	Gleditsch et al. (2002)
International conflict	Combined index of the two intensity levels of interstate and internationalized armed conflict; 3-point ordinal scale with the categories “no conflict” (0), “minor conflict” (1), and “war” (3)	Gleditsch et al. (2002)

Annex 3: Descriptive statistics for dependent and independent variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Horizontal accountability	2544	2.964623	1.929225	1	7
Vertical accountability	2702	2.815322	1.703585	1	7
Civil liberties	2702	2.950777	1.402707	1	7
Non-concessional programs	2702	0.804219	0.396874	0	1
Structural adjustment programs	2702	0.332346	0.471142	0	1
Poverty reduction programs	2702	0.0755	0.264245	0	1
Urbanization rate	2622	0.037553	0.022723	0.00304	0.09832
Population density	2595	0.084704	0.145662	0.000899	1.1984
International trade	2305	0.071049	0.038763	0.001531	0.27523
Foreign aid	2549	0.040535	0.055612	0	0.61916
Oil production	2595	0.056829	0.233803	0	3.656487
Diamond production	2595	0.151873	1.265279	0	18.04916
GDP per capita	1919	4353.707	7644.244	136.519	70715.84
GDP per capita change	2293	1.410815	6.910582	-50.49	90.067
Population size	2595	15.89995	1.740274	11.6713	20.98563
External debt	2050	77.92808	77.65363	0	765.7712
Foreign reserves	1867	3.552117	3.503524	0.001544	40.23842
UN Security Council member	2702	0.065877	0.248113	0	1
Domestic conflict	2674	0.284218	0.587306	0	2
International conflict	2674	0.164548	0.469655	0	2

Annex 4: Short-term impact of different types of IFI programs on civil liberties

	Civil liberties					
	(1) FE model	(2) FE/IV model	(3) FE model	(4) FE/IV model	(5) FE model	(6) FE/IV model
Non-concessional programs (t-1)	-0.01 (0.878)	0.96 (0.150)				
Structural adjustment programs (t-1)			0.08** (0.048)	0.34*** (0.001)		
Poverty reduction programs (t-1)					0.15*** (0.004)	0.61*** (0.000)
Civil liberties (t-1)	0.80*** (0.000)	0.77*** (0.000)	0.80*** (0.000)	0.78*** (0.000)	0.79*** (0.000)	0.75*** (0.000)
Urbanization rate	11.58*** (0.000)	21.79*** (0.000)	10.05*** (0.000)	3.52 (0.310)	10.93*** (0.000)	11.95*** (0.004)
Population density	0.31 (0.182)	0.19 (0.539)	0.32* (0.096)	0.54** (0.014)	0.11 (0.604)	-0.55 (0.128)
International trade	0.65 (0.336)	0.53 (0.646)	0.70 (0.287)	0.48 (0.527)	0.45 (0.490)	-0.40 (0.675)
Foreign aid	0.24 (0.474)	0.31 (0.516)	0.09 (0.755)	-0.62 (0.170)	0.13 (0.695)	-0.06 (0.911)
Oil production	0.07 (0.112)	0.37 (0.511)	0.07* (0.088)	0.75 (0.196)	0.07 (0.126)	0.32 (0.318)
Diamond production	-0.02** (0.044)	0.07 (0.299)	-0.01 (0.117)	0.01 (0.660)	-0.02* (0.067)	-0.01 (0.304)
Observations	2209	1474	2209	1953	2209	1778
Countries	78	71	78	69	78	75
R-squared	0.68	0.65	0.69	0.66	0.69	0.67
Kleibergen-Paap Test		3.77 (0.152)		22.63 (0.000)		22.58 (0.000)
Hansen Test		0.77 (0.379)		2.96 (0.085)		0.24 (0.628)

Note: Constant term not reported; robust p-values in parentheses; *** p<0.01, ** p<0.05, * p<0.1