

THESIS APPROVAL FORM
NAZARBAYEV UNIVERSITY
SCHOOL OF HUMANITIES AND SOCIAL SCIENCES

THE IMPACT OF IMF BILATERAL SURVEILLANCE
ON ALLOCATION OF BILATERAL AID

HALYQARALYQ QARZHYLYQ QORDYŇ BAQYLAY'DYŇ EKI ZHAQTY
QARZHYLYQ KÖMEKTI BÖLÜINE TIGIZETIN ÁSERIN TALQYLAY'

ВЛИЯНИЕ НАДЗОРА МВФ НА ВЫДЕЛЕНИЕ ДВУСТОРОННЕЙ ПОМОЩИ

BY

Dinara Abuova

NU Student Number: 201281095

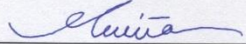
APPROVED

BY

Adviser: Dr. Mwita Chacha

ON

The 8th day of May, 2019



Signature of Principal Thesis Adviser

In Agreement with Thesis Advisory Committee
Second reader: Dr. Bimal Adhikari
External reviewer: Dr. Yoshiharu Kobayashi

THE IMPACT OF IMF BILATERAL SURVEILLANCE
ON ALLOCATION OF BILATERAL AID

HALYQARALYQ QARZHYLYQ QORDYŇ BAQYLAY'DYŇ EKI ZHAQTY
QARZHYLYQ KÓMEKTI BÓLÚINE TIGIZETIN ÁSERIN TALQYLAY'

ВЛИЯНИЕ НАДЗОРА МВФ НА ВЫДЕЛЕНИЕ ДВУСТОРОННЕЙ
ПОМОЩИ

by

Dinara Abuova

A thesis submitted in partial fulfillment of the requirements for the degree of

Master of Arts in

Political Science and International Relations

at

NAZARBAYEV UNIVERSITY -
SCHOOL OF HUMANITIES AND SOCIAL SCIENCE

2019

© 2019
DINARA ABUOVA
All Rights Reserved

THE IMPACT OF IMF BILATERAL SURVEILLANCE
ON ALLOCATION OF BILATERAL AID

HALYQARALYQ QARZHLYQ QORDYN BAQYLAY'DYN EKI ZHAQTY
QARZHLYQ KÓMEKTI BÓLÚINE TIGIZETIN ÁSERIN TALQYLAY'

ВЛИЯНИЕ НАДЗОРА МВФ НА ВЫДЕЛЕНИЕ ДВУСТОРОННЕЙ ПОМОЩИ

by

DINARA ABUOVA

Principal Adviser: Dr. Mwita Chacha

Second reader: Dr. Bimal Adhikari

External reviewer: Dr. Yoshiharu

Kobayashi (Leeds University)

Electronic Version Approved:

Dr. Caress Schenk

Director of the MA Program in Political Science and International Relations

School of Humanities and Social Sciences

Nazarbayev University

May 2019

ABSTRACT

This research project aims to identify the impact of IMF bilateral surveillance program on the allocation of foreign aid. In particular, the study focuses on the Staff-Managed Program, one type of IMF bilateral surveillance. This study implies the way low-income countries could use the leverage of IMF Staff experts to create and send “signals” to an international community. Signals are based on two main factors: the recipient's commitment to policy adjustments and creditworthiness. The recipient sends credible signals of lack of external assistance to the donor community through the release of IMF assessment, which leads to the overall increase of the aid to the state.

TABLE OF CONTENT

LIST OF FIGURES	vii
LIST OF ACRONYMS	viii
ACKNOWLEDGEMENTS	ix
Introduction	1
Literature Review	5
The “Signaling” Power of IMF Bilateral Surveillance Programs	12
Theory and Hypothesis	23
Research Design	27
Illustrative Case-Studies	32
Comoros	33
Republic of Congo	37
Sudan	42
Conclusion	50
Reference:	54

LIST OF FIGURES

Figure 1 Comoros - Total ODA Inflow.....	36
Figure 2 Republic of Congo - Total ODA Inflow.....	42
Figure 3 Sudan Total ODA inflow.....	46
Figure 4 DAC ODA inflow per capita	46

LIST OF ACRONYMS

ADB	African Development Bank
AKP	Justice and Development Party
DAC	Development Assistance Committee
EB	Executive Board
EU	European Union
FDI	Foreign Direct Investment
FMP	Fund-Managed Program
IMF	International Monetary Fund
IO	International Organization
KPMG	Klynveld Peat Marwick Goerdeler
NGO	Non-governmental organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PIN	Public Information Notice
PRGF	Poverty Reduction and Growth Facility
SMP	Staff-Managed Programs
UNDP	United Nations Development Program
WWII	World War II

ACKNOWLEDGEMENTS

I would like to express my gratitude to Dr. Mwita Chacha for meaningful assistance through the project and guidance, professionalism and scholarly advices.

I also would like to acknowledge Professor Caress Schenk, Program Director of MAPSIR. Her enthusiasm and continuing encouragement and guidance in right direction have helped me a lot during writing the thesis.

Special thanks to Malika and Xeniya for always being there for me. Our friendship and your constant support helped me to get through two years.

Finally, I must acknowledge Jahin for his care and patience. Thank you for always being my first reader. This would not have been possible to accomplish without you and your constant encouragement.

THE IMPACT OF IMF BILATERAL SURVEILLANCE ON ALLOCATION OF BILATERAL AID

Research Question

How does the IMF Staff-Monitored Bilateral Surveillance Program affect the amount of foreign allocated by donors to the borrower?

Introduction

International Monetary Fund (IMF) is an international organization which is a platform for emergency lending to its member-states in case of economic crisis or inability to pay off the external debt obligations. The fund is considered to be a large organization, with more than 2000 staff members, mainly the economic experts from around the world. However, such large multilateral organization is governed by the Executive Board (EB). IMF Executive Board consists of 24 elected representatives of member-states since IMF includes 185 members based on the weighted-voting system it gives certain amounts of votes to each member-state based on its economic importance (Mussa 1997). Staff and EB work closely on the lending programs to its member-states. IMF Staff exercises a certain level of freedom because the negotiations in the Executive Board begin only after the proposal for lending arrangements have been prepared by the IMF Staff experts (Mussa and Savastano 1999).

IMF Staff reports are aimed at describing the current macroeconomic conditions. Expert opinion is based on the surveillance mechanism of IMF which is a process where the IMF experts assess the state economic, fiscal and monetary policies. The conclusion is coined as a set of recommendations for macroeconomic policy adjustments to be eligible for financial assistance and the final decision if the assistance is needed and recommended to be allocated.

IMF surveillance mechanisms have been constantly improving over the years. Certain mechanisms have a multilateral approach, while others are bilateral. Within the bilateral approach, it has its own multiple variations. One of them is Article IV Consultations, which are

prepared by IMF Staff on an annual basis and is a requirement for each member-state of IMF. Article IV Consultations are supported by the Executive Board, whereas for example, the Staff-Monitored Programs (SMP) are the ones financed by member-states itself to receive the IMF assessment on economic and development policies. Member-State can apply to go through the macroeconomic assessment of IMF experts besides the existence of regular Article IV Consultations and provide their current economic indicators to other IMF Member-States.

Most of the SMP applicants are the low-income countries and for such states to apply for self-funded surveillance analysis is a matter of justification to a domestic audience. Lombardi (2005) argues that the IMF has a “superior ability” to offer expert opinion, policy recommendations, and commitment guarantees. If so, then why not to limit themselves to regular annual surveillance mechanism as Article IV Consultations which are mandatory and financed by the member-states themselves?

For a low-income country the unusual application to bilateral surveillance mechanism apart from the regular surveillance is a tool to create a “signal” to the international community. However, IMF as a global lender has incomparable leverage to pass the necessary “signal” to its member-states based on its IMF Staff expert opinion. IMF expert opinion serves as a platform of decreasing the uncertainty regarding the borrower’s macroeconomic policies and the necessary adjustments.

This “signal” is based on what Copelovitch (2010) refers as “agenda-setting power” of IMF Staff because the loan arrangement programs are firstly prepared by the IMF Staff and only then can be approved by the Executive Board, but not vice versa. The IMF has access to valuable data of each member-state regarding its economic and political policies. Most of the low-income countries based on the SMP assessment conclusions have issues with transparency, therefore the IMF is an information provider. This data allows the IMF experts to assess the current monetary

and fiscal policy of the state, to analyze its further debt management plans and institutional capacity.

The “signaling” effect is the IMF Staff Appraisal often available publicly and in certain cases presented during the Donor Conferences and Meetings, Public Notice Statements, press-conferences, and Board meetings. In my research, I attempt to explain how this “signaling effect” created by IMF affects foreign aid donors’ decision to allocate aid, increase or decrease the provided financial aid volumes.

Literature suggests that the IMF does have an impact on the donor’s decision to allocate aid and the IMF cooperation with recipient matters. Lombardi and Woods (2008) argue that Paris Club creditors which are also one of the biggest donors, often required the recipient states to undertake the IMF programs before applying to borrow from them, because in that way the borrowing will be more secure and effective. However, the existing literature does not cover such specific field as application-based bilateral surveillance based on the member-states own will to initiate the assessment. Most of the studies focus on the analysis of the overall bilateral assessment of the IMF as a one mechanism which can impact donor’s decision to give aid or no (Bal-Gunduz 2014, Banerji and Martinez 2012, Cho 2014, Demiroglu and Karagoz 2016).

The scholars studying the IMF often use the overall aid inflow and consider whether or not loan arrangement process is ongoing for certain state. The surveillance mechanism itself is not studied widely in the literature but more used as a categorical variable in the research. Binder and Bluhm (2017) study the overall surveillance of state institutional capacity, only positive institutional improvement sector correlates with an increase of IMF state support.

I focus on the case-study of three member-states, which had the greatest number of the SMP documents released over the years from 2000-2018. The analysis of the SMP documents shows three main categories in each released document: 1. Descriptive part of the state fiscal and monetary policies. IMF does not tend to explain the reasons for changes, but rather provide

information on the current stage of development - statistical information. 2. State's external sector in terms of donor and creditors relations, debt arrears and its management plan. IMF mentions if there is a constant aid inflow, or the state is in need of external assistance. 3. IMF specifically underlines the state commitment to IMF policy recommendations and offered reforms.

Findings suggest that the external sector and risk management are the ones which are significant in "signaling" to donors. The case studies show that these two indicators are primary in shaping the "signal" provided by the IMF. The state which signals its creditworthiness and full commitment to follow the policy guidelines will be more likely to receive the aid from donor countries. IMF plays a role of the international organization which decreases the uncertainty and provides the necessary information to other member-states before the state will be eligible to qualify for IMF loan and be exposed to the Executive Boards voting.

For the Staff and for the SMP assessed state the Fund which consists of the biggest international donors is a valuable platform to send "signal" to attract external assistance.

One of the main implications of the study is that it allows drawing attention to the less popular IMF surveillance mechanism tools for low-income countries. The SMP documents were released to few states, however, this study suggests the IMF "signaling" based on the release of this document has a positive impact on the foreign aid inflow. Also, it is significant to follow the logic of low-income countries to use IOs as a tool to attract financial assistance. The existing literature underlines the effect of powerful states on the EB decisions; however, this study implies the way low-income countries could use the leverage of IMF Staff experts to create and send "signals" to an international community.

Section II will discuss the existing explanations for donor's aid allocations and what in particular might affect this decision. Section III explains why IMF surveillance matters and its capacity to impact the donor decision to allocate aid. Section IV shows the illustrative cases of

IMF bilateral surveillance leading to change in overall aid inflow. Section V discusses the findings of the research. Section VI concludes.

Literature Review

Existing Literature on Donor Motivation to Allocate Foreign Aid

The reasons why donors allocate aid has been studied from various perspectives. However, Dudley and Montmarquette (1976) have one of the seminal works in foreign aid literature. Authors identify three main motivations of the donors to allocate the aid: political, economic and out of good will motives. Political aid because the recipient country might favor the donor-state and it is political interests when acting on the international level. Economic motives are similar to the actions of tied aid or when the recipient state makes more economic purchases from donor market. Charitable considerations or in other words the aid based on ethical motives and out of good will, when the donor consider the positive impact on the recipient state as something of their power and abilities.

The classification of Dudley and Montmarquette (1976) is generalized, however, the extended research of their work done by Trumbull and Wall (1994) shows that the more needy recipient does not always receive more aid from altruistic donors, but the authors model shows that human rights and political freedom determine the aid-allocation process of donor. Constant political oppressions actually affect the level of aid received by the recipient state.

Dudley and Montmarquette (1976) argue that each motive determines the amount of aid allocated and also the amount of return the donor expect. In other words, aid's supply is defined by the donor states' demand for the aid programme impact. The donor's choice of the recipient and the amount of aid allocated is determined by regional geopolitical interests. After the end of the Cold War, regional influence became a major tool to project the power's own ideology. The case of Nepal as one of the poorest countries in the world shows that the amount of aid determined

by the donor is based on the other net ODA inflows from other bilateral donors. In the research of Khadka (1997) the inverse correlation between China and India, India and USSR, US and UK is clearly shown. The neutral stance of Nepal does not prevent competition for influence among the donors.

The existing literature does not attempt to simplify the donor's motives and classify them as Dudley and Montmarquette (1976) did but considers the mix of specific factors which have an attempt as colonial past, trading partnership, human rights, political alliance and etc.

The influential work describing the motives of donors is written by Alesina and Dollar (2000). The authors claim that the motives of donors are determined by the geopolitical factors, in particular, the colonial past and political alliances. Neumayer (2003) argues similarly that the colonial past creates the geographical bias amongst bilateral donors. As a result, the former colonies which have the same level of development as other potential recipients receive more aid because of its political alliances with donor state.

Younas (2008) gives the very specific reason of aid allocation - states which import to donor country, the capital goods tend to receive more aid compare to any other trading partners of the donor state. This work supports other works claiming that trade partnership is a significant reason for donor motivation to allocate aid. The economic motives are also reflected in the literature of tied and untied aid discussions, the latter Paris Declaration in 2005 encouraged donors to give more untied aid to the recipients. However, as the literature states the types of aid did not change since then (Bickenbach et al 2019). The economic ties matter and it is visible in the allocation of Canadian aid: when imports of Canadian goods increase by the recipient state, the aid from Canada also increases (Macdonald and Hoddinott, 2004). However Canadian aid is not fully motivated by economic interests, but authors call it "trinity of mixed motives" meaning political considerations, commercial and humanitarian. Macdonald and Hoddinott (2004) claim that Canadian aid has mixed motives but mainly it is altruistic and allocates aid to needy states.

Another similar case-study is done on Turkish aid. The aid allocation process which was dominated on its external political allies and dependent on the ethnic ties, since the AKP government came to power the Turkish aid began supporting the Islamic states, also the trade partners (Kavakli 2018). For the government, it was important to allocate humanitarian aid to Syria, to allocate economic aid to countries with significant religious ties. The similarly mixed motives are seen in the Turkish aid, where the government is motivated by various factors and those factors tend to change with new cabinets.

Park and Lee (2015) give a similar argument of the constantly shifting motives of aid allocation of the donor countries. The mixed motives of Korean aid were studied over a period of 20 years. The authors concluded, that what used to be the economic aid based on the export trade partnerships, an argument similar to Younas (2008), shifted towards the motives of investing into overseas and expanding the sphere of influence. The Korean aid which was always strongly tied to government interests became more interested in overseas investment and less prioritized the government interests. However, the aid itself has the humanitarian motives and does provide aid for needy states, but again the interest in overseas recipients prevail.

Also, by the existing literature on the motives, it is clear that besides doing the overall generalized classification of the donor's motives it is challenging to make any conclusions based on what exactly motivates the donors to give aid. This research contributes to the understanding of the donor's motives to allocate aid through its close interconnectedness with international institutions as IMF. There is no one clear determining factor which decided whether or not the state will assist certain state, but the mixture of interconnected factors.

Existing Literature on IMF and Member-States Cooperation

What explains the donor's motives to allocate aid or to what extent the IMF expert opinion has an impact on the donor's decision to coordinate its foreign aid assistance programs. On the one side, foreign aid always has been an overly politicized topic in the world community. The

donors use foreign aid as a tool of advancing or securing their own interests or often times it a gesture out of humanitarian motives. Dudley and Montmarquette (1976) explained donor motives based on three main approaches: political, economic and out of a good will.

On the other side, we have growing popularity of international organizations to which states delegate a certain level of authority. Abbott and Snidal (2000) argue that delegation to specialized agencies which can provide certainty and as a result decrease the uncertainty. In these terms, IMF as a fund is aimed to address the uncertainty regarding the unstable global financial system and potential economic risks.

The study of two actors as of the cooperation between donor and multilateral organizations are widely studied in the IR literature. The articles of Swiss (2017) focuses on the effect of global ties on foreign aid allocation. The research shows that aid allocation is connected to international organizations and institutions the more sources of aid it tends to receive. Swiss explains that the state actively engaging into a certain field as human rights, or sustainability or security will receive more programmable aid in that particular sector of the domestic economy. Also, the author mentions that globalization also had an effect on the amount of aid allocated and in recent years there is a tendency among donors to allocate a small amount of aid to the recipient as a gesture of sustaining its status of legitimate state with a good reputation.

One of the main theories discussed in IR, on the cooperation between the international organizations and state-actors, is the principal-agent theory. Copelovitch (2010) explains the role of IMF as an “agent” working on the behalf and delegated mandates from its “principal” which are represented as G5 states, which according to the author have full control over the decision-making process in the Executive Board of IMF. Such theories which directly emphasize the IOs design to be shaped by the powerful member-states are widely available in the existing literature.

International Institutions are determined to have successful lending arrangements, therefore often the institutions like IMF depend on the external assistance to the borrowing states

from outside bilateral and multilateral channels (Gould 2003). Private Investors are the ones which have leverage over the Board's final decision-making regarding the loan arrangement because their support is necessary to successfully achieve the program targets. Neoliberal approach explains the IMF as a mediator between financier and investor. Gould (2003) argues that there is a clear logic behind the selection process of the potential debtor and international institutions roles, and it is important because it gives concrete signals for other lenders to provide the finance. Bal-Gunduz (2014) claims that countries with IMF supported programmes on average have 1.9% of GDP increase in disbursements. The article uses the Propensity Score Matching approach and solves the issue of selection bias impact in the research. As a result, Bal-Gunduz (2014) comes to the conclusion that IMF - supported recipients tend to receive more untied aid from donors, which will also often be sent to general-budget support rather than project-based lending.

Most of the existing literature considers the study of IOs as a centralized body which can be interpreted as "agent" with delegated autonomy to its principal (Copelovitch 2010), or as Thacker (1999) suggest the IOs used by the states as a platform to exercise its influence and support allies through affecting the decision of lending mechanism. Thacker argues IMF behavior is defined through the political motives and weighted-voting system which prioritizes the US as the most influential member-state.

The novelty of my research relies on the idea of considering the IMF experts as a separate body in the IMF body. The existing literature on the impact of donor institutions consider IMF as one actor institution, however, IR literature suggests that there are several cases when the Staff members or agency bureaucrats exercise certain power in the agency (Barnett and Finnemore 1999).

Johnson and Urpelainen (2014) explain the leverage that institution staff can exercise is based on its bureaucratic expertise. Most of the international organizations as IMF and World

Bank provide influential studies of foreign aid, release various recommendations and organize conferences as Paris Conference or Accra Agenda for Action to introduce the donor's better ways of aid allocating and encourage the more altruistic motives, apart from just being a negotiation and implication platform.

The IMF Staff exercise its leverage by providing expertise regarding financial development. The IMF is known for its constant modernization of the surveillance mechanism since its establishment. Gola and Spadafora (2009) show how bilateral surveillance evolved over the years and improved. Authors focus on the evolution of bilateral surveillance and on its importance in the borrower's country because it is a type of a preventive mechanism of financial or economic crisis. Since private lenders have limited ability to perform the in-depth analyses of the economic situation of a particular recipient or group of recipients, such organization as IMF which consists of 185 members can offer large studies and detailed reports on the country's economic progress. IMF lending process is not a transparent process with easy procedures, but it requires complex negotiations and debates regarding the policies which will be implemented in the borrower's country to stabilize the economy (Bal Gunduz 2014). Therefore, IMF's actions are considered to be as "the signaling effect" through this lending mechanism and it is known as "good housekeeping seal of approval" (Gould 2003).

Gould (2003) explains the Staff motivations to use its expertise and send "signal" to donors as a way to find sponsors to pay-off the adjustment costs before their loan arrangements will be implemented. Therefore, attracting external assistance for potential borrowing countries is a part of the IMF Staff tasks before considering the state eligibility for loans.

Bilateral surveillance is a process of direct connection of IMF with member-state governments. In these cases, the government receives new information from the IMF's expertise or the alternative way to interpret the existing knowledge (Lombardi and Woods 2008). It was established in Article IV, where the governments established the legal foundation for the

institutional surveillance mechanism. It starts with technical briefings and ends in three months with Board approval of the document prepared by the staff.

Lombardi and Woods's (2008) findings explain the importance of IMF bilateral surveillance. Authors relied on several theoretical approaches to analyze the surveillance mechanisms of the IMF and found that least-developed or developing countries which could not afford the non-compliance with IMF measures are the ones which get affected the most. Because the IMF policies show the commitment to other donors, and non-compliance with international institution affects the relations with other multilateral and bilateral donors, therefore aid-dependent states tend to rely heavily on the IMF bilateral surveillance report. Variation of the reports depends on the task that has been given to the IMF or initiated by the IMF.

The IMF surveillance programmes are aimed at enhancing the “signaling effect” of IMF programmes and the constant reforms and changes within its policies shows how IMF as an International Institution uses its expertise for the benefit of all private lenders as well.

The existing literature considers IMF as an agent; however, the literature underlines the widening scope of the organization as IMF, which began as expertise in macroeconomic conditions, today the surveillance includes the government and structural reforms along with the enterprise reforms (Gould 2003). The expanding of the scope leads to increase of the expertise leverage of IMF Staff, which now exercises more autonomy and control the “agenda-setting” of the organization. However, the literature does not cover the impact of “signal” from the IMF Staff as a separate actor, but the urge for it is clear since the number of the bilateral surveillance SMP type documents provided by IMF in recent years increased significantly compared to the beginnings of the 2000s.

The “Signaling” Power of IMF Bilateral Surveillance Programs

In the following section, I explain why IMF bilateral surveillance should be considered as “signaling” and why it is important, how it is created and the platforms IMF use to send its signals to international community.

Why IMF Bilateral Surveillance is Important?

Various international organizations provide expert knowledge to its member-states. The uniqueness of the IMF in this regard that it has a very specific scope - controlling the financial stability and offering assistance to the states in need. In order to do this, IMF Staff members are mostly economist who have the expertise. Another factor that makes the IMF different from other international organizations that each member-state should go through a mandatory regular economic assessment of the state. These documents based on the undertaken surveillance are published on the official website and available to the public.

What is surveillance? Surveillance mechanism by IMF is not an easily defined process but it actually contains several purposes: policy advice, policy coordination, and cooperation, information gathering and dissemination, technical assistance and aid, identification of vulnerabilities (IMF 1999, 16).

The surveillance presented in two types: multilateral and bilateral. In this research I do not focus on multilateral surveillance for main reasons: IMF independent experts claim that IMF stepped away from prescribing concrete policies but tends to go into forecasting and analyzing the contemporary economics. Multilateral surveillance is the annual activity of IMF which includes two major reports the World Economic Outlook and Global Financial Stability Report. Both reports are released by the IMF Board and the reports are not tend to create a discussion or debate regarding the policies, but rather become a “has become focused on the production of the report itself, rather than on the process of coordinating national member states’ policies”

(Lombardi and Woods 2008, 717). By publishing the World Economic Outlook report, the IMF tends to give a specific recommendation to some states in particular but does not concentrate on specific actions (IMF 1999).

Whereas the bilateral surveillance such as Article IV Consultations released on the annual basis is focused on certain state and prescribes certain policy recommendation to be eligible for further loan arrangements or to stabilize and improve macroeconomic conditions. In particular, the SMP document provides several factors the policy recommendations and monitoring of states monetary and fiscal policies, along with financial stability.

IMF Surveillance is importance based on its Staff's leverage as international financial experts. Certain IR scholars suggest that IO's Staff members exercise the authority within the organization itself. Cortell and Peterson (2006) argue that in certain cases the IOs staff members are needed in the international community because of their expertise and distance from advancing its own national interest but advancing the IOs interest. In the case of IMF, the Staff members are attempting to avoid the economic crisis and regulate financial issues of the member-states as early as possible.

The importance of bilateral surveillance also lies in terms of its financing. All IMF actions are supported and financed by Member-States. The IMF recommendations are descriptive in its nature and do not go into the roots of the issue, therefore they are handier to be used by interested parties (Lombardi 2008). The economic assessment which is the priority of IMF experts is available in the surveillance documents in details. As it was considered before, the motivation of donors lies in the economic benefits. Lombardi (2005) claims that the decision of investing in the certain state comes to some extent from the IMF assessment because of the market participants before deciding to invest look at the current macroeconomic outlook and take decisions. This way the surveillance mechanisms are impactful as of providing the expertise information to market participants which are the potential donor states. However, it is worth noting that these

surveillance documents are not designed to provide information for external donors but to explain what can be changed to government policy-makers. However, as certain scholars suggest the use of these bilateral surveillance mechanisms might be more efficient in terms of informing the external actors.

Most of the literature does not concern about the Fund's Staff autonomy, however, as it was noted above the Fund's Staff is responsible for agenda-setting of the Executive Board meetings. The surveillance documents prepared by the IMF create a framework for discussion for Executive Board. Copelovitch argues that "the United States and other powerful states control the IMF pay insufficient attention to the role of the Fund staff, which enjoys considerable autonomy during the negotiation, design, and proposal of Fund loans" (2010, 55).

The "agenda-setting" power gives leverage to the Staff's autonomy and makes the surveillance mechanisms important. It is worth noting that the IMF's responsiveness rate to the applications for the lending programme is approximately 81% (Orastean et al 2016). IMF's motivation to provide loan for selected countries is based on its political and economic motives and does not have 100% responsiveness rate to each country applicant. The responsiveness depends on the IMF analyzes of the current economic conditions of states and if it is worth taking risks of lending. All the information aimed at decreasing the uncertainty regarding the macroeconomic conditions in the state is prepared and offered by the IMF experts, which makes the IMF surveillance documents significant for its member-states in particular Executive Board's decision.

Catalytic Power of IMF Surveillance Mechanism:

The Review of IMF Signaling Instruments

Article XII, Section 8 of the IMF Article of Agreement was adopted, and the reports prepared by the IMF to the member countries became transparent and available to the public (IMF

2004). This signaled the intention of the IMF to be more transparent and use its resources to convey the message to the international community regarding its member countries economic situation. The transparency mechanism shows the attempt of the IMF to use the Fund sources and expert knowledge to monitor and release documents to the private actors or to member states domestic society.

The signaling instruments of IMF vary widely and have been continuously reformed since the organization was established. Various mechanisms were adopted however the less successful ones are always replaced, which makes the IMF mechanisms often up-to-date institution which is not conservative in its existence.

The recent report by IMF systematized all the instruments it uses for signaling and its basic characteristics (IMF, 2004). This document widely analyzed the IMF actions as a signal creator in the community for numerous donors for whom IMF gradually became a credible source of information. “The Historical Review of Signaling Instruments” (2004) released by IMF looks at various tools IMF used in various years to signal the international community. In my theory, I take these documents as the generator of “signaling effect” created by the IMF to private donors of foreign aid. The released documents of IMF are reflected in the official position based on the Fund’s expert opinion regarding the applicant's economy. Before the IMF allocates its tranches it releases documents and creates a framework for potential cooperation through emphasizing on the prior arrangements that the state should do before IMF will finally allocate the first tranche (IMF 2004). The variation is that signal by IMF is not always positive and within the positive signal, it can vary in its sectoral assessment: fiscal and monetary policies, external sector, risk assessment, etc.

IMF has a variation of “signaling instruments” based on its expertise and knowledge about each member-states. As mentioned in the Article of Agreement, the IMF is allowed to monitor and prepare reports and analytical documents regarding the state economy (IMF 2004). All the

years since the IMF establishment after WWII, IMF has been actively reforming its policy instruments. the IMF is going through constant reformation process and adjusting to modern challenges of its member-states.

Buira (2012) claims not always all the programmes adopted by IMF were successful. Also, the IMF “signaling effect” effects the policies of the borrowing countries after the programme ended or loan was allocated. Most of the borrowing countries prefer to continue the monitoring of its economy by the IMF staff and have the policy documents released to domestic and external parties for use.

The IMF “signaling effect” reaches the aid donors through the IMF official documents. There are several main documents which are released on through different channels, and these documents contain certain information regarding the member-states macroeconomic conditions and policies. As a result, the “signaling effect” comes through this policy assessment document publications of IMF Staff annually or upon request.

The main bilateral surveillance document is available to the public called Article IV Consultations. This type of document is a part of IMF bilateral surveillance and mandatory to each state which agreed to become a member of IMF. IMF motivates itself to conduct bilateral surveillance to establish the cooperation with its members and/or the initiative of IMF to take on the role of international signaling institution during the crisis period or a period of a critical juncture in recipient country (IMF 2004, 8). Article IV is an annual surveillance document, which does not require the consent of member-state to be published therefore it gives the expert opinion of IMF Staff on current conditions in the state.

IMF gives an official definition to Article IV Consultations as follows: “A regular, usually annual, comprehensive discussion is held between the IMF staff and representatives of individual member countries concerning the member’s economic and financial policies. The basis for these discussions is in Article IV of the IMF Articles of Agreement (as amended, effective 1978), which

directs the IMF to exercise firm surveillance over each member's exchange rate policies." (IMF 2016). Also, it is worth noting that this type of bilateral surveillance is conducted by the Staff, approved by the Executive Board and financed from the Fund resources. Article IV is the most important type of Bilateral Surveillance and it allows all the parties of IMF structure to participate in it. Article IV type document is descriptive in its nature and annually released based on the Fund's requirement, they are not reflecting on the particular issue, but rather describe current economic policies.

IMF members have the right to go beyond the written Article IV of the IMF and apply for other surveillance instruments which are more specific and takes an individual approach. Such documents are not systematically released, and its main concern is that often it is not systematized and lacks the standard assessment criteria as in the case of "assessment letters". Mainly, IMF surveillance is divided into three main categories:

First is *enhanced surveillance* is the document which was first released in 1985 and later was very rarely used because it was not about the objective assessment of economic situation but about the positive image of the borrowing country and its main disadvantage was that this document was released even if the country did not meet the certain requirement criteria (IMF 2003, 3).

Second is the *Fund-Monitored Programmes (FMP)* and the third is *Staff-Monitored Programmes (SMP)*. These programmes are based on the main difference. FMP needs the Board approval but the SMP does not need board approval and issues by Staff Members to closely monitor the pre-landing period and lending programmes of IMF.

The uniqueness of Staff-Monitored Program is that this type of surveillance is based on the initial request of the monitored state. These types of document are never initiated by the IMF board itself but requested by the member-state. It is an informal type of the document which

contains policy recommendations, monitors the policy reforms and examines the state commitment to IMF policy recommendations and conditionalities.

IMF's official definition to this is: "A Staff-Monitored Program is an informal and flexible instrument for dialogue between the IMF staff and a member country on its economic policies. Under a Staff-Monitored Program, the country's targets and policies are monitored by the IMF staff; a staff-monitored program is not supported by the use of the IMF's financial resources, nor is it subject to the endorsement of the Executive Board of the IMF." (IMF 2016). This program is unique in a way that it requires the member-states consent to be published after the report will be sent to the recipient state. As a result, the member country requests this document considers assessment and makes the decision for the official release of the document on behalf of IMF Staff. This option is given due to the member-state's own initiative to undertake the assessment and understanding of the IMF's role as a catalyst in the international community. The results of the assessment might not always bring favored outcome for the applied state.

Both documents: Article IV Consultations and SMP analyze the member-state economic policies based on sectoral division, however, unlike the Article of Agreement SMP is not financed from Fund's budget but financed by Member-Country itself. Since it is based on the individual request, it is important to distinguish the difference and understand the motivation of the recipient state to conduct such research.

IMF "Signaling" Channels to Foreign Aid Donors

The IMF bilateral surveillance is publicly available. Donors are interested in the resources provided by the multilateral institution because conducting the research bilaterally to gather necessary information take more time, resources and commitment. However, the existing and standardized expert knowledge done by the multilateral organization the state is part of is more logical and less resource- and time-consuming. International Evaluation Office of IMF (2002)

confirmed that private donors tend to rely on the assessment provided by IMF more heavily compare to investors because there is a major difference between allocating aid to emerging economy recipients or to low-income countries. The financial payoff from aid allocation and the commitment to policy change is possible to be predicted looking at the IMF assessment reports.

In 2005, the IMF experts conducted empirical research where they interviewed the representatives of the foreign aid donors and member countries. The total sample of 78 creditors, lenders, donors and borrowers including the Paris Club and other members, multilateral and bilateral donors showed the significant importance of the IMF documents and actions as a tool to impact on donor's decision to the international community and "signals" to aid donors in particular. 97% of donors who completed the survey mentioned that IMF surveillance documents are used as an assessment tool in the process of foreign aid decision-making process independently from who is the recipient side. It means that the Fund's expertise is systematically applied in the process of aid allocation. Also, 78% of responded positively to the question "Are you considering changing the way you use Fund 'information/signals' to inform your support for low-income countries?" (IMF 2005, 28). This research is significant because it actually attracted the donor to answer the questions regarding the IMF signaling effect, which means that the Fund's documents are used for the aid allocation process. In particular, as the research mentions the surveillance is more valuable when it is released regularly compare to for example the "assessment letters" which are released upon the private creditor's request.

IMF often relies on the donor's themselves in order to establish sound macroeconomic policies, because most of them do require external assistance. Most of the surveillance policies of the IMF include the external sector evaluation and clearly state its recommendation regarding the donor aid allocation expectations in the process of bilateral surveillance. Since IMF standards of technical requirements are known to be beneficial for state development, the donors have more guarantees to have a positive experience from its aid program and also use the resources of the

IMF. In this three-part cooperation, all sides benefit in their own ways: IMF provides its expertise and knowledge which has a catalytic effect among donor allocations, donors benefit from reliable and up-to-date information provided by IMF and make decisions based on the gained information, the recipient benefits from the IMF expertise as a catalytic power of aid programs and increases its external aid assistance.

As a result, the biggest bilateral donor representatives are part of the IMF Board and receive the information regarding the potential recipient's economic progress and commitment to IMF reforms and recommendations. The main reason in terms of IMF expertise, is in the sphere of the economy which is highly useful to any donor or investor in case of willingness to prolong, stop or start the foreign aid assistance program in the state.

One of the platforms that the IMF uses to present its surveillance outcomes, is the International Donor Meetings organized by different international organizations and donor communities. Such platforms stimulate donor coordination in aiding a certain developing state. We have several conferences dated back to 1970 on Lebanon (LCPS 2018), or on Syria, Haiti, Palestine, etc. (IMF). During these conferences, the IMF makes a statement regarding certain country economic conditions and its development.

What motivates IMF to make statements in these conferences? The analysis of the available SMP documents on the official website of IMF shows that in the final round review of SMP IMF Staff mentions whether or not Staff is willing to make a statement in donor conferences, IMF made statements only in certain donor meetings and conferences. Even though the Staff mentions it, IMF experts do not always participate in the donor meetings even if it was stated in the SMP document. Since SMP is based on the individual request for IMF monitoring by the member-state government, it is worth noting that compared to the number of annual Article IV which is released on more than 100 countries and less than 100 Staff-Monitored Program reviews

of IMF, the Statement in Donor Meetings was done less than 70 times. It shows, that the IMF does not often support, participate or initiate such conferences on its own.

Participation in such meetings is fully based on the donor's preferences. Often the participants are "traditional" camp of donors and representatives of various NGOs and multilateral organizations. One of them is IMF and the statistical numbers presented in the IMF statements are the same as it was described in the most recent Article IV Consultations or SMP articles if there was one. Since the Article IV Consultations are in particular lengthy, the IMF Statements are the easy and direct way to explain the donor the progress and economic policies of certain states.

IMF Bilateral Surveillance is aimed to help the government policy-makers at first and "signal" to donors about the intentions of the monitored state to stay committed to policies recommended by the IMF. Besides the official platforms as Donor Conferences, IMF Staff uses the media to introduce the assessment outcomes or releases Public Information Notice. However, it is clear that bilateral surveillance results vary in its conclusions. The case-study of Irish Celtic Tiger years shows that IMF Surveillance is not a "magic bullet" solution and as some cases, it cannot prevent it from the financial crisis (Breen 2012). The Irish case shows how the IMF itself is very accurate with sending signals. As Breen (2012) notes that the IMF used very soft language in releasing the Public Information Notice report, in which government on a very general level mentioned the possible issues in Ireland's economy. Such case-study shows that IMF considers itself to be responsible for creating the "signaling effect" and at some cases, the used language avoids concrete terms not to threaten the state's bilateral and multilateral relationships with other donors.

Besides doing the informational document release, the IMF often comes to using the media platforms as Press-Conferences. Edwards and Singer (2015) conducted research on the IMF surveillance in the developed world, and they come to similar conclusions that in the

developed world IMF bilateral surveillance primary focuses at a domestic audience and authors also mention that it is difficult to conclude that IMF policies actually bring any change to the economic policies. However, what is significant about this article is that the authors look at the 2010-2011 surveillance document discussions and show how IMF was very active in media platforms and even conducted an unusual press-conference regarding its policy recommendations.

Because the IMF does not only focus on the low-income countries, the experts' leverage expands to the assessment of the developed world as well. However, it is worth noting that the assessment of the developed world has a grouping pattern: IMF prefers not to take clear bilateral approach but conduct research based on templates on regional surveillance and focus on these templates which were created based on the country development similarities within the specially created groups as OECD, EU, Asian or Anglo-Saxon (Broome and Seabrooke 2007). The difference in the case of developed countries, as Broome and Seabrooke (2007) highlight is that “signaling effect” of IMF is used by the western state’s domestic audience as a weapon based on IMF’s knowledge and expertise to challenge the incumbent government.

Since US domestic audience has the power over the incumbent government, which at that time was Obama and he was not in support of IMF fiscal policies, IMF went another way to influence the state through the media coverage and directly connecting with the American society. Since the developed countries have more leverage and often do not follow the policy recommendations, IMF focuses on the bilateral surveillance policy recommendations through the member-states domestic audience which is more powerful in democratic governments. Kishore and Mohanty (2008) discuss the asymmetry in the policy recommendation implementation between IMF member-states. Major developed economies do not consider Fund’s activities as priority level recommendations which makes the IMF bilateral surveillance analysis have

asymmetrical power within its member-states. In recent years more focus by the IMF and by the World community was focused on the developing countries and emerging markets.

The literature shows that IMF Staff knows how to use its “signaling” capabilities to reach out to international community and alert about the current issues of member-states and often to alert about the need for external assistance to the particular state. However, the question of how the “signaling” impacts the donors remains open.

Theory and Hypothesis

In the following section, I will introduce my theoretical explanation of how the IMF “signaling” impacts the donor’s decision to allocate aid or regulate existing aid programs. SMP document does not have a unified structure, but on contrary attempts to underline the important sector for each member-state. However, the document gives large attention to two main sectors: the external sector and risk management. In these sectors, I theorize to be the ones which are significant in “signaling” to donors. This study suggests that two factors as debt management and external sector along with donor’s commitment to IMF policies lead to a positive increase of donor aid allocation.

Any member-state of the IMF has a right to apply for surveillance. The assessment often organized in several review rounds and consists of several Staff Appraisals. The assessment is more continuous in its nature compared to Article IV Consultations which are short and more precise (IMF 2003).

The IMF’s primary focus in recent years became monitoring of the emerging markets and stabilizing those economies over the already developed industrialized economies of the West. One of the main group of countries for IMF is a low-income country. Lombardi (2005) claims that donors and private lenders tend to give more aid to countries already supported by the IMF loans with higher debt services in other words countries which are ready to regulate its debt policies tend to receive more aid. However, the basis for it comes through the IMF’s reports which

signal to other lenders. One of the main reasons why this research of SMP is different from the existing IMF literature is that SMP is released before any concessional or non-concessional loan is allocated. It is an assessment which considers the state eligibility for IMF loans in the future and what I theorize as draws attention for the need for external assistance from bilateral donors.

After the assessment is prepared, IMF Staff releases the document on behalf of the expert group and draws a conclusion regarding not an only macroeconomic policy of the state, but necessary government reforms and potential risk management recommendations. As it was considered previously, the IMF uses various channels if necessary, to expand the audience of the assessment readers and introduce the policy recommendation to a wider international community such as donors and investors.

Staff exercises its autonomy and considers certain outside options besides addressing to Executive Board members only. International Donor Conferences organized not only by IMF Staff, Public Information Notices or the Press-Conferences on behalf of IMF and etc. are all the channels used by the Staff to attract the interest of the international community.

IMF uniqueness considered to be the narrow scope on financial regulations and a large number of member states. It makes the expertise more credible and focused on macroeconomic conditions.

There are two main arguments that I find significant for the IMF to make a statement: analysis of external sector or the creditworthiness and ability of the state to repay the loans and effectively manage the aid inflow; and the program risk sector where IMF experts describe the level of state commitment to reform based on the IMF policy recommendations.

External Sector Assessment: Creditworthiness of the State

External sector and debt management in SMP is separate sector described in each document. It reflects on several points: the ability of state to manage the aid inflow, planning of concessional and non-concessional lending, current obligations, ability to pay off current

obligations, budget deficit etc. IMF also states if the state in need of more external assistance or not. It is significant case, because most often IMF itself relies on the donor assistance to reform current economic policies. Therefore, it is IMF's prior interest to signal the donors the states in need of assistance and recipients' commitment to reforms.

Also, the large sector is devoted to the type of loan the recipient is seeking to receive. Often IMF recommends relying only on concessional loans and clearly states that receiving of non-concessional loans might directly jeopardize the program's successful implementation. One of the reasons is that non-concessional loans come from non-traditional donors and also do not require any conditionality stands from the recipient, along with they do not require the improvement in necessary economic and political sector.

For these reasons the external sector is the one which matters significantly for further aid inflow, because it shows state's need and priorities towards concessional or non-concessional aid.

Program Risk Assessment: State Commitment to Reforms

The SMP document has another sector which is presented in each SMP assessment document: structural and program risks, staff appraisal sector. IMF appraisal indicates if the state is committed to implement the structural reforms in the government sector, in economic institutions and increase the transparency of government institutions. The latter is a significant factor for program effectiveness. Often IMF staff focuses on the transparency of government institution and availability of data to conduct the necessary analysis and monitoring.

If the state is committed, then it makes certain adjustments to provide access for necessary country data or it aims to undertake the necessary reforms to improve the fiscal and monetary sector. Improvement in this sector might eventually lead to meeting requirements of upper tranche credit conditionality, which is a loan approved by IMF and allocated in tranches for further

development or the state might also become eligible for the Poverty Reduction and Growth Facility (PRGF) programs and debt relief strategies from its creditors and donors.

Structural and Program Risk section refers to the state's earlier action in the state's action which was already taken and future government action plans on the program goals implementation. Therefore, I consider it to be significant for the "signaling" to the donor community to attract more aid or secure the existing aid programs.

The creditworthiness of state and favorability for external assistance matters along with commitment assessment. These two sectors are significant because they directly show if the state is continuing its commitment to IMF recommendations, also it signals the state's own willingness to be monitored by IMF experts. IMF bilateral surveillance is aimed at identifying whether or not the state is committed and prepared to receive the financial inflow.

The illustrative cases in the following section will show how the most of the "signaling" of IMF as public statements, Public Information Notices are based on the drawing attention to these two factors: creditworthiness and state commitment to reforms.

Hypothesis

IMF Article IV Consultations and Staff-Monitored Program impacts bilateral aid flow:

- *An IMF favorable assessment of the given recipient external and debt management sector is positively associated with bilateral aid flows from all bilateral state donors.*

The assessment of external and debt management sector is significant in terms of the impact on donor's decision. External sector reflects the capacity of state to fulfill the obligations to creditors and other external donors. Debt management shows how state is managing its current obligations and if it is cooperating with external donors to relief the debt or plan the payments. IMF Staff in external sector assessment shapes the main signal to donor community whether or not the state is in need of external assistance or aid is already planned and allocated. Therefore,

this conditionality matters to donors because it directly signals if the potential recipient is in need of assistance and also, if the current loans are concessional or non-concessional.

- *An IMF favorable assessment of the given recipient commitment to IMF policy recommendations is positively associated with bilateral aid flows from all state donors.*

The state which signals its creditworthiness and full commitment to follow the policy guidelines will be more likely to receive the aid from donor countries. This “signaling” is based on the release of SMP documents based on voluntary request of a member state. Article IV Consultations might not always clearly reflect as much as Staff-Monitored Program outcome since the latter is considered to be a volunteer request to conduct based on the hosting countries own willingness to finance it. Also, compare to Article IV Consultations which are done to every member-state of IMF, SMP is conducted only to certain states, therefore, the intention to undergo the process is an assumption of “positive government commitment”.

Along with it in description of monetary and fiscal policy sector and in program risk sector, the IMF Staff describes the state commitment to undertake the certain reforms based on the staff recommendations and whether or not the state is on track with its previous obligation and policy reforms.

Research Design

Methodology

In order to test my hypotheses, I use the illustrative case-study method. The motivation behind the choice of qualitative method is the few numbers of observations existing in the sphere of bilateral surveillance conducted by the IMF. Also, The International Evaluation Office of IMF (2005) studies the surveillance and conditionality of IMF from various perspective. Experts claim that “signaling” is not a clear definition to the donors, but rather the correct definition of FDI investors. The “delegate monitoring” and donor assistance is studied best through the case-study

method by most of the scholars. Even if the signaling effect of IMF taken as “on/off” signal, more detailed research considering the IMF visits and analysis will show more valuable results on the IMF-Donor relations.

Also, I chose multiple case-studies to see if there is a difference within the cases or the case conclusions can be drawn and generalized across all the cases. IMF bilateral Surveillance mechanisms are not standardized in its analysis. They are divided into the same sectors; however, the language IMF experts use cannot be standardized to collect the data and conduct quantitative research. Therefore, in such complex question as a certain sector of IMF bilateral surveillance influence and based on the IMF evaluation office recommendation and the studies done by existing literature, the explanatory multiple case-study methods is the most suitable for my research.

My research covers the period from 2000 to 2017, because of the data availability and coverage during these years on the IMF website. Bilateral surveillance is not based on the annual release of documents but depend on the request of the donors, member-states or initiated by the IMF Staff, therefore this period was chosen because it covers the most Staff-Managed Program documents.

I will look at one type of bilateral surveillance document listed in my theoretical framework, which is Staff-Managed Programs. The start date of issuance of SMP documents is different however all of them are published on the IMF website. Article IV Consultations was described in my theoretical part however as it was discussed previously these types of consultations are regular and do not cover the change in the government, but more descriptive in its nature. Therefore, it will not help to answer my question whether the state commission and external debt management policies have changed.

I look at the three case-studies member states of IMF: Comoros, Republic of Congo, Sudan. I chose these states because among all of the states they have the highest number of IMF

application through the covered period on my research. Also, the staff appraisal of IMF experts varies in these program documents, where each document is divided into several sectors. Overall, I am interested in the two main parts of the document - the external and debt management sector and structural and program risks. My theory relies on this sector opinion of IMF experts. If the experts consider these sectors to be well progressing, then the IMF is likely to support the state in the media, donor meetings and in certain cases approves to allocate the loan itself.

For this research, I use primary sources the publications available on the IMF website and the press-releases from donor conferences and meetings, public notices published on the websites of the states-organizers and IMF member-states. There are few secondary sources works available on chosen case-study states, mainly it is regional discussions of IMF activities in the African continent and the economic trends. One of the sources largely covering the economic development of the African states are African Research Bulletin, others are individual researchers who have done the regional studies in the African continent.

Dependent Variable

This research attempts to explain the variation in the amount of aid which will be allocated to the recipient country, therefore the ratio of bilateral aid per capita will be taken as the dependent variable because it is more accurate in assessing the amount of aid. Since my range of recipient countries are not determined by the state features the Net ODA received per capita (current US\$) will more accurately show the change in the aid inflow.

The variation in dependent variable is the change of ODA per capita over the years since the SMP was published. Also, it is important to analyze the change in the bilateral per capita before the SMP was conducted, because it can reveal the overall trend in aid in a certain period.

I used the World Bank dataset of Net ODA received per capita (current US\$), which is based on the calculations of overall of loans made on concessional terms (net of repayments of

principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries (World Bank).

Independent Variable

I use two independent variables in my study: the creditworthiness and commitment to reforms. Both variables are assessed as favorable or unfavorable signal of IMF:

Independent Variable 1: Creditworthiness of the State

The assessment of creditworthiness is based on the assessment of favorability in the section on external and debt management. The state is considered to be creditworthy and capable of paying off its external obligations, if:

- The state is willing to create a repayment strategy plan to pay off the debt obligations or plan the loan repayment according to its capabilities;
- The state is willing to avoid concessional loans and choose donors carefully according to the donor requirements and conditionality;
- The state is already in the process of receiving an existing budget deficit substituted by donor assistance;
- The state has no trade restrictions and has created access to market for partners;
- The state government created or in the process of creating favorable conditions for donors to allocate aid;
- The state government is willing to make the governmental institutions more transparent in particular IMF Staff focuses on the resource sector transparency.

All these listed criteria reflect on the state actions towards its external partners and whether the state is willing to attract more aid into the state.

Nevertheless, not all the assessments are positive. The state is considered not to be creditworthy and incapable of paying-off its external obligations, if:

- The state is in need of external assistance from the donor,

- Low investment level in the state. This is considered unfavorable because the IMF often needs aid assistance in order to improve existing policy according to its recommendations.
- For any state the reforms are costly. In most cases SMPs requested from developing states which need certain assistance in improving its economic policies, therefore donor assistance is key in the successful implementation of program reforms.
- The state is dependent on highly concessional loans and faces difficulties with managing its obligations to creditors;
- The state has large arrears towards creditors and the government is unable to pay off them in time.

All these listed criteria considered to be the unfavorable assessment by the IMF Staff.

Independent Variable 2: State Commitment to Reforms

The State commitment to adjust its fiscal and monetary policies, be more transparent and provide necessary data for IMF Staff, also make the government institutions more transparent refers to the Program Risk Assessment Section in the IMF Bilateral Surveillance document.

The assessment of state commitment is based on the assessment of favorability in the section on Program Risk Assessment. The state is considered to be committed to reforms and government readiness to assist with implementation of IMF policy recommendations, if:

- The state government is clearly committed to reform the weak institutions;
- The state government committed to strengthening governance and the judiciary;
- The state government will provide necessary data;
- The state government is putting efforts for structural reforms in public financial management, monetary operations.

The listed criteria reflect on the overall picture of what I consider to be a favorable assessment of commitment, where the government actions are clearly directed to the path of fiscal adjustment.

The state is not considered to be committed to reforms and government readiness to assist with implementation of IMF policy recommendations, if:

- The state institutional capacity is weak;
- The state is unable to reform the fiscal policies fully. Often when the state is dependent on the certain export product, it is challenging to change current fiscal policies;
- The state economy is exposed to potential external, natural, and political shocks;
- The lack of favorable conditions to attract investors and stimulate economic growth;
- The corruption rate is high, political and security tensions in the state;
- The state overall program implementation history is very poor.

Certain factors as listed above considered to be unfavorable because they negatively impact on the successful policy implementation of the IMF Staff or any other donor which aims to assist based on the project-support or budget-support programs.

Illustrative Case-Studies

The following case-studies were chosen based on the amount of times the state applied for the bilateral surveillance. The evidence in following cases show that there are certain correlation between the release of IMF documents and donor assessment, however this is not a sufficient argument to support the claim that donor's disbursement depends on the IMF assessments. The following cases show that donors consider the IMF assessment documents when there are meetings or press releases done, however there is no direct evidence that donors consider them to be significant during the disbursement or consider them to be significant when the assessment are not channeled through the media or other platforms.

Comoros

Comoros is an African state which applied for IMF Surveillance more than four times in recent years. IMF provided staff report in 2001, 2002, 2005, 2006 and 2016 (IMF Database). Comoros applied for IMF staff assessment after facing prolonged political turmoil in one of its islands - Anjouan (IMF 2001). The political reintegration of the Union of Comoros happened in 2001 and the new democratic government was established. However, before the reintegration of the islands, the Article IV Consultations was not conducted due to domestic political instability (IMF 2001). IMF released the public notice explaining the disruptions in Article IV Consultations with Comoros in 2001. The public notice concludes that fiscal and monetary policies were poor, large fiscal imbalances created and led to conflicts within the government and it was not functioning well.

The external debt obligation increased since the 1990s almost twice. The government could not manage the arrears and payoff to the respective creditors. IMF (2001) states that Comoros faced an increase of 14% to export prices and credit to the economy. IMF Staff members in Public Information Notice concluded economic growth slowed down, arrears and debts to external partners escalated.

Despite of the release of the Article IV Consultation documents, the Comoros government intended to apply for SMP assessment and begin the process in June of the same year. The assessment took around 2 months and IMF Staff released the SMP analysis by August 2001. The 67-page document contains information regarding the state's recent development, fiscal and monetary policy conditions, external sector policies and commitment of the state to the structural reforms, along with possible program risks are mentioned in the country.

The outcome of the documents in 2001 and 2002 was a staff appraisal which concluded that Comoros is committed to initiating reforms. Staff concluded the prepared by state reform policies will lead to improvement of the current condition.

Even if the IMF Staff was willing to support the incumbent government, the arguments regarding the state commitment were not convincing enough for donors. The reason for this is that applying for SMP is not only about signaling its commitment but readiness to pay off the arrears and be a responsible borrower, which was not the case of Comoros which could not pay off the current loans but was signaling for donors to receive more. The economy was not improving, and the statistical numbers provided by IMF did not support the Staff members argument regarding State capabilities to meet the creditor requirements and return loans to creditors.

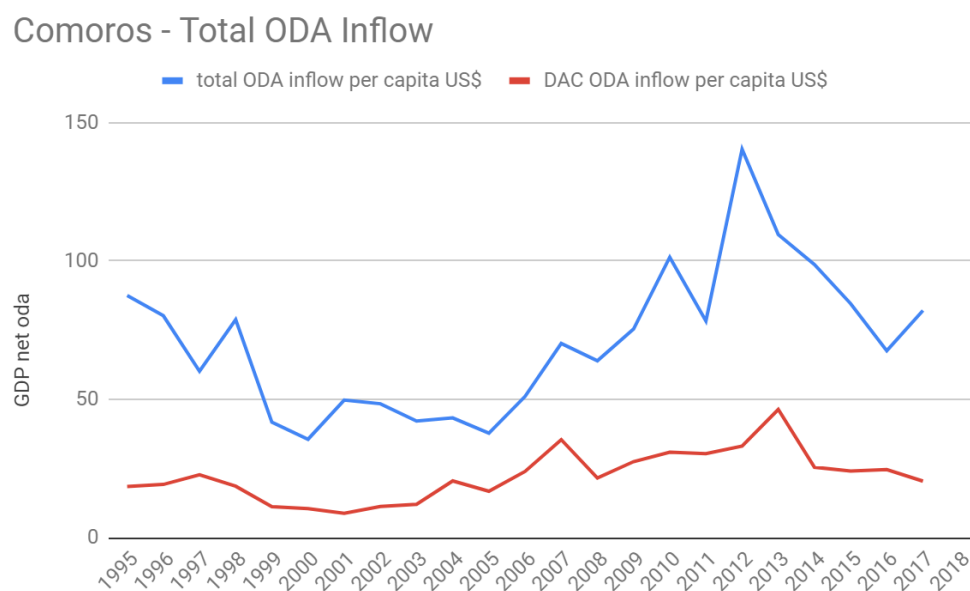


Figure 1: Comoros - Total ODA Inflow. Source: World Bank and OECD Website

The IMF assessment was critical regarding the state's ability to pay off the external arrears or meet the obligations of external creditors, in the following year the total ODA per capita did not change in its volume since the publication of Staff-Managed Program in July 2001 (Figure 1). In 2002 the renewed assessment was published, where IMF again stated the continuing state commitment towards the reforms. Also, according to IMF state began to stabilize its external arrears and begin the payoff, however, the plan was not realized due to certain economic issues. The review of 2002 shows the clear state commitment similar to 2001, however, the external

sector is different and more positive. The external assistance need was clearly identified however the Comorian government continued facing the challenges with loan management: “fiscal situation management did not allow full payment or the payment of arrears, indicating their intention to seek debt relief” (IMF 2001, 12). Which clearly stated that government was not looking at fixing the arrears but seeking debt relief which is not a favorable “signal” for potential donors.

Since the SMP in 2001 and 2002 did not bring necessary results, the state applied for another 12-month SMP period in 2005. It was approved by IMF and according to IMF experts, the motivation behind reapplying to the position is a willingness to receive the loan from IMF and signal donors about the willingness to receive concessional aid (SMP 2005, 4). However, the economic performance was not convincing and IMF states in its SMP that it needs heavy donor support for policy implementations and reforms. Since the release of the SMP document and the state’s inability to manage the external obligations, at the same time following years, the external debt was constantly cumulating.

In 2005, after the two rounds of SMP assessment, IMF was preparing to organize an international donor meeting organized by Mauritius in partnership with UNDP to show the “government implementation capacity” and “three-year investment plan” of Comorian Government. It is a very rare case when IMF gives a statement in the Donor Meetings and supports positive state performance, however, the Comorian Government was facing large economic issues despite constant attempts to reform existing policies and establish better mechanisms. Also, it is significant to note that the third review of the IMF in 2005 informed the Executive Board regarding its assessment. As it was shown the involvement of board members or the biggest aid donor representatives in the surveillance which usually do not go through the Board approval but only Staff approval shows it is significant importance.

In the statement during the meeting in 2005, the IMF explained the negative economic activities of Comoros because of the changing price for oil and vanilla. Since these two important indicators for Comorian government kept changing than the “noteworthy reforms included the delineation of fiscal competencies and revenue-sharing arrangements between the union and island governments” (IMF 2005). As a result of the applying for IMF bilateral surveillance there was a significant increase in the external assistance and led to the rise of total ODA per capita from all the bilateral donors increased approximately for 37% within this the inflow of aid from DAC donors increased approximately for 40% (Figure 1).

The SMP in 2006 is significant because the Staff, Comorian State, and External creditors had concluded an agreement regarding the large arrears that the state is facing. The new investment plan was introduced, and the government reassured the international community regarding its commitment to restructure the government institutions. Also, since the 1994 IMF first time in a decade approved the PRGF-supported program which allocated loan to Comoros, along with the establishment of Multilateral Debt Relief Initiative. Therefore, all these positive changes in the government and reassurance of constant commitment to obligations of Donors assisted in the increase of the overall aid inflow to the country.

The Public Information Notice released in 2006 followed after the SMP assessment shows the support of IMF Experts and will to “signal” the international community regarding the need of external assistance (IMF 2006, 3):

“Directors were encouraged by recent actions of the new government to restore interisland fiscal cooperation, improve governance, curtail spending, and bolster revenue collection. They commended the authorities for making their policies transparent in a supplementary budget for 2006. This package of measures, in conjunction with financial support from donors, should help reduce domestic debt and arrears in the second half of 2006 and achieve a broadly balanced primary fiscal position for the year as a whole. A prudent 2007 budget should avoid new arrears and reallocate expenditure toward social sectors and public investment.”

The Figure 3 shows the steady growth in the bilateral aid increase in the Comoros. The positive assessment of creditworthiness and state commitment to policy adjustment, the certain progress made from previous years impacted the increase in the total ODA per capita.

In 2016, almost ten years later the Comorian government applied for SMP assessment again. As IMF experts concluded the Comorian government faced economic challenges in 2014-15 and the growth rates were much lower than it was expected. The constant decrease of the total ODA to the country was clear since 2012. Total ODA fell from 140 USD per capita to 67 USD per capita from 2012 to 2016. The main challenge for this region was the balancing of fiscal policies, which was very challenging to manage for the Comorian Government. Comorian Government received an increased amount of aid from donors after the release of SMP. IMF experts stated that the Comorian government is in need of aid and the necessary policy adjustments and reforms could not be realized without external assistance.

The following years the Comorian government applications to IMF led to a significant increase in external assistance. The years before the state decided to apply for bilateral surveillance aid level was decreasing or steady, however, the IMF surveillance mechanism has a “signaling” effect. In the case of Comoros, this effect served as reassurance of commitment and mainly signaled to the donor about the need of the external assistance.

The variation in capabilities of the Comorian government to meet the creditors requirement, manage the external loans and arrears and government actions which according to IMF surveillance assessments were not always in support of policy adjustment led to variation in overall ODA received by the state in the following years.

Republic of Congo

Congolese Government faced severe challenges as a result of the political unrest and civil war. Bhattacharya and Ghura (2006) claim that the large oil reserves were part of the further political unrest because oil revenue was a tool to finance the uprisings of rebel groups. As a result,

the annual assessments at the beginning of 2000 showed the decline in overall aid inflow, also it indicated the low government capacity to control the adjustment programs in the post-conflict period.

Congo applied for IMF bilateral assessment with the aim of receiving the loan based on the poverty reduction programme (Mahtani 2005). Congo received three rounds of IMF bilateral assessment along with article IV Consultations consequently from 2003-2005, and again two times in a row in 2007 and 2008.

The assessment of 2003, which actually took place in 2002, is unique in terms of the document's sectoral division. The part of the document was dedicated to transparency issues of the Congolese oil revenue sector. As Mahtani (2005) claims the KPMG audit company revealed that there was a fraud in the increase of the total amount from oil revenues in 2004, however, the budget of 2003 was also under the big risk. The IMF assessment encourages the government to be more transparent.

The government was advancing its anti-corruption programs and among the first who signed up for New Partnership for Africa's Development to deal against the corruption system (2003). The commitment of the government to policy initiative was convincing because one of the main obstacles for loan disbursement under the poverty reduction program is a normalization of partnership with donors and creditors. Therefore, the state's main aid in 2003 was to fulfill the obligation to creditors and pay off external arrears. However, there were too many domestic issues and assessment was not favorable. In 2004 the Staff appraisal concluded that "performance was disappointing" (IMF 2004, 1).

The assessment of 2004 was similar; however, the IMF experts began the discussion on possible poverty reduction program initialization. Assessment again was not positive, and the external arrears were not paid off and mainly the extra budget from oil revenue was not spent on necessary payment to creditors and donors.

In order to secure the necessary aid coming from donors, in order to increase the necessary transparency of government, IMF experts decided to organize the meeting with donors, government representatives, labor leaders and civil society (IMF 2004, 18). Also, with the assistance of UNDP, the national anti-corruption program was introduced. IMF also encourages the Bretton Woods Institution members to assist the Congolese government with increasing the transparency. The African Development Bank Annual report in 2004 states that Congo was qualified for certain level of debt relief from the bank along with the state of Burundi. Only two states that year received the official debt relief assistance from the creditors: “The Facility, in collaboration with other donors, assists eligible countries to clear their arrears with the Bank Group in the context of internationally agreed programs. I am pleased to note that two countries – Burundi and Congo – have already benefited from the Facility” (ADB Annual Report 2004, 18). The Figure 2 reflects on this statement and the sharp increase in the overall aid inflow is visible. As African Development Bank report states the assistance to external sectors of both states were the internationally agreed program among donors, which explains the increase in the overall aid inflow to the state in the following year.

Besides all this cooperation with external international institutions, the IMF government assisted Congo by releasing the Public Information Notice (PIN) after each assessment was conducted in 2003 and 2004. Both years IMF emphasized the need for further improvement of the economy overall, however, in 2003 it emphasized the reduction of poverty and payment of arrears unlike in 2004 when the IMF experts emphasized the need for external assistance.

PIN is an instrument used by the IMF to increase the transparency of the fund’s actions and assessments. The PIN is released by the Executive Board often after the Article IV agreements or otherwise in certain cases. The Congo case shows that severe challenges country was facing led to the IMF’s experts’ immediate action to help the state secure existing assistance and receive

the poverty reduction program assistance by IMF. In 2004 it was finally approved by IMF Executive Board members.

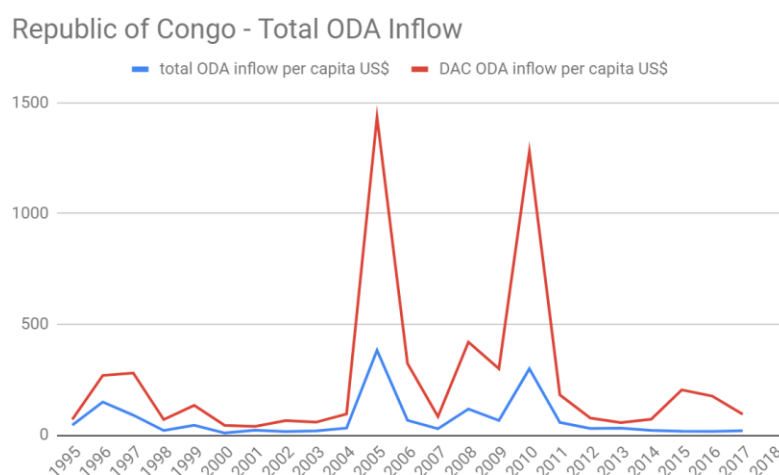


Figure 2: Republic of Congo - Total ODA Inflow. Source: World Bank and OECD Website

IMF (2005) concludes that assessments and public statements were productive and boosted the external assistance for Congo. Mainly assistance came from the African Development Bank, European Union, and Bilateral Donors. Also, approval of loan led to an inflow of poverty reduction program assistance from IMF and therefore the overall aid increase significantly. The foreign aid assistance program in 2005 reached its peak. The main attempt of IMF Staff based on the Congolese government application for SMP showed two significant factors: the state commitment and large arrears which government was unable to pay. Since the IMF published its assessment outcomes and created and sent “signal”, the aid indicators rose to the level of 383 US\$ per capita from 32 US\$ per capita. However, the Congolese Government applied for the third assessment at the end of 2004 and in January of 2005 concluding round of SMP was released.

2005 IMF assessment has a very different attitude towards the Congolese government actions. It is very positive and hopeful regarding the future. The World Bank Data on total ODA inflow states that in 2006, following year after the 2005 assessment was released in January the aid inflow fell almost 5 times lower than in a previous year. The assessment of 2005 clearly states that country already programmed its aid inflow for 2005 from external Donors as African

Development Bank and bilateral Donors, therefore there is no need for more assistance but need to regulate the oil revenue used to pay off the London Club creditors. Also, the IMF Staff shows the significant progress in government institutional sectors transparency and shows that the government is committed to progress further by following IMF recommendations.

Since the approval of PRGF program by IMF in 2004, by 2007 Congo was not meeting the requirements and received the recommendation from Executive Board to conduct SMP assessment in order to regulate the Poverty reduction plan outcomes. The letter of Intent attached to the official SMP request states that the Congolese Government is seeking for external support in order to help with financing the poverty strategy program further. This was the main reason for applying to SMP. By that time the aid inflow fell even lower than in 2006.

2007 SMP includes two important progress reports: First. The agreement of arrears payment to London Club creditors. The concrete action plan will help the state to stay on track and control the debt payoff. Second, the SMP send a valid “signal” country commitment to policy recommendations and regulating PRGF program track. Since the Congolese government decided to follow the recommendation of the Executive Board, which is comprised of the largest bilateral donors, this shows the state commitment to resolving existing policy problems.

The meeting of Executive Board requirements, successful completion of SMP assessment and “signaling” of commitment reassurance to external donors caused increase of the financial aid to a recipient country. In 2008, the further assessment of IMF Staff was completed. This is the last assessment prepared by IMF of Congo since 2008 and it shows the significant progress in the external sector. The Staff concludes that the government is not in need of any assistance but working on regulating the use of oil revenues. The Staff concluded that the country will have a surplus of the current account in 2008 and additional financial assistance is not required for progress.

The Staff recommendations are very soft and do not require any change to existing policies but recommend staying “on track”. The World Bank data shows a significant fall in the inflow of foreign aid in the following year.

The need for foreign aid impact the recipient behavior and close interconnections with multilateral organization assist in overcoming the economic and political challenges. After the severe political conflict and government change at the beginning of the 2000s, Congolese government had numerous economic issues, as a result, descriptive nature of Article IV Consultations was not enough for problem resolution and state applied for bilateral surveillance. Five applications in six years showed a significant change in the inflow of foreign aid. Certain assessment which signaled the commitment and needs for foreign assistance showed the increase of aid in the following year, other assessment which signaled the absence of need for assistance directly impacted on a decrease of assessment in the following year.

Sudan

Sudan in this research case-studies is the state which went through the most of the bilateral surveillance assessments. After failing to pay the debt to Fund and World Bank at the beginning of the 2000s, Sudanese government applied for SMP and requested to help with establishing prudent macroeconomic policies for further development and management of existing large arrears (IMF 2002). From 2002 to 2014, Sudanese government applied for SMP 8 times in different years. The consequential assessment took places from 2002-2003, 2005 to 2009 and in 2014.

Sudan’s 2002 and 2003 assessment were positive because of government success in achieving SMP targets (IMF 2002, 2003). The GDP growth reached the program target, the payments to African Development Bank were renewed. The main conclusion was a call made by IMF Staff to Executive Board to recognize results of successful completion of SMP in both rounds of 2002 and 2003. IMF Staff held preliminary talks with the Sudanese Government in order to

explain the necessary steps to attract donors and signal the necessary commitment in order to receive the necessary debt relief. The reason for this is when the Board admits the successful implementation of program recommendations, it assists the state to regulate its external debt relieve management plan and helps with a possible clearance of arrears to external donors and creditors.

In 2003, IMF staff right after the publication of SMP it released the Public Information Notice concerning Sudan's performance under the Article IV Consultations and Staff-Monitored Program. As a result, the notice released by Board signaled donors about the sharp need of the Sudanese government for mobilizing finances and regulate the arrears.

The performance was positive, and it sent the correct signals to external creditors and donors. The commitment of government was clear because the necessary program targets were achieved, the Board supported the assessment by releasing Public Information Notice and encouraging donors to support Sudan and help with debt relief (IMF 2003). Before these rounds of SMP assessment, the level of ODA inflow to the country was more or less the same. However, since 2002 the ODA inflow rapidly increased in the following years (Figure 3,4).

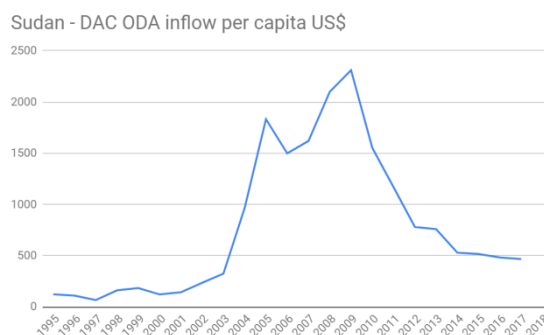
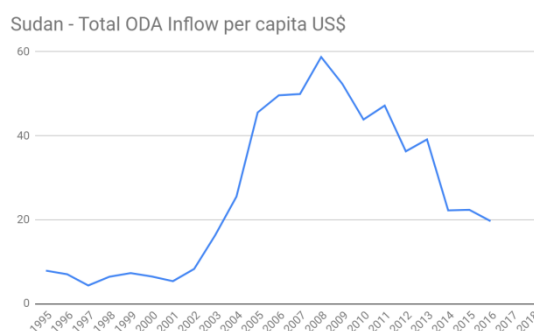


Figure 3 - Sudan Total ODA inflow. Source: World Bank Website

Figure 4 - DAC ODA inflow per capita US\$. Source: OECD Website

The period from 2005 to 2009 and five consequential IMF bilateral surveillance assessment show very significant results to my research. Each SMP released since 2005 states that the Sudanese government is meeting necessary targets and monetary and fiscal policies are improving despite the political instability in the country (IMF 2005, 2006, 2007, 2008). The establishment of a new government and constant surplus in fiscal policy until 2008 showed the full commitment of the state to continue its cooperation with the Fund and World Bank recommendations. IMF Staff emphasized Sudanese government progress and conducted midyear IMF research along with Article IV Consultations and SMP round assessments. Executive Board released Public Information Notices and addressed the progress country made after each round of SMP. However, the World Bank data shows there is not much change in the overall aid inflow and the DAC donors assistance per capita ranged between 1500 US\$ per capita up to 2300 US\$ per capita in different years.

Even if the state continued its constant payment to African Development Bank, IMF, and other bilateral donor's concessional debts, the IMF Staff and Executive Board were disagreeing with Sudan's external sector assistance and it was reflected in each IMF Statement released between 2005 and 2009.

The Chinese development aid to Sudan started much earlier. The financial inflow to support the oil and gas sector began in 1999, however large shares of financial support electricity production and hydroelectric dam building in the country. These projects prevailed over the support of the oil sector and reached up to \$5 billion in official development (Roessler 2013, Brautigam 2011). As a result, the constant support of aid from China projected its soft power strategy in the region. The unfinished road projects were completed and actually directly

benefited the Sudanese government and connected the urbanized region with peripheral territories.

Chan (2010) provides another source of non-concessional loan to Sudan coming from India. As Fuchs and Vadlamannati (2012) claim India only allocates the concessional aid to the regional aid recipients as Bangladesh. From 2005 to 2010, the Sudanese government was the second biggest Indian aid recipient after Bhutan and reached more than 400 million US\$. During these years the aid was mainly sent to power and infrastructure development and the development of transportation roads.

As a result, we can see how each Public Statement of IMF on Sudan mentioned the issues of the constant inflow of non-concessional loans mainly from China, also India and Malaysia (IMF 2007). It was one of the main obstacles of IMF non-approval of further fulfillment of standard of upper credit tranche conditionality in order to receive the loan from Fund. These notices were mentioned in Public Investment Notices several years in a row, however in 2008 and 2009 IMF softened its attitude towards constant inflow of non-concessional loans. IMF Public Investment Notice in 2008 states that “Sudan's broadly satisfactory performance under the successive SMPs should be reflected in the timetable for arrears clearance”.

Constant requiring to stop receiving of non-concessional loans did not bring any results, and the IMF decided to encourage the donors to clear arrears and relief the existing debt from donors to Sudanese Government. Also, the IMF Staff decided to advance with the procedure for Upper Credit Tranche Conditionality and negotiate the agreement with the Sudanese Government. However, the World Bank Data shows that over this period the overall ODA per capita did not increase in its volume and stayed approximately on the same level.

In 2014, Sudan applied to bilateral surveillance assessment again (IMF 2014). The reason was a constant decrease in overall aid inflow to the state in 2011. The main motive was to qualify for the poverty reduction strategy program which is heavily dependent on donor support.

Assessment overall showed the issues in debt management and large security risks due to the crisis in the region. The large issues are the imbalance in the exchange rate and difficulties to regulate this sector for the government. The SMP was not followed by any public notice nor informing the executive board, as a result, SMP described the current macroeconomic conditions and gave general policy recommendations. The commitment of state or the need for external assistance was not highlighted as a result the overall aid did not increase but decreased.

The commitment of government is a significant reason to signal the donor government about the recipient state's readiness to receive foreign aid. However, the external sector does have a significant impact on the level of aid allocation. The constant non-concessional allocation of non-DAC donors as China and India affected the overall aid inflow to the Sudanese government despite the need for assistance and state commitment.

Discussion

The study shows the SMP assessment of IMF "signals" the international community based on two main factors: the creditworthiness of the state and its commitment to reforms and policy adjustment. The signal reaches donors through various platforms from the Public Information Notices to statements during the Donor conferences or meetings. The catalytic effect of IMF bilateral surveillance assessment and the IMF Staff supports the applied for assessment state with the publication of the assessment, and in certain cases going beyond the usual mandate and informing of executive board and press-releases based on the state assessment.

The case studies show that the release of the SMP signals the favorability or unfavourability of two main factors: creditworthiness and commitment to reforms. The favorability of these two variables positively impacts per capita ODA inflow to the country.

The unfavourability of one of the factors, in case of Comoros in 2001 and 2002 when the external arrears obligations were not paid, so the signaling of creditworthiness of was not

convincing to the international community and one factor of state commitment was not enough to attract donor's attention of external assistance need.

The first hypothesis showed that the variation in aid inflow also depends on the overall need of the donor for foreign aid assistance. As it was mentioned in my theory, the need for assistance is not only significant for recipient state but necessary for IMF Staff to apply the necessary reforms. Any adjustment policies or reforms require finance and since SMP is a program which is aimed to fulfill the precondition for future disbursements, therefore the assistance from bilateral donors or debt relief or postponement of repayment to London or Paris club creditors is significant in order to help the state improve the current economic issues.

The cases showed that IMF assessment of the external sector is a priority for Staff because we have several cases when IMF Staff go beyond its usual routine and informs the Board members regarding the state assessment. Based on which IMF Executive Board which is comprised of the largest donor representatives makes a statement or Public Information Notices to its donor and creditor community regarding the current conditions in the taken state.

Public Information Notices comprised of information regarding the monetary and fiscal policies, external sector and mainly Board addresses the donor community whether or not state needs assistance to renovate existing policies. The case of Congo and Sudan showed that Staff informed Board after which Board made several consecutive notices to its donor and creditor community through which it encouraged the donor to allocate aid and creditors to assist with debt relief or cooperate in a repayment plan.

Along with the release of PIN, the IMF Staff might organize itself or participate in international donor meetings organized in particular for certain recipient state. The case of Comoros shows that constant need for assistance and inability of the state to implement the recommendation of IMF brought to Staff decision on the participation in Donor meeting on

Comoros. The statement statistical indicators and assessment was based on a previous round of SMP allocation after which the total aid inflow to Comoros increased by several times.

The decision of Staff to support the state in international donor conferences or meetings happens rarely. The reason for this is not answered by existing literature and it is a question yet to be answered: what exactly motivates donors to organize such conferences and what is the motivation of IMF to make a statement.

In the second hypothesis, the favorable assessment of commitment to fulfill the obligation to donor and creditor communities, to reform the existing institutions and regulate the fiscal and monetary policies serves as a re-assurance mechanism of state-commitment in-between the Article IV Consultation Assessments.

My second hypothesis was not fully supported by my findings because this commitment mechanisms do not equally impact all the donor types. The case of Sudan in particular shows that DAC donors do not tend to increase the overall aid inflow, however, the aid from China, India and other non-DAC donor continued to inflow to the state independently from IMF surveillance assessments conclusions and recommendations. As the case-study shows the Sudan's foreign aid from non-DAC donors haven't changed. However, the existing literature and data available on foreign aid inflow of Chinese foreign aid is not enough to make claims regarding the effect of assessment on DAC and non-DAC donors separately. However, studying the effect of bilateral assessment on two groups of donors as DAC and non-DAC is an idea for further research in the field.

The case shows that the type of aid as concessional or non-concessional matters to the overall aid inflow because the largest donors of aid are the ones who belong to the group of DAC-donors. The "traditional" group of donors have much larger foreign aid amounts compare to the inflow of non-DAC donors. Therefore, the percentage of non-DAC donors in the total aid inflow to the recipient is much lower compared to the share of DAC donors in the total ODA inflow.

Therefore, the catalytic power of SMP bilateral assessment is worth considering the path for the recipient state in case it is willing to attract more aid inflow from DAC donor in particular. If the state is willing to continue applying IMF recommendations and stay further committed to IMF Staff expertise, then applying for self-financed surveillance apart from the existing annual assessment will create a necessary signal to attract more donors and mainly secure the cooperation with existing donors.

These findings help to understand the impact of IMF bilateral assessment and how the multilateral institution tools have a catalytic effect on the bilateral donor community. All these explain the consecutive application for bilateral surveillance apart from an existing annual assessment. Variation within the assessment creates a “favorable” or “unfavorable” signal to the donor community and contributes to the final decision of donor in aid allocation.

My research does not attempt to claim that IMF bilateral surveillance is the prevailing factor for donor’s decision. Vreeland (2003) explains the reason why states apply for IMF surveillance is that they need a loan in the future. Meeting conditionality is a requirement before receiving any IMF approved loan. My argument supports a similar thesis; however, I argue that not an only loan from IMF matters signals the international community, but the actually IMF uses other instruments to “signal” the international community and has a catalytic effect to attract other donors through the release of the surveillance documents.

My findings are not novel in terms of its impact on donor aid allocation; however, it differs from existing literature in terms of in-depth analysis of one type of bilateral surveillance - Staff-Monitored Program and the changes that recipient states face after the release of the document. However, such assessments have various alternative explanations and it is difficult to control their impact.

The limitation to my research was the challenge to control for the impact of other factors on the aid disbursement from donors. Donor’s motive to allocate aid and gain benefits from is

often mixed and it is challenging to claim that there is a certain determining factor. The case of Comoros and Congo have an alternative explanation as the impact of political instability. During the years of political instability, the state inflow of aid decreased due to the high risk and ineffective implication of finance, however when the political instabilities ended then the need for external assistance increased along with the actual aid inflow.

Also, other explanation would be that most of my case-studies are the states of the African continent which have higher level of aid inflow compare to other regions in the world. In my research I did not consider the cases from perspective of the geographical locations and did not focus on African continent, however I focused on the highest number of assessments in IMF surveillance itself.

One of the limitations of my research was the few secondary sources because there is almost no literature concerning the Staff-Monitored Program itself and existing literature mostly concerned about the overall bilateral assessment. Therefore, I mostly relied on primary sources and only few secondary sources.

Foreign aid scholars need to continue studying the impact of multilateral institutions strategies and tools to further contribute to the study of bilateral surveillance mechanisms separately. First what actually makes the bilateral surveillance mechanism effective? Second what makes the bilateral surveillance document attractive to donor state and finally how to increase the sample size when studying the bilateral surveillance in-depth not only as a categorical variable.

Conclusion

Despite the existing critics for being overly politicized in its actions and loan allocation the Fund has a wide scope of functions and impacts the state to various extent. My research focuses on the specific type of bilateral surveillance - Staff-Managed Program, which is the surveillance mechanism based on the independent request of member-state. The main

contribution to the existing literature is the variation in the impact that bilateral surveillance has on the foreign aid allocation by state donors.

Foreign aid donors have a complex decision-making process before the aid allocation to a certain country. The reasons for aid allocation differ based on the aim of the aid. Certain states aim to support its former colonies, others prefer to extend or maintain the geopolitical influence and support the overseas partners. More economically incentivized donors decide to allocate aid based on their economic partnership and trading specifications. Despite all the existing materialistic or profit-seeking motives, most of the donors to address the issues of development by supporting developing or the least-developed countries.

However, the main conclusion is that the decision is based on complex calculations and it is never one clear reason. Therefore, my research focuses to what extent the IMF bilateral surveillance mechanism matters in the process of aid allocation because it has a wide scope of economic condition coverage, the political stability and institutional capacity of the state along with the external partnership and debt management.

All these factors make IMF bilateral surveillance significant because of its expertise which is widely available. Any state might request for expertise on a certain state or apply to undertake the assessment to make the IMF expert opinion available to any other countries, in my research case it is foreign aid donor countries.

Case-studies showed that IMF often itself is in need of this expertise to use it as a tool to address the economic issues of certain countries and urge for external assistance inflow or debt relief. For those cases, the IMF goes beyond its usual mandate and Staff informs the Board and public through the media coverage and document publications. The increase in external assistance might contribute to a successful implementation of the policies, therefore, IMF experts itself are interested in attracting the aid inflow and avoid any economic crisis in state or region.

Most of the literature suggests that the IMF is very careful in shaping its message to the member-state community. Broome (2008) argues that the IMF thinks of its reputation because its reputation can serve as a credible signal of positive policy assessment of developing states. In case if the state wants to attract the attention of the external partners to its new policies and strategies IMF has a reputation of a credible multilateral actor which is the platform to send a credible signal. Brown (1992) argues that IMF has the power to impact the borrower's relations with its Paris Club creditors and mainly encourage creditors to be more loyal to the certain borrower and allow the debt relief or management of arrear payments.

Therefore, the message that IMF sends to external donors and creditors is valuable in maintaining its own credibility and the state's success in attracting the external aid assistance. The signaling effect of the IMF tends to have a catalytic power. The assessment of two main factors is significant in the IMF bilateral surveillance 1. The state commitment to the compliance with IMF conditionalities and following policy recommendations and 2. The state's creditworthiness and capacity to manage the existing debts and arrears. These two factors lay the foundation for signaling effect by IMF staff which is at first send to Board by informing about the results of the assessment and second the Board's readiness to support the assessment results and make statements on behalf of the IMF Executive Board through Public Investment notices, participation in Donor Conferences and Meetings or make press-releases with a general overview of current economic conditions and needed external assistance, which is not always mean foreign aid, but also debt relief, cooperation with Paris and London Club creditors and creating a new repayment plan.

It is worth noting that IMF SMPs are unique in terms of providing official consent to the Staff members to publish the document. Not all the rounds of IMF assessments are available to the public, however, ones that are available have been used in this research. The bilateral

assessment of Comoros, Congo, and Sudan based on the case-studies show the importance of sending the signal to a donor country in order to attract more aid to the country.

Comorian Government case is significant because IMF decided to make a statement during the conference organized by EU members to support the state's current economic policies and future plans, this helped to increase the overall aid inflow to the state.

The case of Congo shows how the government received the recommendation to solve current macroeconomic issues by involving the IMF experts and conduct the SMP assessment. The five consecutive assessment led to the increase in the foreign aid inflow in the following years after the SMP was released. Congolese case also shows the variation in the assessment, which indicates the importance of the "signaling" effect to international community mainly in two factors of creditworthiness and commitment.

Sudanese case shows not only the overall impact of the SMP assessment but how the donor behavior changes when the assisting donor's types vary. The variation in the donor type was not followed in each case, due to the limited information regarding the non-DAC donor aid allocation amount on annual basis. However, such information was available on Sudan which allowed to draw certain conclusion based on this particular case-study. The case of the DAC and non-DAC donor behavior variation shows that IMF bilateral assessment to larger extent impacts the DAC donors, where the multilateral institution and "traditional" type of donors prefer to allocate concessional loans unlike the "new" or non-DAC donors as China which prefers to use the aid as a soft power tool and allocate non-concessional loans.

This finding identifies the need for further research in this context because the variation in donor behavior within the DAC and non-DAC donor as a result of the multilateral institutions action, in this case, IMF is not widely covered in the literature.

The research shows that it is not only enough to be committed to comply with existing donor conditionalities, but also send the credible signals of lack of external assistance to the donor

community. When such a large organization as IMF supports the creditworthiness of certain state in front of its Executive Board, Creditors and Donor community it leads to the overall increase of the aid to the state.

Reference:

1. Abbott, Kenneth W. and Duncan Snidal. 2000. "Hard and soft law in international governance." *International Organization* 54 (3): 421-456.
2. Bal-Gunduz, Yasemin. 2014. "Do IMF-Supported Programs Catalyze Donor Assistance to Low-Income Countries?" *IMF Working Papers* 14(202): 1.
3. Banerji, Angana, and Andrew Martinez. 2012. "IMF Bilateral Surveillance on Reserves." *IEO Background Paper Independent Evaluation Office of the International Monetary Fund* 12(2): 55.
4. Bickenbach, Frank, Asithandile Mbelu, and Peter Nunnenkamp. 2019. "Is Foreign Aid Concentrated Increasingly on Needy and Deserving Recipient Countries? An Analysis of Theil Indices, 1995–2015." *World Development* 115: 1–16.
5. Binder, Michael, and Marcel Bluhm. 2017. "On the Conditional Effects of IMF Program Participation on Output Growth." *Journal of Macroeconomics* 51: 192–214.
6. Birchler, Kassandra, Sophia Limpach, and Katharina Michaelowa. 2016. "Aid Modalities Matter: The Impact of Different World Bank and IMF Programs on Democratization in Developing Countries." *International Studies Quarterly* 60(3): 427–39.
7. Bird, Graham, and Dane Rowlands. 2010. "The Episodic and Unpredictable Nature of IMF Lending: An Empirical Analysis: THE NATURE OF IMF LENDING." *The World Economy* 33(10): 1280–1301.
8. Boards of Directors of the African Development Bank and the African Development Fund. 2005. "Annual Report 2004". African Development Bank Group

9. Brautigam, Deborah. 2011. *Chinese Development Aid in Africa: What, Where, Why, and How Much?*
10. Breen, Michael. 2012. "IMF Surveillance of Ireland during the Celtic Tiger." *Irish Political Studies* 27(3): 431–39.
11. Broome, André. 2008. "The Importance of Being Earnest: The IMF as a Reputational Intermediary." *New Political Economy* 13(2): 125–51.
12. Broome, André, and Leonard Seabrooke. 2007. "Seeing like the IMF: Institutional Change in Small Open Economies." *Review of International Political Economy* 14(4): 576–601.
13. Brown, Richard P. C. 1992. "The IMF and Paris Club Debt Rescheduling: A Conflicting Role?" *Journal of International Development* 4(3): 291–313.
14. Buira, Ariel. 2012. "An Analysis of IMF Conditionality." In *Challenges to the World Bank and IMF*, ed. Ariel Buira. London: Anthem Press, 55–90. https://www.cambridge.org/core/product/identifier/CBO9780857288202A010/type/book_part (November 10, 2018).
15. Chapman, Terrence, Songying Fang, Xin Li, and Randall W. Stone. 2017. "Mixed Signals: IMF Lending and Capital Markets." *British Journal of Political Science* 47(02): 329–49.
16. Cho, Hye Jee. 2014. "Impact of IMF Programs on Perceived Creditworthiness of Emerging Market Countries: Is There a 'Nixon-Goes-to-China' Effect?" *International Studies Quarterly* 58(2): 308–21.
17. Copelovitch, Mark S. 2010. "Master or servant? Common agency and the political economy of IMF lending." *International Studies Quarterly* 54(1): 49–77.

18. Cortell, A.P. and S. Peterson. 2006. "Dutiful Agents, Rogue Actors, or Both? Stang, Voting Rules and Slack in the WHO and WTO," in "Delegation and Agency in International Organizations," Cambridge University Press.
19. Demiroglu, Tulin, and Murat Karagoz. 2016. "IMF Stabilization Programs and Their Effects on the World Economic Crises." *Procedia Economics and Finance* 38: 396–407.
20. Dudley, Leonard, and Claude Montmarquette. 1976. "A Model of the Supply of Bilateral Foreign Aid." *The American Economic Review* 66(1): 132–42.
21. Edwards, Martin S., and Stephanie Senger. 2015. "Listening to Advice: Assessing the External Impact of IMF Article IV Consultations of the United States, 2010-2011." *International Studies Perspectives* 16(3): 312–26.
22. Eichengreen, Barry, and Ngaire Woods. 2016. "The IMF's Unmet Challenges." *Journal of Economic Perspectives* 30(1): 29–52.
23. Fuchs, Andreas, and Krishna Chaitanya Vadlamannati. 2012. "The Needy Donor: An Empirical Analysis of India's Aid Motives." : 41.
24. Gola, Carlo, and Francesco Spadafora. 2009. "Financial Sector Surveillance and the IMF." *IMF Working Papers* 9(27): 75.
25. Goldsmith, Arthur A. 2001. "Foreign Aid and Statehood in Africa." *International Organization* 55(1): 123–48.
26. Gould, Erica R. 2003. "Money Talks: Supplementary Financiers and International Monetary Fund Conditionality." *International Organization* 57(03). http://www.journals.cambridge.org/abstract_S0020818303573039 (November 2, 2018).
27. Hernandez, Diego. 2017. "Are 'New' Donors Challenging World Bank Conditionality?" *World Development* 96: 529–49.
28. IMF. 2016. "IMF Glossary."

29. IMF Independent Evaluation Office. 2005. "Evaluation of Structural Conditionality in IMF." : 21.
30. ———. 2008. "THE IMF'S INTERACTIONS WITH ITS MEMBER COUNTRIES." IMF: 15.
31. International Monetary Fund, ed. 1999. External Evaluation of IMF Surveillance: Report. Washington, D.C: International Monetary Fund.
32. ———. 2015. "Islamic Republic of Afghanistan: Staff Monitored Program-Press Release; and Staff Report." IMF Staff Country Reports 15(140): 1.
33. Kim, Soyeun, and Simon Lightfoot. 2011. "Does 'DAC-Ability' Really Matter? The Emergence of Non-DAC Donors: Introduction to Policy Arena." *Journal of International Development* 23(5): 711–21.
34. Kishore, Adarsh, and Deepak Mohanty. 2008. "How Effective Will the IMF's New Surveillance Framework Be?" *Economic and Political Weekly* 43(18): 7.
35. Swiss, Liam. 2017. "Foreign aid allocation from a network perspective: The effect of global ties cite". *Social Science Research*: 63(111).
36. Lombardi, Domenico. 2005. "The IMF'S Role in Low-Income Countries: Issues and Challenges." IMF Working Papers 05(177): 1.
37. Lombardi, Domenico, and Ngaire Woods. 2007. "The Political Economy of IMF Surveillance." SSRN Electronic Journal. <http://www.ssrn.com/abstract=964917> (March 15, 2019).
38. ———. 2008. "The Politics of Influence: An Analysis of IMF Surveillance." *Review of International Political Economy* 15(5): 711–39.
39. Macdonald, Ryan, and John Hoddinott. 2004. "Determinants of Canadian Bilateral Aid Allocations: Humanitarian, Commercial or Political?" *Canadian Journal of Economics/Revue Canadienne d'Économie* 37(2): 294–312.

40. McDowell, Daniel. 2017. "Need for Speed: The Lending Responsiveness of the IMF." *The Review of International Organizations* 12(1): 39–73.
41. Momani, Bessma. 2004. "American Politicization of the International Monetary Fund." *Review of International Political Economy* 11(5): 880–904.
42. ———. 2006. "Assessing the Utility of, and Measuring Learning from, Canada's IMF Article IV Consultations." *Canadian Journal of Political Science/Revue canadienne de science politique* 39(02).
http://www.journals.cambridge.org/abstract_S0008423906060124 (November 20, 2018).
43. Mussa, Michael. 1997. "IMF Surveillance." *The American Economic Review* 87: 5.
44. ———. 2007. "IMF Surveillance over China's Exchange Rate Policy." *Peterson Institute for International Economics*: 131.
45. Mussa, Michael, and Miguel Savastano. 1999. "The IMF Approach to Economic Stabilization". IMF Working Paper WP 99(104).
46. Nelson, Stephen C. 2014. "Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions." *International Organization* 68(02): 297–328.
47. Nelson, Stephen C., and Geoffrey P. R. Wallace. 2017. "Are IMF Lending Programs Good or Bad for Democracy?" *The Review of International Organizations* 12(4): 523–58.
48. Neumayer, Eric. 2003. "The determinants of aid allocation by regional multilateral development banks and United Nations agencies." *International Studies Quarterly* 47 (1): 101-122.
49. Orastean, Ramona. 2014. "The IMF Lending Activity – A Survey." *Procedia Economics and Finance* 16: 410–16.

50. Park, Bokyeong, and Hongshik Lee. 2015. "Motivations for Bilateral Aid Allocation in Korea: Humanitarian, Commercial, or Diplomatic?" *Asian Economic Papers* 14(1): 180–97.
51. Policy Development and Review Department. 2003a. "Signaling Assessments of Members' Policies.Pdf."
52. ———. 2003b. "Strengthening Surveillance - Further Considerations." IMF.
53. ———. 2004. "Signaling by the Fund—A Historical Review."
54. ———. 2005. "Policy Support and Signaling in Low-Income Countries." IMF: 36.
55. Public Information Notice: IMF Concludes 2003 Article IV Consultation with Sudan https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn03145#P28_342
56. Public Information Notice: IMF Concludes 2003 Article IV Consultation with the Republic of Congo <https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0381>
57. Public Information Notice: IMF Concludes 2004 Article IV Consultation with the Republic of Congo <https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0472>
58. Public Information Notice: IMF Executive Board Concludes 2005 Article IV Consultation with Sudan <https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0567>
59. Public Information Notice: IMF Executive Board Concludes 2006 Article IV Consultation with Sudan <https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0657>
60. Public Information Notice: IMF Executive Board Concludes 2006 Article IV Consultation with The Union of the Comoros.

61. Public Information Notice: IMF Executive Board Concludes 2007 Article IV Consultation with Sudan
<https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn07121>
62. Public Information Notice: IMF Executive Board Concludes 2008 Article IV Consultation with Sudan
<https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0901>
63. Reinhart, Carmen M., and Christoph Trebesch. 2016. "The International Monetary Fund: 70 Years of Reinvention." *Journal of Economic Perspectives* 30(1): 3–28.
64. Roodman, David. 2015. "On Measuring Loan Concessionalities in Official Development Assistance." *Oxford Review of Economic Policy* 31(3–4): 396–419.
65. Steinwand, Martin C., and Randall W. Stone. 2008. "The International Monetary Fund: A Review of the Recent Evidence." *The Review of International Organizations* 3(2): 123–49.
66. Stubbs, Thomas H., Alexander E. Kentikelenis, and Lawrence P. King. 2016. "Catalyzing Aid? The IMF and Donor Behavior in Aid Allocation." *World Development* 78: 511–28.
67. Thacker, Strom C. 1999. "The High Politics of IMF Lending." *WORLD POLITICS* 52: 38–75.
68. Trumbull, William N., and Howard J. Wall. 1994. "Estimating Aid-Allocation Criteria with Panel Data." *The Economic Journal* 104(425): 876.
69. Vreeland, James Raymond. 2003. "Why Do Governments and the IMF Enter into Agreements? Statistically Selected Cases." *International Political Science Review* 24(3): 321–43.
70. Wade, Robert H., and Jakob Vestergaard. 2015. "Why Is the IMF at an Impasse, and What Can Be Done about It?" *Global Policy* 6(3): 290–96.