IN NEW REPORTS, IMF WATCHDOG PINPOINTS POLICY MISSTEPS

What went wrong in Argentina?

During the final days of 2001, despite exceptional support from the IMF, Argentina's economy imploded: the government defaulted on its debt and abandoned the peso's parity with the U.S. dollar, which it had maintained since 1991.

For much of the 1990s, Argentina had been promoted as a success story, including by the IMF. What went wrong and what lessons can the IMF learn? This is the topic of a recent report by the Independent Evaluation Office (IEO). Needless to say, primary responsibility for policy choices lies with country authorities, and the crisis essentially resulted from the failure of Argentine policymakers to take corrective measures early enough. However, the report argues that the IMF erred by supporting for too long policies that were unable to keep the exchange rate peg viable.


Argentines protesting the freezing of their savings storm a bank entrance, 2002.

The report says that, before the crisis, IMF surveillance focused on the right issues but underestimated the buildup of dollar-denominated public debt and the implications of stalled tax and labor market reforms. In 2001, the IMF committed resources totaling $22 billion, and this support, combined with strong policy adjustments, initially had some chance of turning the situation around. Subsequent disbursements, however, supported policies that were fundamentally inadequate to resolve the crisis. Political obstacles in Argentina proved formidable, but neither did the IMF use its program relationship effectively. An earlier shift in the IMF's strategy would have mitigated some of the inevitable costs of exit. This did not occur because contingency planning and risk analysis were inadequate.

What can be done to prevent another Argentina? One recommendation is that the IMF adopt a contingency strategy from the outset of a crisis, including "stop loss rules"—criteria that would help the IMF determine if the initial strategy was working and if the approach, at some point, needed changing. Another is that the IMF's Executive Board play a stronger, more informed role in decision making. For this to happen, IMF member countries—especially the ones with the largest quotas and votes—need to uphold the role of the Board as the prime locus of decision making.

Poverty program falling short

In 1999, the IMF and the World Bank adopted a new approach to their work with low-income countries to encourage greater country ownership of policies, sharpen the focus on poverty reduction, and improve collaboration between the IMF and the Bank and among all development partners. To do this, new instruments were created: Poverty Reduction Strategy Papers (PRSPs), written by the countries concerned; the IMF's Poverty Reduction and Growth Facility (PRGF), which replaced its Enhanced Structural Adjustment Facility (ESAF) for concessional lending; and the World Bank lending instrument: Poverty Reduction Support Credits.

How has the new approach fared? A recent report by the Independent Evaluation Office (IEO) analyzes the experiences of countries with PRSPs completed by end-2002, with in-depth studies of Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam. It concludes that, while PRSPs have significant potential, they have not provided enough of a strategic road map for policymaking. Thus, achievements to date have fallen short of expectations. As for PRGF-supported programs, there have been changes in the right direction, but programs are still a long way from being fully embedded in a country-owned growth and poverty reduction strategy. Among other changes, the IEO calls for greater flexibility in the way PRSPs are formulated to accommodate the diversity of country political and administrative systems and constraints.

For more, see *www.imf.org/ieo.*

30 YEARS AGO IN *F&D*

"At least through the 1950s, and possibly longer, the key decisions bearing on international economic relations were made by a relatively few countries. During much of the last decade, such decisions were the result of conferences among the ten major industrial powers. As time has gone on, developing countries, too, have become full participants in the decision-making process and increasingly greater attention is being paid to the consequences for them of all international economic relations."

Margaret G. de Vries
IMF Historian, 1973–87, quoted in *F&D*, September 1974

EVENTS IN 2004

September 20, New York
Action Against Hunger and Poverty—World Leaders Meeting

October 2–3, Washington, D.C.
IMF–World Bank Annual Meetings

November 4–5, Washington, D.C.
IMF Annual Research Conference

November 18, New York
Launch of the 2005 UN Year of Microfinance

November 20–21, Santiago, Chile
Asia-Pacific Economic Cooperation Economic Summit

December 5–7, New Delhi, India
World Economic Forum, India Economic Summit