IN NEW REPORTS, IMF WATCHDOG PINPOINTS POLICY MISSTEPS

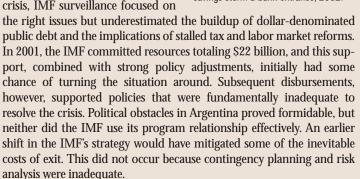
What went wrong in Argentina?

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 $% \mathcal{A}$

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.

The report says that, before the crisis, IMF surveillance focused on



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.

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



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

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 countryowned 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.

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