

The World Bank and the International Monetary Fund
in the recent argentine crisis.
Better together or separated?*

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Introduction

After the Southeast Asian financial crisis and the deceived intervention of the International Monetary Fund (IMF) in order to solve the problems of the affected countries, the critics raised up to the point that both orthodox and unorthodox sectors of the financial, political and academic international communities agreed to point out that the policies suggested by this organization not only have not contributed to solve the crisis, but they had also increased the negative effects on the already affected economies and societies. These critics were part of a wider context of discussion which was regarding the necessity of improving the international financial architecture with the aim of stopping deeper financial disorders at a global scale.

In addition, the World Bank (WB) was also a target for critics toward its performance during the last decade, period in which the worldwide social inequities have become evident, particularly in developing countries.

On the other hand, President G. W. Bush's election would make this country largely modify its international financial policy, focusing on the reduction of financial rescues and promoting that the investors assume the chances they had taken at the moment of making the loans. This would be reflected, among other things, in the search of a general redefinition of the IMF and WB's roles, in order to avoid overlapping in their functions and to improve the "efficiency" in their performance.

This global context determined that when Argentina got into the crisis of 2001/2002, the organization that had the main role in the financial global system to support financially the country, the IMF along with the BW, were going through a restructuring process modifying both the limits of their functions as well as the instruments used for achieving those goals.

* Paper presented at the Workshop on the World Bank held at the Lee Kuan Yew School of Public Policy, National University of Singapore, September 18, 2006. I would like to thank the valuable comments made by Mariela Bembi, Julio Fabris, Martín Schorr and Diana Tussie in a preliminary version of this paper. Naturally, I am the one responsible for the existing mistakes or omissions in this work.

-- *Work in progress. Please do not quote without the author's permission. Comments are welcome --*

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The central countries grouped in the G7 declared themselves dispensable when the crisis arose and they would delegate the principal responsibility of solving Argentina's crisis on Argentina's own decisions as well as the IMF's ones. First of all, because at the beginning of crisis, it had small impact in the financial markets owing to the small size of the financial market within the country, in addition to the fact that this crisis had been predicted by the main economic agents. And, secondly, because of the low importance of Argentina in a strategic level for the USA whose attention after the 9/11 had turned toward the Middle East region, and central countries.

Thus, Argentina was to find and confront a solution for its economic, social and political deep crisis practically on its own.

In this sense, the aim of this paper is to analyze the performance of the IMF and the WB during the Argentine crisis of 2001/2002, in order to understand what has motivated the passive attitude of these two organizations in front of the dramatic situation that the country was going through and the consequences of their performance.

Moreover, preliminary studies about the analysis of both particular and general factors are presented which might allow to explain the different performances of the WB, IMF and the IADB during the rise and the following period of the Argentine crisis. To do so, a comparative analysis of the different financial trajectories of these three institutions with Argentina and in general is incorporated.

The turnaround of financial policy of the USA¹

With the victory of the Republican Party candidate George W. Bush in the presidential elections, the neoconservative sectors of the USA came to control the key places in the American state apparatus, which made them win interference in the definition of economic policies and give them a new orientation.

These sectors were against the policy developed by the IMF during the 90's that was supported by President B. Clinton, which consisted of giving financial rescue packages to those countries that might have been going through financial crisis, as Mexico, Southeast Asian countries, Russia and Brazil. So, they argued that that policy had fomented not only the irresponsible indebtedness of the countries, but also the bad credit policies of the creditors who lent money according to a high rates offered by the country without taking into account that it was a reflection of the high risk of recuperation of those loans. The IMF contributed to

¹ For better understanding, Burín (2006)

this behavior since if the country went through a crisis that would not let it pay its debts, the organization would give it a loan that allow the payment, acting like a lender of last resort. This is known as the theory of “moral hazard”. In view of this situation, they alleged that if an investor had made the choice of investing in a high-risk bond trying to obtain a high yield, then he should take that risk.

These questionings toward the IMF’s performance during the financial crises in the 90’s were part of the new international financial architecture’s discussions. It was in this line of work the orientation of the reform proposal of the International Financial Institution Advisory Commission, condensed in the Meltzer Report (2000)². The diagnose and recommendations of this report would represent the most important legislative action in the international financial policy of the USA at the beginning of the new century. (Burín, 2006).

There it was suggested that the IMF should be reformed as a small institution with only three responsibilities: first of all, it should cut its functions out to become only a quasi-lender of last resort and give short terms and low amount loans with the aim of solving temporal imbalances in the balance of payment due to the liquidity crisis³. In the second place, it should collect and publish both economic and financial data of the country members and spread them in a uniform way in order to offer to the markets clear information. Lastly, it should provide recommendations about the economic policies to the members, as a part of its regular consultations mentioned in the IV Article.

The recommendations proposed by the Commission’s Report had the aim at “refocus” the organization missions toward its original goals. The IMF should play the role of a manager in financial crisis, but with restricted attributions and headed more to the prevention than in the solving of the crisis. It was claimed that in the crisis solving processes, the IMF was only supposed to provide a “better understanding” between the parts (the country and its creditors) through the provision of neat information and pieces of advice in order to contribute to a solution based on the market, given that *“If the IMF did not exist, the market would force a country in crisis to follow similar policies.”* (Meltzer Report, 2000: 19)

² Legislative and two sided commission from the US Congress, created to make recommendations to the Executive Power to reform the International Financial Institutions (IFI’s) –IMF, WB y Regional Development Banks. In March 2002 it presented its final report, called after the President of the Commission at that time, the economist, Allan Meltzer.

³ As it was mentioned before, in the cases of solvency crisis, the Commission understood that the credit granting would only obtain the putting off of the debt’s restructuring which was irreversible anyway. This made the process to be more *expensive* and *tedious*, for the country affected by the crisis as much as the international financial community. Moreover, the inform proposed that to get the access to the credits of the organism, the countries should previously obtain a kind of *prequalification* for them, through the meeting of “soundness” criteria in the macroeconomic and financial policy. This helped to shorten the time of the credit recovery as well as strengthen the crisis prevention mechanism.

In effect, part of the critics settled in the Report made reference to the fact that IMF programs contained an excessive quantity of conditionalities that had a low level of fulfilment. This turned out into a diminution of the programs' "efficiency", since they could not make the authorities carry out the agreed reforms, while the lack of the implementation of this conditionalities, would allow the national authorities to present a "victory" on the eyes of the voters regarding the organization's intervention in their countries.

In this sense, it was recommended that the IMF would reduce these conditionalities presented in the programs that were subscribed with the countries, and that they were replaced by *prior actions*. These *prior actions*, although they still were conditionalities, allow the organism have more control on the application of the economic programs of the country members since they allow to *previously* verify the authorization of the payments, if the authorities were engaged to the agreed reforms⁴.

This approach was supported by the idea of reducing the IMF's role of "comptroller" and let the markets be the ones that "discipline" the countries through the decisions of whether or not to invest in their own economies owing to the fact that the decrease in the IMF's functions would propitiate the initiative of the countries themselves to have a kind of "sovereign self-control" of the "solid" economic policies because they would not expect the loans of the organizations in a financial crisis. Moreover, the financial investors would have to control better the destiny of their investments given that the IMF would not play the part of a lender of last resort.

Thus, the trust relationship that characterized the bond between the IMF and the country members got inverted. In effect, even if the IMF gave the benefit of the doubt to the countries at the moment of arranging the programs over goals that were not sure of achieving and then negotiate at the revision time the giving or not of a waiver in case they have not accomplish the goals, now the countries should previously show (at the beginning of the negotiation) their commitment to carry out reforms and to make decisions on economic policy, so they can gain the trust of the organization in order to make it subscribe the program.

This is the how is modified the way through which the organism intervenes in the economic policies' decisions of the country members is modified, due to the fact that from "sanction" or not meeting the conditionalities ex post of a program's adscription, it turns to claim ex ante

⁴ "Particularly, in cases where a country has serious economic distortions and/or a poor track record of implementation under past Fund programs, the IMF may require 'prior actions' before disbursements are made. These 'prior actions' are intended to be a signal from the program country of its commitment to honor the measures in the program. [...] The United States strongly backs the use of prior actions as a generalized feature in IMF program design." (US Department of Treasury, 2001: 28)

the negotiation the fulfilment of the “necessary” conditions to take ahead a sustainable program. In short, these conditions turned from being a part of the program into previous requirement to be fulfilled so they can be subscribed to an agreement.⁵

The critics also reached the WB as well as the development regional banks. In this sense, Meltzer Report proposed that they should modify their role, from intensive capital loaners to technical assistants, regional and public goods providers and agents that would facilitate the cash flow of private capitals to development areas, aiming at a decrease in poverty.

They should concentrate on stimulating the developing countries to attract private sector investors, the true economic growth engine, and to make sure that its use were transparent.

Its assistance should be limited to poor countries with no access to the financial market. That is why the loans to countries which had capital access or of average income should progressively finish. In Addition, they would be free of loaning money in a crisis because if the countries were in the middle of solvency problems, they should restructure their debt and if they had liquidity problems, it was the IMF the one that should be responsible for.

Finally, the loans for poor countries’ structural reforms ought to be conditioned to the fulfilment and implementation of these reforms, seeking for similar guarantees of those that the IMF looked for through the use or prior actions, as their programs also have registered a low level of “efficiency” and were not very transparent.

Conditionality and Ownership

The critics made toward the credit organisms about their programs’ low “efficiency” as well as the overlapping in their functions determined that both the WB⁶ and the IMF initiated a revision of their mandates, responsibilities and the instruments they have used.

In this sense, during this period, the IMF carried out a revision about its guidelines on conditionality, which established the framework for the application of conditionalities in member countries’ programs, in addition to the elaboration of a exceptional access framework⁷ to the financial resources of the organism, in order to provide a scheme which

⁵ In this sense, Allan Meltzer argued that “*Argentina’s main problem for decades has been a political system that cannot maintain credible, pro-growth, non-inflationary policies. It has not kept promises to the IMF and other international lenders. [...] The IMF cannot solve Argentina’s problems. Success requires political support within the country.*” (2003: 30)

⁶ With reference to this point, it can be consulted: Development Committee (2000), (2001), World Bank (2001)

⁷ It is considered exceptional access to the resources of the organism, any demand of financing made by any of the country members that surpasses the “normal” access limits, the 100% of its quota in a year, or the 300% of its accumulated quota. Four criteria were suggested that should be fulfilled to justify the exceptional access of the members that face a crisis of the capital account: a) Payment balance deficit b) Sustainable debt c) Re access perspectives to the private financing and d) An adjustment program with real perspectives. However, the Executive Board claimed that it should be reserved the possibility to call, in cases where the requirements were

would contain the limits in the financial expectations of the members that were going through a crisis.

The new guidelines on conditionality, focused their aim on three main areas: simplifying conditionality, increase recipient-country ownership and strengthen IMF-WB relations.

The conditionality load in IMF agreements should only be applied to those policy areas deemed to be critical to achieving the goals of Fund-supported programs. This means fiscal, financial, and exchange rate policies, and in some cases privatisations, governance, and public sector reform. Those conditionalities that were out of these mentioned, should be left aside.

With these actions, it was sought to increase the consistency of the programs so they can offer a precise framework for the implementation of the agreed reforms between the country and the organism, only defining the fundamental goals that were the guidelines and giving more flexibility to the countries for its implementation.

Conditionalities should be used to strengthen instead of weaken the countries' ownership of the programs. In this sense, if countries felt more identified with the future implementation reforms, better results would be achieved because they would be more committed toward the reforms owing to the fact that the countries might not perceived it as an imposition from the financial organism which may have attempted against their sovereignty.

This was complemented with the idea of the IMF and the WB working together but with clear limits. For that matter, they should based on the *lead agency* principle, through which each organism ought to concentrate on their speciality areas –where they had the primary responsibility- at a negotiation with a country.

The mandates and responsibilities of both institutions had been defined in the Concordat of 1989 and summarized in the joint statement of 2000. There, it was specified that the IMF mandate is to promote the international financial stability as well as the macroeconomic stability of the member countries. To make this happen the organism should concentrate on its primary responsibilities which are: monetary, financial and exchange rate policies along with institutional aspects and those structural associated.

Moreover, the IMF has maintained the central responsibility of coordinating the assistance and a program with a country in a financial crisis, but in a strong collaboration with the WB and with developing regional banks that should participate in the design of the comprehensive program.

not fulfilled, the *exceptionality clause* in order to be able to provide financing in the circumstances that requires so. Thus, the frame that pretended to regulate the exceptional access to the organism's resources, could be avoided when appealing the exceptionality. Once more, discretion was imposed over rules.

On the other hand, the main mandate of the WB consist of helping the countries to reduce the poverty, aiming at institutional, structural and social dimensions of development, complementing the IMF macroeconomic approach.

But, although in operative terms each institution have primary responsibility on differentiated aspects of the programs in order to avoid overlapping, both have to orientate their actions toward the same shared achievement *“helping to improve the quality of life and reduce poverty through sustainable and equitable growth”* (Köhler and Wolfensohn, 2000)

In this sense, both organizations should work together since the process of reducing the poverty and the sustainable growth are of a multidimensional nature and no one on its own could respond to the challenges that this process raised.

Furthermore, this delimitation of responsibilities under the same shared aim should be complemented with, as we have said, the idea of having more flexible agreements in order to make the countries more committed to the programs they would carry through. This proposal came from the diagnose of the non “efficient” programs, meaning that the conditions had a low level of fulfilment, given that the organisms imposed a unique prescription on the counties while they have taken advantage of the situation demanding a huge amount of reforms when the countries were going through critic contexts which leded them to accept anything so they could get the fund release. But once reached the economic stability, the conditions imposed by the programs were left aside because they entailed a high political cost for the authorities (Buirra, 2003)

Therefore, this issue was supposed to be changed. Now, the countries would have the responsibility of designing the programs and the organisms would only participate at the beginning through technical assistance keeping the least “interference” with the authorities. This implies that the IMF as the WB should adopt a more flexible approach in order to allow the countries carry out different strategies in their programs according to the existing context, with the possibility of a country agreeing with only one of the organisms and not with the other⁸.

To sum up, the revision sought on the one hand, to respect the ownership with detriment to the intrusive conditionality and, on the other hand, to propose an approach for the relationship between the organisms and the countries based on taking each case as a particular one, considering the circumstances and the contexts in each one.

⁸ *“...there is a need for flexibility and customization of collaborative arrangements to the circumstances of individual countries. [...] The Fund might be engaged in countries where the Bank has no dialogue or recent work, and the Bank might have lending operations where there is no Fund program. Any framework developed for staff cooperation must allow for different approaches in different countries”* (IMF and World Bank, 2001: 5)

Prior actions and less financing: a new paradigm

Even though the revision of such a problematic issue as conditionality is an interesting exercise, the new guidelines suggest that the organism did not achieve mayor improvements regarding the flexibilisation in the approach of the different proposals of the country members. In reference to this, Meller (1989) pointed out a double paradox wondering why the countries do not apply by *motu proprio* the so recommended policies and need to be pressured to do it if those are such beneficial for the ones that put them into action. Moreover, if the programs were that good, he wonders why is it that the countries that apply the policies do not pay for them instead of getting a price in return –the access to financing.

In this sense, we agree with the author when he argued that without a doubt there is something that makes it unattractive for those countries that need external financing, which takes them to opt for other credit alternatives if they had the chance.

Even when the IMF declare the importance of the conditionalities to maintain the revolving nature of its resources, it is perfectly clear that the reach of the structural conditions it has raised for the last years, have largely exceeded this precaution. Besides, as Buria argues (2003), while is true that fulfilment rate of the conditionalities is very low, the countries have paid in proper time with the IMF repayments, and therefore, this argument as a justification of their used becomes doubtful.

Now, if the idea is to strengthen the programs ownership, as the success probabilities grow if the authorities and the society support the basic premises, we can wonder about the ultimate goal that would have the IMF, beyond the application of certain basic criteria for guaranteeing the resource recovery, to continue using the conditionalities.

There are no questions for the organism “*Conditionality is one element in a broad strategy for helping members strengthen their economic and financial policies. [...] the Fund encourages members to adopt **sound** economic and financial policies as a precaution against the emergence of balance of payments difficulties, or to take **corrective** measures at an early stage of the development of difficulties*”. (IMF, 2002a: 1, emphasis added).

The conditionality founds its basis on helping the countries to strengthen their economic and financial policies, but how? Through recommending them to adopt “sound” policies or carry out “corrective” actions from the unbalances. In this point we can not help wondering how to define or what do sound policies or corrective actions consist of. In other words: sound or corrective in connection with what?

The answer to these questions is provided for the organism itself when it gives the requirements that the countries should fulfill when they ask for financing. In this sense, it

affirms that “*A member’s request to use Fund resources will be approved only if the Fund is satisfied that the member’s program is consistent with the Fund’s provisions and policies and that it will be carried out...*” (IMF, 2002a: 2, emphasis added)

So, supposing that the countries could actually design their own programs without any intervention of the organism, they should be measured with the IMF’s measuring stick and be adjusted to the soundness criteria and the economic path proposed by the organism.

In this sense, the conditionalities operate like mechanisms through which they can orientate the direction of the countries’ economic programs, and legitimate the soundness of the policies, through the approval or not of the programs’ revision, or the granting of the waivers when the goals are not fulfilled. Then, they are “*means by which a party offers support and attempts to influence the policies of another in order to secure compliance with a program of measures; a tool by which a country is made to adopt specific policies or to undertake certain reforms that it would not have undertaken, in exchange for support [...] Within broad limits, conditionality is a relation of power*” (Buirá, 2003: 3-5)

As organism’s *content* and *orientation* of macroeconomic policy are not put into question, even when the number of conditionalities by program decreased, the policies announced by the organism will stay still, beyond their visible faults in promoting the growth and in reducing poverty in the member countries (Collingwood, 2003)

Well, as we showed above, the recommendations held by US neoconservative sectors also looked for the redefinition of the credit organisms’ functions and areas of work in order to avoid overlapping, aiming at the prevention of doubling the tasks as well as the ineffective used of the resources. The main idea was that each organism should refocus its activities within the areas of its expertise and knowledge and to delegate to other institutions those that it is not capable of doing.

In this sense, the WB should keep its mandate of struggling against poverty, but modifying the way through which it used to reach that goal. It was supposed to reduce its role as lender and focus on giving technical assistance in addition to promote the private capital flow toward the regions where financing was more needed. Moreover, it should limit its assistance to poor countries without access to the financial market.

On the other hand, the IMF should focus on promoting the worldwide financial stability and in doing so, it should limit the functions to become a guardian that provide economic policy “pieces of advice” in order to make the developing countries carry out pro market policies. To what is more, it should limit its financial assistance to provide small liquidity credits of very short term so it could stop giving long term credits to poor countries.

The proposed reforms for both organisms are based on the assumption that they should reduce their involvement and participation so the market could be the principal actor in the development process, since it was the institution that would make the most efficient assignation of the resources.

Therefore, they recommended reducing the conditionalities and letting that the own reality raised by the financial markets delimited the possible realm of economic policy for the developing countries so they could make the necessary reforms. In effect, it was proposed to go from the discipline imposed by the financial organisms to the self-disciplined countries so they can “attract” private capital flows – the new main source of resources for the developing countries-, through the guarantee of carrying out “sound” and “corrective” policies for these economic sectors in particular.

In this sense, with the idea of prequalification of the countries toward the organism’s assistance and toward the reception of capitals from the private investors, the reduction in the conditionalities included in the programs, as revisions *ex post*, would be replaced by an increase in the prior actions that the countries should take previously ahead in order to be “elected” and have access to financing.

Therefore, the prior actions as *ex ante* conditions are shown as the appropriated instruments for this new face, since they allow the organisms to act as guides for the countries presenting the “sound” and “corrective” policies path, while they give a reassurance regarding that the financing would only be made once the reforms are on course⁹. So, intervention becomes much subtle, given that in case that the countries did not fulfill the requirements, they would be responsible for not carry out the “necessary” policies.

In short, financing become a price to those who carry out the necessary “corrective” measures in order to have access to it. Ironically, according to these reforms, the country that does not adopt the previously required conditions by the organisms and opt for keeping a real own program, it should do it outside of the possibilities that the multilateral programs offer.

As Killick argues:

“Part of the Fund’s rationale for prior actions is that they provide an opportunity to ‘demonstrate the authorities’ determination and political will to implement the program as formulated’ [...] The reasoning here is obscure. It seems to this writer that prior actions are a device for exerting the maximum available financial leverage on a borrowing government to undertake an action which there must be a presumption they would not

⁹ “...it was suggested that prior actions could be a helpful tool to test country ownership, especially in cases where past performance had been weak.” (IMF, 2001)

otherwise implement (otherwise it would not need to be a program condition). Nothing positive can be inferred from a Prior Action about the government's attitude towards the measure in question. A more common sense view sees a requirement for a prior action as the ultimate signal of distrust, an acknowledgement of differences between the preferences of the Fund and borrower. As such, it creates strong doubts about the extent of local ownership. These are IMF-owned measures *par excellence*. Furthermore, as a modality, because of its gun-at-the-head nature, it seems particularly likely to generate local resentment and not to fit in with local political decision-making.” (2002: 12-13)

A new approach in the Argentine's crisis management

First Act: The IMF

Once George W. Bush was elected, US financial policy progressively started to orientate itself according to the established guidelines in the Meltzer Report. The turnaround had consequences on the international credit organisms since these guidelines intended to refocus their roles modifying the ones already performed, as well as the instruments used for this. During the 2001 the IMF and WB's policies progressively started to head toward the new American financial approach.¹⁰

In the first place, at the beginning of that year, the country received a financial rescue package known as “blindaje”, which included payments from the multilateral credit organisms, the Spanish government and other inversion engagements from the private sector rising up to US\$ 40.000 millions. Although the USA had begun to raise critics about the financial rescue packages of the international financial organisms, when the Board of Directors had to decide whether to approve or not the loan, that country was convulsed with legal dispute of the presidential elections of George W. Bush and Al Gore regarding the counting of the votes and there were no space to propose such “radical” ideas as to leave the Argentine's convertibility fall down at that moment, specially for the fear of a contagion spread toward other neighbour countries (Blustein, 2005)

Secondly, in August of the same year, the IMF approved the fourth revision of the current agreement, in which there were a raise in the credit line of US\$ 8.000 millions. It included, asked for the Treasury Secretary Paul O'Neill, US\$ 3.000 millions that was to be used in the future for a restructuring of the Argentine external debt operation, stating that the USA would not support further financial rescue operations (Blustein, 2005)

¹⁰ For better understanding, Bembi and Nemiña (2005)

Lastly, at the end of 2001, the organisms refused to approve the revision of the agreement and did not make a US\$ 1.260 millions disbursement, which determined the fall of the convertibility as the only available source to go to ask for a payment shut down.

After the renounce of president De la Rúa and the short interim of Rodríguez Saa, the peronist Eduardo Duhalde assumed the presidency, and one of the first definitions regarding the strategy to get out of the crisis is to try a subscription for new economic program with the IMF aiming at obtaining financing.

According to the new strategy chosen by the new government, a way out without any financial or political support from abroad was impossible, so the organism appeared to be the only available source for that. In economic terms, a program with the IMF would make it possible to receive payments to reactivate the economy, to recompose the Central Bank reserves, to recapitalize banks and to help the provinces. Besides, it would make it possible to receive payments from the WB and the IADB since they can not approve any “adjust” lend to countries that do not have the previous approval of economic programs coming from the IMF. On the other hand, it was important in political terms because a conflict with the IMF was the way to the worldwide isolation adding more instability to the markets¹¹ (Amadeo, 2003)

In effect, the expectations of the brand new administration turned around the fast adscription to an agreement with the organism that allow to receive payments as well as to make the economy stable. In this sense, they looked up to receive a package between 15 and 20 thousand millions dollars along with the refinancing of the organism’s repayments for a year in addition to disbursements from the WB and the IADB to finance social programs (idem: 86-87)

However, the international context at the moment was not really supporting the authorities optimism. Although Argentina was going through a critical moment that widely justified the financial assistance, with poverty and unemployment levels that reached unbelievable standards for our country’s history, the lack of strategic importance of Argentina, the US’s new financial policy on financial organisms and the fact that this crisis had been considered in the financial markets and therefore, the risk of this crisis to spread out toward other countries was under control, determined that the G7 countries did not supply any credit and established the “technical assistance” as the only help. Moreover, they agreed to delegate the

¹¹ In his politic memories of the negotiation of the agreement between the IMF and Argentina in 2002, the presidential spokesman at the time, Eduardo Amadeo affirms “*It was desirable to have at least a certain level of relationship with the IMF in the process that was being initiated [...]even if it only could be a frightening adversary[...] In this sense] a way out without any kind of external financial support seemed to be unattainable*” (Amadeo, 2003: 55, 72)

responsibility of the crisis manage to the IMF, but pointing out that the solution of the problems in Argentina should come from the own country.¹²

In one word, the IMF position during the financial crisis in Argentina would be based on a different approach to those of other crisis going along with the new proposed orientation of the US republican sectors.¹³

In effect, the organism stands that its role at that critical moment for the country consisted of helping through advising and technical assistance of the national authorities in order to make them design a sound and comprehensive program in economic policy. Once this program was designed and began to be implemented, then it would be the time to do the payment¹⁴.

It is remarkable one of the main arguments that the IMF affirmed in order to demand prior actions to Argentina before the subscription to the agreement. It consisted of the fact that the country did not fulfil previous arrangements committed to in past agreements and, therefore, the attitude taken by the organism would not be nothing more than a response to that “bad” argentine ‘s file regarding the fulfilment of the goals included in the agreements.

According to what it was just mentioned, there are two comments. First of all, the low level of fulfilment of the goals included in the agreements was not an issue that only involved Argentina, it also affected most of the subscribed programs by the members during the last two decades¹⁵. In this sense, Babb and Buirra (2005) assure that the expansion in the IMF ‘s mandate toward fields in which it had not got expertise –like the structural reforms in the 80’s- was accompanied by larger and more complex conditionalities in the programs. As these new conditions usually were not entirely fulfilled, it was determined management and the staff increased their power over the Executive Board on the grounds that it became crucial the

¹² *“The President [Bush] emphasised the necessity of the argentine government to develop a sustainable economic program and that it closely works with the IMF and others international financial institutions to do so”* (La Nación, 2001a)

¹³ Several factors contributed to the suspension of the IMF’s financing and later default declaration and the following fall of the “convertibility regime”. There are emphasized among others the size of the external debt in Argentina, incrementing weight of it on the national budget in an economy that were suffering the fourth year of recession. Moreover, it should not be forgotten that until August 2001, big companies and economic groups in Argentina, sent ashore the main part of their money, protecting themselves from a possible devaluation (Comisión Especial de la Cámara de Diputados 2001, 2005). Thus, when the financial markets and the International Financial Institutions stopped their financial support, the “big players” were no longer exposed and the major part of the affected from the virtual freezing of the bank deposits were small and medium savers.

¹⁴ *“The Fund will help with its policy advice and technical assistance as they begin to get a coherent program, and until they do that, there is no point in our talking about a Fund support program for them. But basically, as the time comes, of course, we can look at that too. But it is premature at this stage. [...]Until there is a fairly coherent program, one that gives promise to the medium run, I do not think that we can enter into negotiations.”* (Krueger, 2002)

¹⁵ In a study of the IMF- supported programs from 1973 through 1997, Mussa and Savastano (1999) corroborated what most of the previous works on the subject used to claim, that it was found in most of cases, governments could not meet the performance criteria.

giving of waivers to keep the continuity of the programs. This made that the access to the organism 's resources went from a predictable system based on rules to another strongly dependent on the discretionary ways of handle of the organism's employees.

Secondly, from 1994, Argentina had systematically failed to fulfil with the fiscal policy's goals, making it ask for constant waiver so it can avoid the fall of the agreements, which not only were given, but, at that time, Argentina was also presented as an "example" to be imitated by other countries.¹⁶ (Labaqui, 2003).

In this sense, it should be pointed out the influence of another factors besides the "pure technical" involved in the organism performance, which completely ruin the so called technical neutrality that are the bases for the IMF's recommendations and actions. This includes both the support that the IMF gave to Argentina during the 90's through payments and uncountable waivers as the hard prior actions that now were required to subscribe a new agreement.

Besides, the credits previously given by the organism to Argentina, Brazil and Turkey had raised the worry about the high credit exposition, given the high amount of unresolved lends, in addition to the high concentration of them in those countries that were going through deep economic crisis, put the IMF in a highly risk scenario due to the high impact in its finances might create a possible delay in the cancellation of the commitments with the organism. This made not to have much expectation with big financial payments.

Thus, if the Argentina wished to subscribe a program with the IMF and obtained financing, it should previously implement the needed reforms for a "sustainable program". So the new strategy of the organism of conditioning the financial disbursements to the implementation of prior actions by the countries is outlined on Argentina as the demand of developing an implement a comprehensive program.

At the same time that the IMF was reluctant to start negotiations for an agreement and give financial assistance when it was more needed, it raised that this was the way that should be followed, given that any other alternative would bring worse results for the country. The

¹⁶ It is recalled the invitation to the president at that time Carlos Menem to present a speech in 1998 IMF-WB Annual Meeting. That is the way how the former Chief of the Western Department Claudio Loser explains "In 1998, the IMF and specially its director, Michel Camdessus, was under hard attacks for the South East crisis. [...] And Argentina, on the contrary, was perceived as an example, at least in the international political and financial sectors: it was something that Camdessus could show as a success. The presence of Carlos Menem was absolutely for the media and it was decided among the highest levels of the Presidency, The Manager Director, the Executive Manager of Argentina. [...] The staff was not very happy, it was not even consulted about this, but it was a decision of the management and the decisions of the managements are not arguable. The one who were following closely the Argentina knew that there were economic problems (although still manageable) and that there were also a media speech being carried out by Menem. Probably, it was a flash trip of mutual utility." (quoted in Tenenbaum, 2004: 61-62)

recently designed Special Operations Director Anoop Singh did not left any doubt about it: *“It would be very difficult, and certainly much more burdensome on the domestic population, to attempt to resolve the present situation without the strong support of the international community. A program supported by the IMF is an essential condition to this end.”* (Singh 2002, emphasis added)

USA agreed with this policy through the statements of the Treasury’s Under Secretary John Taylor, who affirmed *“As President Bush has stated and Secretary O’Neill has reiterated, once Argentina has designed a sustainable economic program, we are prepared to support it through the international financial institutions”* (Taylor, 2002)

The same recommendations

While it is true that the organism changes the way through which it takes part in the local economic policy and demands from the country the *previous* implementation of reforms and then initiate the negotiations, the *content* of its conditions is similar to the one of the 90’s financial crisis only that now the country could not count on the expectation of a financial package and there could only be expected fresh funds after the beginning of the reforms’ implementation.

The organism demanded from the Argentina, that was *“in the midst of an unprecedented and tragic crisis”* which would determine that *“its GDP will have fallen by—over the past four years by roughly 20 percent, twice the fall during the Great Depression”*¹⁷, the implementation of an adjustment program and the liberalization of the macroeconomic variables as the type of change, to compensate the banks through a bond, to compulsively replace the savers bank deposits for a bond, to take ahead a program of low monetary emission in order to control the inflation and to hold the public cost so it could be available a primary surplus to destine it to future payments of the debt that needed to be restructured. In addition, it was also demanded that the program was implemented as a shock, stating a clear difference with the national authorities whose proposal was to go on step by step.

If the measures were to be implemented as the organism demanded, the consequences on the argentine society would have been devastating. That was the risk of an hyperinflation in case the type of change set off – meaning that the government did not take part in the money market and let the dollar cost *“whatever the markets decide”* just as what happened in 1989. In this sense, we might think that if the crisis in Argentina was twice as deep as the one in

¹⁷ Such a description was made by the Economic Counsellor and Director of the Research Department of the IMF at that time, Kenneth Rogoff, See Rogoff (2002)

USA in the 30's, the answer should have been a Keynesian policy of the demand expansion twice bigger. Instead, the organism required from the country a cyclical policy of fiscal adjustments and monetary restriction.

Principally, the need to have financing led the national government to implement several IMF's demands, specially to carry out an economic program which was neatly orthodox which included a low monetary emission policy, the control of the public cost so it could be obtained a fiscal surplus and a progressive granting of compensation to banks affected by the asymmetric *pesoisation*¹⁸

However, the IMF would raise new exigencies at the time the previous ones were been entirely or partially fulfilled with the evident aim of delaying the agreement's subscription and then the payment. It could be quoted, for instance, the derogation reclamation of the economic subversion law¹⁹ and the modifications of the bankruptcies law, the restructuring of public banks, an increase in the tariffs of the public services in privatized companies, a commitment toward the primary surplus of the budget of 2003, control engagements on the provincial public cost and a good faith negotiation with the creditors²⁰.

The attitude of delaying the subscription of the agreement finds an explanation in two points. In the first place, as we saw, it was the expression of the new financial policy that was been proposed by the USA toward the organism which stands that it should be demanded the implementation of prior actions to the program subscription. This was the way to reassure the authorities' commitment while it gave an extra assurance to both the organism resources as well as the program "effectiveness" since the agreement was subscribed only when the program was already initiated. Moreover, the fact that the countries made a strong adjustment on their own, allowed to reduce the size of the financing.

¹⁸ One of the main decision taken in an economic policy matter in the Duhalde's administration was to convert to pesos all the debts and bank deposits originally contracted in dollars, but in a non-symmetrical way. The bank credits were pesified one to one in relation to the dollar, so the one who owned US\$ 1.000 automatically turned to own the same amount but in local currency. Besides, the savers deposits were pesified to 1.4 pesos for each dollar originally deposited, plus an adjustment for the minor rate inflation.

¹⁹ It was about a law voted in the 70's, aiming at controlling the financing of political organizations in the context of controlling the armed struggle. However, it provided a platform to punish the performance of certain bankers at the end of the convertibility. The derogation claim settled by the organism responded to the demands of the associations of the financial sector that felt "threaten" by the existence of that law.

²⁰ As Argentina had a part of its debt in default, if the organism wanted to subscribe an agreement that included financing, it should be done under the *Lending Into Arrears* clause, which precisely allowed it to make disbursements to countries that were in arrears with its creditors. To be able to call that clause, the Fund should consider that the country was negotiating in *good faith* with its creditors. The lightness in the concept's definition would allow it to be as a *Trojan horse*, letting add new previous demands to the subscription to the program. Later, it would be a point through creditor's demands for a better offer in the debt restructuring would get in the organism.

On the other hand, the organism's reluctance to subscribe the agreement, even when the country did fulfilled with the previous conditions that were demanded, responded to internal issues of the organism, as we mentioned that the IMF was criticised for its insolvent handle of the financial crisis. In this sense, the crisis in Argentina presented a chance for the organism's authorities to show that the organism could still be useful and "effective" in its performance. In effect, the strategy of demanding the implementation of a previous sustainable comprehensive program as a condition to make an agreement would allow the organism to show that through its performance the international financial community was able to get solid commitments looking ahead of a reform implementation pro market in the developing countries²¹

This attitude would take the minister of the Department of the Interior, Matzkin, to graphically point out "*I have the impression that every time that we are going to sit down (and negotiated an agreement) they take the chair aside*" (La Nación, 2002a)

In reference to this, it is remarkable that precisely when the Argentina case stopped being "isolated" and had external repercussions, the developed countries demanded the IMF to desists from keep on asking prior actions and to subscribe an agreement with the country, in order to avoid a greater unbalanced. In effect, the argentine decision of not completing a reimbursement to the WB alleging the incapability of giving away the already reduced reserves, added to the fact that the crisis had impacted Brazil and Uruguay with the threaten of becoming a bigger problem, rushes the G7's governments to ask the IMF to subscribe an agreement with Argentina that provided assistance in order to avoid a mayor crisis. The solution was reached through a "transition" program of eight months only, with a financing "0 flow" –the IMF only reimbursed what was paid by Argentina- through which the country avoided to diminish its reserves while the IMF did not compromised new financial resources.

Thus, precisely when the crisis threatened to turn into an unbalancing factor in the worldwide economy, that could have *exceptional* consequences, the organism subscribe the agreement with the country.

²¹ Paradoxically the organism used Argentina twice as an "example". The first time, in 1998 when there were a storm of critics for its insolvent performance in the solving of the South East crisis, it was exposed as an "example" of the effectiveness of the recommendations at an economic policy level, and that the crisis in Asia was due to internal problems and corruption. Now, before the explosion of the crisis in Argentina, the tough demands toward the country made possible that, besides being a vehicle of the dominant sectors' demands, point Argentina as the responsible for its own crisis an, then, protecting the organisms of criticism for the co-responsibility of it.

Second Act: The World Bank and the IADB

Due to the seriousness of the economic and social crisis that Argentina was going through – in May of 2002, the unemployment and sub-occupation reached more than the 40 % of the population²² and in July of 2002, the poverty indexes got to an historical pick of 51.4 % of the population under the poverty line, 66.6 % of which were under 18 years old and the 21.9 % were indigent people²³- the government tries to establish negotiations with the WB and the IADB aiming at receiving reimburses that would allow to widen social plans as well as to palliate the effects of the crisis in the less favoured sectors. But these organisms would not respond in the same way and would differentiate themselves in their position in the crisis as well as in their signals and flexibility in the reorientation of the credit engagement previously arranged²⁴

In effect, differences are observed in the attitude of the WB and the IADB toward Argentina during the crisis' period, as much as in discursive terms as in their actions. Regarding the WB, no sooner takes the IMF the decision in December 2001 of refusing the revision and suspending the settled reimburse, than it adopts a lurking attitude and placed itself as a secondary actor behind the Fund. Thus, it stops the “adjustment credits” disbursements to wait for a revision of the economy made by the IMF, even when those funds were more needed than ever owing to the social impact of the crisis. Its president James Wolfensohn clearly explains when he says “[*These credits*] are funds that are to be destined to social programs. **The one who has the leadership in this is the IMF**” (Clarín, 2002a, emphasis added)

Just as the IMF, the WB argues that in its relationship with Argentina, the country has the main responsibility of the solving the crisis, that it should previously take into action what was “needed” to implement an orthodox comprehensive program and solve the crisis, and until that did not occur, it should not be granted any financing²⁵. In spite the fact that the Bank considered that Argentina was going through a “social crisis”²⁶, it shared the idea that the

²² Source: EPH - INDEC

²³ Source: INDEC

²⁴ A detailed analysis of the behaviour of WB and the IADB during the previous period and the following one of the crisis in 2001 / 2002, in reference to its participation through social policies in the national political agenda, might be found in Clemente (2004).

²⁵ The vice president for Latin America, David De Ferranti pointed out that “*The IMF has gone far enough... and the solutions to the problems should not be in high assistances.*” (La Nación, 2001d)

²⁶ That is how the WB's spokesman Christopher Neal said “*There is a social crisis and we are ready to help*” (Clarín, 2002b)

solution was not through more financing, but through developing a “sustainable program” with the IMF.

In effect, the WB’s spokesman Christopher Neal pointed out that “*there is a loan of 350 million dollars already approved and another new one of the same sum, which would be reimburse **once an economic program is established and agreed with the IMF***” (La Nación, 2002b, emphasis added)

In this sense, the WB clearly conditioned the giving of financial assistance to a previous agreement with the IMF of an economic comprehensive program. Besides, its speech as well as its performance demonstrated a neat influence of Meltzer Report recommendations, such as no to give credits to a country of average income that were going through a crisis, since that corresponded to the IMF, while that respected the role’s division of each institution in order to do not generate overlapping.

The performance characteristics displayed by the WB and the IMF during the crisis in Argentina, the former with a passive role and the latter as a primary responsibility organism, had two negative consequences.

On one side, it determined that the crisis had a deeper impact in Argentina, specially on the less favoured social sectors, due to the freezing of the assistance from the WB as much as from the IMF²⁷. On the other side, the fact that Argentina had to negotiate with the IMF only an economic comprehensive program contributed to make it strongly economic and that it did not take into account other dimensions required in order to design a comprehensive program.

Through their conservative and orthodox attitude, the WB and the IMF contributed to deepen more that to limit the impact of the crisis in the country, forgetting once again, its original mission of promoting anti cyclical crisis periods and providing needed resources aiming at making them possible to be carried out (Stiglitz, 2002)

Well, if we observed the behaviour that IADB held with Argentina during the same period, we could see the differences regarding the WB. In effect, both in speech as in its performance, the IADB had a more active attitude toward Argentina, which was showed through reimburses as much as in searching and promoting support from the international community.

On the one hand, in his speeches, the president of the IADB Enrique Iglesias declared that the crisis in Argentina was not only a consequence of the argentine’s politicians that did not

²⁷ During the 2002 the IMF did not make any disbursement to Argentina and only limited its financial assistance to extend for a year the repayment expectations that corresponded to the credits given as “blindaje” and in September 2001 given in the context of the Supplemental Reserve Facility (SRF). On the other hand, the WB only provided U\$119 millions during the first nine months of the year, and only started to make important payments once it was confirmed the agreement with the IMF (source: IMF and Balance of Payments respectively)

know how to handle the situation or that the required measures were not taken. The point was that “*internal as well as external factors [had been] operated: the fall of the exchange terms, the currency adjustment in the sub-region or the dollar’s hardening. **There are factors that have escaped from the authorities’ control for the last five years***” (La Nación, 2001e, emphasis added)

In this sense, it showed a tendency to accept a way out that contemplated a reactivation policy of the economy and not more adjustments only, as well as providing a fast financing to palliate the effects of the crisis and to contribute to the economy activation²⁸.

Besides, the IADB gave financing assistance to Argentina in the toughest moments of the crisis. In this sense, on December 25th of 2001 and after the declaration of the default, in a clear sign of support it approves a credit of U\$\$ 12.5 millions to make works in the Yacyretá hydroelectric dam²⁹. And, after a while, after promoting in the WB and the IMF a financing assistance to the country³⁰, it announces the reorientation of approved credits for almost U\$\$ 700 millions. Thus, the IADB granted financing to Argentina without conditioning it to an agreement of a program with the IMF.

However, it is worth to mention that even if the IADB continue with the financing and its president shows a more temporizer attitude toward the country, at no time does it propose to break the “rules”, in the sense that it respected the role of the IMF as a crisis manager and precisely the favourable attitude to the country is verified when it promoted the IMF to subscribe an agreement with Argentina. Moreover, even though it provides the financing to the country, during the 2002 the capital flow toward Argentina is negative, it is to say that just as the WB and the IMF got more money than what it disbursed. Nevertheless, it is remarkable that the capital flow from Argentina to the IADB in 2002 is like the third part of what the WB received (U\$\$532 millions and U\$\$1752 millions respectively) at the time that there were different tendencies within the institutions, given that the IADB maintains a stability in the entire amount of credits with country, while the WB progressively reduces them.

In this sense, we consider that the explanation of the differences in their political and financial performances between the multilateral credit organisms, relies principally on two factors. In the first place, the different impact that has the American’s new financial economy

²⁸ “...the program in which the government has embarked –that is to promote the economic reactivation and from that reactivation begin to solve the indebtedness - is the correct approach” (Iglesias cit. in La Nación, 2001f)

²⁹ See La Nación (2001c)

³⁰ “The time limit for Argentina of one month” (Iglesias cit. en La Nación, 2002c)

in each organism and, in the second place, the characteristics of the mandates of each institution and the credits that they provide.

In effect, the Latin American countries, main interested in keeping the multilateral credit flow, have more decision power in IADB, which contributes to the fact that this organism do not decrease the credit's amounts, unlike to what is observed in the IMF and in the WB. Besides, the kind of credit that each institution provides –short term the IMF and long terms the WB and the IADB- explains as well the distinguished financial trajectories of each one. This point is developed later in this text.

After words, it is presented the main economic indicators of 1998 –table 1- (the last year of economic growth) up to date, where it could be appreciated the recession suffered by Argentina and the strong falling of the GDP (gross domestic product) produced in 2002 (graph 1), along with the marked decrease in the reserves. After that, it becomes notorious the strong recuperation shown in the high product's rate, an increase in the level of the reserves and the stabilization of the type of change after the devaluation that took place in 2002.

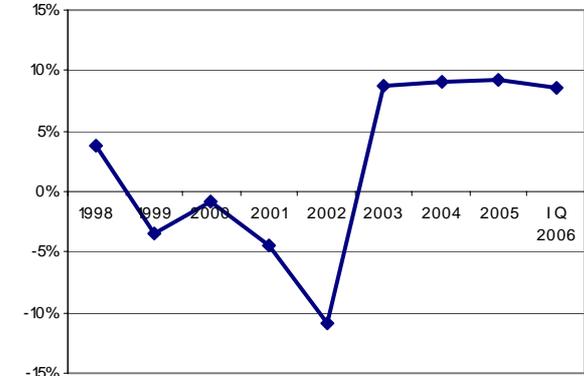
Table 1:
Principal Economic Indicators
In millions of US dollars. End of period

	GDP /1	International Reserves	Exchange rate \$ per U\$S
1998	3,8%	32.012	1
1999	-3,4%	33.589	1
2000	-0,8%	33.808	1
2001	-4,4%	19.744	1
2002	-10,9%	10.476	3,363
2003	8,8%	14.119	2,933
2004	9,0%	19.646	2,9738
2005	9,2%	28.077	3,0315
I Q 2006	8,6%	21.549	3,0808

Sources: Finance Ministry and Central Bank
/1 at constant prices

Graph 1:

Argentina: GDP at constant prices. Interannual Variation (1998 - I Q 2006)



Source : Finance Ministry

In table 2 the net financial flow from the IMF, WB and IADB toward Argentina from 1998 up to date is presented. In the case of the IMF -graph 2- it can be seen big disbursements made during 2001 aiming at maintaining the convertibility, and that become negative during the following years, which shows that from the devaluation, the IMF recovered entirely its credits to Argentina in only four years.

In addition, the graph 3 presents the net flows of the WB and the IADB toward Argentina, which allows to see the progressive diminution of credits from the WB (that in 1998 and 1999

surpasses the ones from the IADB), in reference to the IADB's. Furthermore, even though in 2002 –crisis pick- the financial performance of the three organisms could be similar since all of them are negative, the WB recovers credits for over a U\$S 1.700 millions, tripling the amount received by the IADB.

Moreover, during the following years, the WB will continue with a negative credit flow, meaning that just as the IMF, it will get more than it lends, but the net flow of the IADB will be positive in 2003, showing that disbursements made by this organism surpassed the reimbursements made by the country.

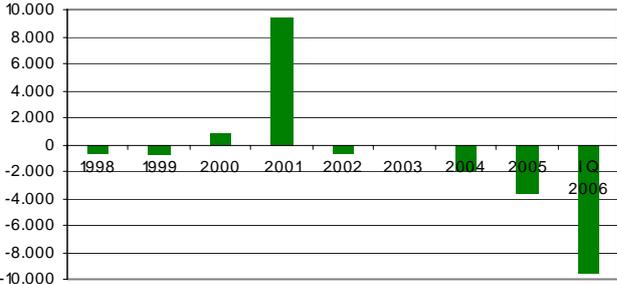
Table 2:
Net Financial Flows from IMF, IBRD and IADB to Argentina
In millions of US dollars. End of period.

	IMF	IBRD	IADB
1998	-654	1590	1.148
1999	-826	1149	1.099
2000	778	458	634
2001	9.376	620	1.215
2002	-740	-1725	-532
2003	-107	-288	275
2004	-2.043	-91	-184
2005	-3.587	-597	22
I Q 2006	-9.530	-188	-321

Source: Finance Ministry

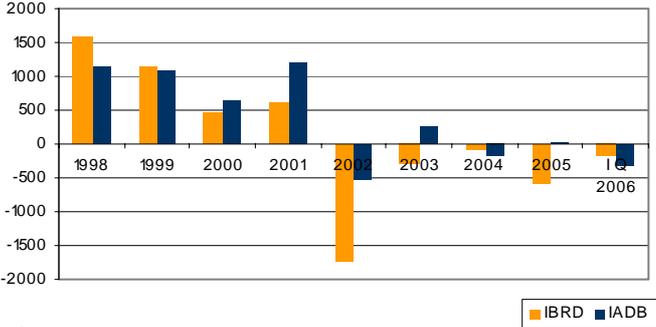
Graphs 2 – 3:

Net Financial Flows from IMF to Argentina
(millions of UD dollars)



Source: Finance Ministry

Net Financial Flows from IBRD and IADB to Argentina
(millions of US dollars)



Source: Finance Ministry

Cross-conditionality and prior actions

The performance of the WB in 2002 in which it conditioned its financial assistance to an agreement subscription with the IMF, determined that Argentina suffered of a cross-conditionality coming from both organisms.

Cross-conditionality takes place when a country is made to accept the conditions imposed by one organism as a previous requirement to obtain the financial support from another financing

organism. This cross-conditionality or double conditionality could be formal or informal. The former, is when there are a formal agreement between two or more international organisms regarding the support toward a certain country. Furthermore, it could also happen that an agency has the capacity of veto of the previously arranged loans between a country and another agency, as well as if it is demanded to have a previously agreement with an agency in order to obtain a reimburse of another (Botzman and Tussie, 1991). International credit organisms are not allowed to use cross-conditionality, principally because it attempts against the countries' sovereignty since they would be at inferiority of conditions to negotiate with these agencies.

However, Feinberg (1998) points out that there is an informal cross-conditionality that is characterized by having a less structural form, but it is not less harmful. Consequently, he mentions three cases of double informal conditionality. In the first place, the *consultations* between the institutions' technicians as an exchange of points of view which implies, for instance, that to get a structural adjustment credit from the WB, the countries should either to already have a current program with the IMF or, to obtain from it an approval on the state of the main macroeconomic variables. Secondly, the *interdependency of the variables*, when both institutions conditions the approval of an agreement to the fulfilment of the same goals and conditions. And lastly, the *indirect financial linkage*, when an engagement with an agency is prevented from continue as a result of the suspension of an agreement between the organisms and the country.

In this sense, we understand that performance of the WB as well as the IMF during the crisis pick in Argentina might be characterized as the first of the three types of informal cross-conditionality, that is to say: the consultative cross-conditionality. On the one hand, the WB condition its financial assistance to the subscription of an agreement between the country and the IMF and, until this is not done, it would not be any kind of additional financing to the one anticipated before the devaluation and the default. This decision was made refusing the reorientation of the already approved credits which could not be reimbursed because the agreement with the IMF had been suspended.

On the other hand, the IMF that has the manager crisis' role, condition the subscription to an agreement and financing to the implementation of the prior actions which implied to deepen the adjustment at an economic policy level in the middle of an economic and social crisis. Thus, if Argentina pretended to receive a financial assistance from the WB, it should agreed a comprehensive program with the IMF to which it should previously implement the conditionalities demanded by the organism.

Precisely, Feinberg argues that this kind of double conditionality are used to happen “during rounds of bargaining between either of the Bretton Woods institutions and a member state, when one Bretton Woods agency withholds new credits in order not to reduce the other’s bargaining leverage” (Feinberg, 1988: 555)

In contrast to what the WB did, the IADB does approve the reorientation of the credits in order to provide financing to the country, while promoting the change of attitude of the WB and the IMF, it is willing to provide extra financing through the recent line of emergency credits of US\$ 6.000 millions that had been approved.³¹

In this sense, the table 3 and the graph 4 shows the trajectory followed by the totality of the outstanding credits of the three organisms with Argentina. It can be appreciated on one side that the restrictions imposed by the WB during the crisis determine that from 2003 the IADB had surpassed the WB as a lender to Argentina and, on the other side, the sudden increase of the debt with the IMF during 2001 and the quick cancellation of the debts that the country carries out with the organism.

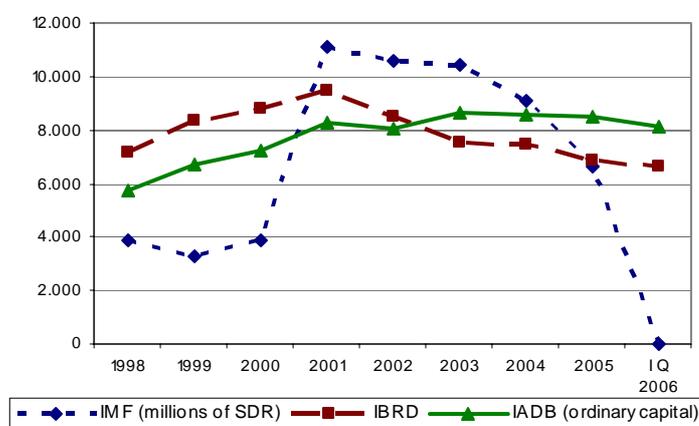
Table 3:
Argentina: Credit Outstanding with IMF, IBRD and IADB
In millions of US dollars except noticed. End of period.

	IMF /1	IBRD	IADB /2
1998	3.865	7.188	5.773
1999	3.263	8.314	6.714
2000	3.880	8.789	7.207
2001	11.121	9.440	8.270
2002	10.547	8.513	8.042
2003	10.446	7.508	8.619
2004	9.073	7.447	8.593
2005	6.656	6.850	8.474
I Q 2006	0	6.662	8.153

Sources: IMF, Global Financial Development, WB and IADB Annual Reports and Finance Ministry
/1 in millions of Special Drawing Rights SDR
/2 Ordinary Capital

Graph 4:

Argentina: Credit Outstanding with IMF (millions of SDR), IBRD and IADB (millions of US Dollars)



Sources: IMF, Global Financial Development, WB and IADB Annual Reports and Finance Ministry

The US new financial policy and multilateral credit organisms

As we said at the beginning, the performance of multilateral credit organisms from 2001 would be orientated by the approach proposed by the USA in financial matters. This implies that we should verify a decrease in outstanding credits of these institutions, since according to

³¹ “Clearly, Argentina is the best candidate to use it now” (Iglesias cit. in La Nación, 2002c)

this approach they should reduce their financing amount and let the countries get financed by the financial markets.

Well, if we observe the trajectory followed by the outstanding credit of Argentina with these three institutions -table 3 and graph 4- we shall see that from the 2002 the IMF as much as the WB reduce their credit exposition –the IMF took it away entirely while the WB did it gradually- but the debt outstanding with the IADB stays steady. We think that there two important factors to explain this situation. The first one is the different level of influence from the USA in each institution. And, in a second place, the role taken by each one and the characteristics of the credits that they provide.

In effect, US have more influence on the WB and the IMF than on the IADB, where the Latin American countries owns almost the %50 of the votes. With reference to the credits, while IMF provide short term financing in financial crisis, the WB and the IADB have long term loans to reduce poverty and make structural reforms, so it would not be expected sudden reduction in its total credit stock, but a gradual diminution.

Thus, in the IMF case, where the powerful countries owns the biggest weight and there are short term credits, it should be observed a sudden decrease in the credits with the country, a gradual decrease in the case of the WB and, a maintenance of the IADB's credits given that it provides long term credits and that the Latin American countries, willing to continue with official financing sources, have a large capacity of decision.

In this sense, it is remarkable that in the explanation of the different trajectories followed by these three organisms regarding to their relationship with Argentina, we should consider political and economic internal factors. In effect, the intense and conflictive relationship between Argentina and the IMF during the arise of the crisis made the national authorities decide to cancel, as soon as possible, the entire debt with the organism in order to reduce to the minimum expression its interference in the economic policy.³² Besides, the more reluctant attitude from the WB toward the IADB regarding the willing to provide financing contributed to the government to deepen its relationship with the IADB in detriment to the WB.

In table 4, we present the figures that correspond to the total outstanding credit of these three institutions, and as it can be seen, its trajectory is very similar to the one followed by in its relationship with Argentina. In effect, The IMF, after a raise in its credit exposition due to the

³² In the speech of the announcement day of the anticipated cancellation of the outstanding debt with the IMF, the President Kirchner justified the decision arguing that that debt “*[was a] constant intrusions vehicle, because it is attached to periodical revisions and it has been a source of exigencies and more exigencies, which turned out to be contradictories between each other and opposite to the sustainable growth objective*” and its cancellation would make the country to get “*freedom degrees for national decision making*” (Kirchner, 2005)

credits gave to Brazil, Turkey and Uruguay³³, began to recover its loans, a process that was deepened by the cancellation of Brazil and Argentina's debt at the end of 2005, which, ironically, aggravated the Fund's financial problems and accelerated the definition time for a new middle term strategy.³⁴

Regarding the WB, it can be actually seen a decrease in its total outstanding credits of almost US\$15.000 million from 2002 to June of 2005, which is equal to the 12 % of its total credits in 2002, although this diminution is, as we have said, gradual.

Finally, the IADB shows a slightly increasing tendency in its credit exposition, which from almost US\$ 44.000 millions in 2001 turns into a total of outstanding credits of almost US\$ 48.100 millions -an increase of almost the 7 %- . Moreover, the less influence of the US new financial policy within the IADB is traceable in the fact that in 2002, the IADB reopens its emergency loans facility in a credit line of US\$6.000 millions to moderate the impact and the depth of financial crisis³⁵.

Table 4:
IMF - IBRD and IADB: Total Credit Outstanding
(2001 – I Q 2006)

In millions of US dollars except noticed. End of period.

	IMF /1	IBRD /2	IADB /3
2001	53.477	118.866	44.951
2002	63.601	121.589	47.958
2003	65.032	116.240	50.655
2004	55.374	109.610	49.842
2005	28.432	104.401	48.135
I Q 06	19.403

Sources: IMF, WB and IADB Annual Reports
/1 millions of SDR. General Resources Account.
/2 Data at June 30
/3 Ordinary Capital

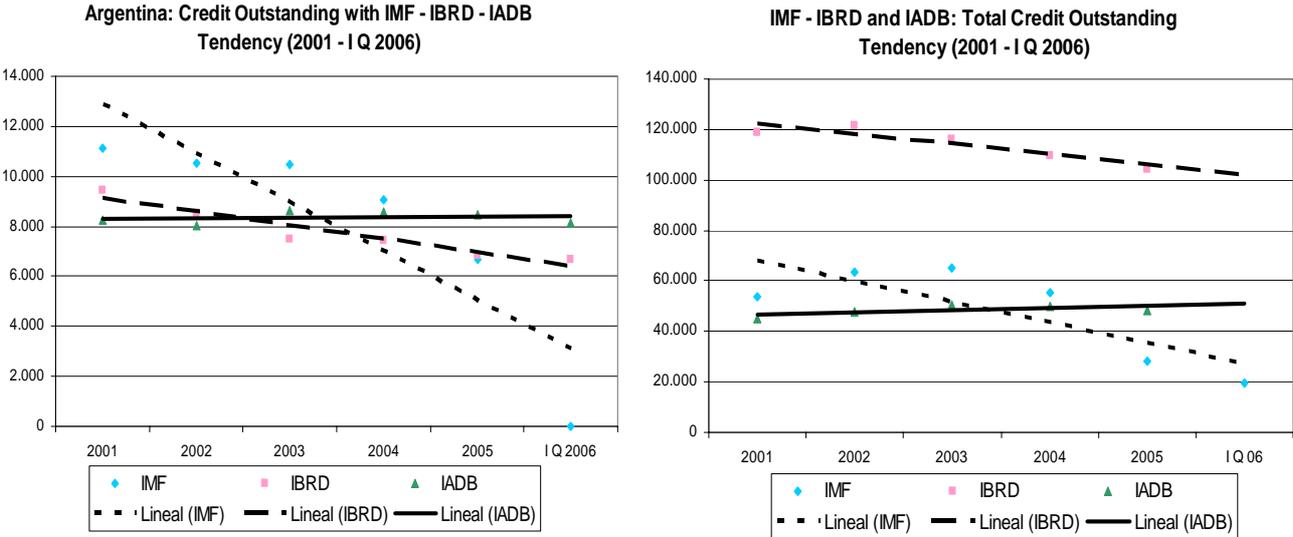
³³ It could almost be counter-productive that the organism had made those payments given that its financial policy was theoretically based on the non living of financial rescues. Two factors contributed to explain this apparent paradox. On the one hand, just like the IMF made those payments, it tried to recover as soon as possible the credits. On the other hand, the American economic policy had its exceptions, particularly when it was about strategic countries that could not be left to the consequences of financial crisis, mainly because of the political and economic effects that it might cause. In this case, Turkey has an strategic important for the USA given the imminent war against Persian Gulf, in addition to the importance regarding Eurasia, Middle East; and the credits granted to Brazil worked as a barrier to control the spread out over the region of the crisis in Argentina as well as it committed the President Lula to an orthodox economic program.

³⁴ An analysis of the context in which the organism developed a mid-term strategy, as well as the political and economic consequences and its perspectives, can be found in Bembi y Nemiña (2006)

³⁵ "The decision to reopen the emergency lending facility as of 2002 represents an acknowledgement that, although the International Monetary Fund (IMF) holds central responsibility for heading up adjustment programs and programs for overcoming financial crises, the Bank's role is to proffer financial support to mitigate the impact of these crises on social and economic development, especially for society's most vulnerable groups." (Iglesias, 2002: 4)

The following graphs, 5 and 6 –based on the data from tables 3 and 4 respectively- shows us the similarity of the tendencies followed by the outstanding credit of the three institutions with Argentina with reference to the total outstanding credit. In effect, the tendency of the IMF is remarkably descendent, in the case of the WB it is also descendent but with a gradual fall and, in the IADB the tendency is slightly ascendant.

Graphs 5 – 6:



In this sense, from this tendencies’ analysis of both graphs, it can be seen that the financial performances of the three institutions during the crisis in Argentina, are similar to the trajectory they have followed in general during the same period. This would make us think that the financial performance explanation held by the organisms toward Argentina during the crisis, it would involve particular factors that refer to the “Argentinean case” – the spreading out contention of the crisis, the reduced strategic importance of the country- as factors that make reference to the general process of each organism –in this case, the new financial policy of the USA, the level of influence of this country on the organisms and the role and the kind of credit of each institution-.

Preliminary conclusions

Multilateral credit organisms supported during the 90’s the argentine economic program and once presented the country as an “example” to be followed. However, the 2001/ 2002 crisis showed the failure of neoliberal policies that claimed to reduce the State participation and to leave the markets as “efficient” resources’ arbitrators.

Nevertheless, in the light of what was argued in this paper, we can affirm that there were differences in the responses given by of these three organisms before the crisis in Argentina. In effect, the IMF took the primary responsibility of managing the crisis and became the principal referent to the country during the negotiation aiming at obtaining the financial support of the organisms.

To obtain that support, displayed its new strategy based on demanding the implementation of the reforms required previously to the agreement's approval, even though the content of the reforms and its conditions showed continuity with the pro market recommendations based on the Washington Consensus. Therefore, it has not only rejected any responsibility for the crisis, but it would also conclude in later analysis that its main error in the relationship with Argentina during the 90's had been not having pressed the country enough to deepen the adjustment (IMF, 2003)

On the other side, the WB positioned itself in a secondary role during the negotiation and conditioned its assistance to the previous subscription to a IMF's program, even when the crisis impact made the financial assistance for social programs more needed.

In effect, as the IMF, from 2002 it would have a negative reimburse neat flow toward Argentina, meaning that it would recover more than it was lent.

In this sense, we understand that the performance, in action or in omission, of both organisms helped to increased instead of decrease the crisis' effects, specially in the less favored sectors, as a result of the orthodox content of the demanded reforms as well as the cross-conditionality which practically prevented the county of receiving assistance by these organisms. Clearly, its behavior was pro-cyclical.

With reference to the IADB, even when it was respected the IMF as a crisis manager in the negotiation with Argentina, it provided assistance to the country in the toughest moments of the crisis and it was the one that promoted the IMF and the WB to provide assistance at the time that it kept the credits' level with the country, showing the willing of not reducing the financing. This contributed to soften the crisis impact.

In the preceding considerations, it is suggested that in the explanation of the dissimilar financial performances of these three organisms during the outbreak of the crisis take part factors of particular nature which they make reference to the "Argentine case" - the spreading out contention of the crisis, the reduced strategic importance of the country- like factors that make reference to the general process of each organism - the dissimilar influence on the organisms of the US new financial policy, and the role and the kind of credit of each institution-

Is it a possible question whether these processes would show deeper changes in the roles and the mandates of these organisms. As well as what kind of characteristics should have the assistance given by these institutions to those countries that go through economic crisis with considerable social and political consequences, in order to, together or separated, contribute to these countries' implementation of a new economic counter-cycle policy, while there is some space to respect the different national characteristics when that is taken into action. We hope to be able to develop these ideas in further researches.

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