Restoring the IMF's Reputation in Latin America

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ABBREVIATIONS, ACRONYMS AND SIGNS

AfDF	African Development Fund
AT	Attribution Theory
CMT	Crisis Management Team
COM	Communications Department
ECLAC	UN Economic Commission for Latin America and the Caribbean
EXR	The IMF's External Relations department
FMI	Fondo Monetario Internacional
Fund	The International Monetary Fund
G8	Group of Eight
GDP	Gross Domestic Product
HIPC	Heavity Indebted Poor Countries
IBRD	International Bank for Reconstruction andD evelopment
IDA	International Development Association
IEO	The IMF's Independent Evaluation Office
IMF	International Monetary Fund
IRT	Image Restoration Theory
ISI	Industry-based Import Substitution
IWF	Internationaler Währungsfonds
LOE	Languages Other than English
MDG	Millenium Development Goals
MDRI	Multilateral Debt Relief Initative
NGO	Non-Governmental Organisation
PIN	Public Information Notices
PM	Prime Minister
PRGF	Poverty Reduction and Growth Facility
SCCT	Situational Crisis Communication Theory
SDRM	Sovereign Debt Restructuring Mechanism
TSR	Triennial Surveillance Review
UN	United Nations
US	United States
WB	World Bank
WC	Washington Consensus
WHO	World Health Organization
WW2	Second World War

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Abstract

Since the eighties the IMF has faced constant criticism that became alarmingly heated in the nineties and noughties, subsequent to the crises in Asia, Brazil and Argentina. These provoked a continuous reputation crisis that the Fund addressed through two means. On the one hand, a crisis communication strategy primarily based on self-defence and the promotion of the citizenship's understanding of the Fund's actions. On the other hand, a "rhetoric for renewal" reputation management strategy primarily based on openness, transparency and the promotion of a two-way dialogue with legislatures, private financial sector, civil society organisations and critics. In relation to the citizenship, this translated into an increased provision of open, accessible, non-mediated, persuasive information to the public through media independence and a sharpened focus strategy based on a pruned number of addressed issues and a more audience-specific approach. Thus far, the IMF has improved its overall reputation worldwide but Latin America still is a point of confrontation. | **Key words: crisis, reputation, International Monetary Fund, Latin America, communication.**

Resumen

Desde los años ochenta, el FMI ha sido crecientemente criticado hasta llegar a una situación alarmante en los noventa y dos mil, tras la crisis asiática, brasileña y argentina. Estas críticas generaron una crisis de reputación continua que el Fondo afrontó de dos formas: por un lado, una estrategia de comunicación de crisis basada principalmente en la autodefensa y el fomento de la comprensión popular de las acciones del Fondo; por otro lado, una estrategia de gestión de la reputación de «retórica renovadora» basada en las fuentes abiertas, la transparencia y la promoción de un diálogo bilateral con las asambleas legislativas, el sector financiero, las organizaciones de la sociedad civil y los críticos. Para la ciudadanía, ello significó la provisión de más información abierta, accesible, no-mediada y convincente basada en la independencia mediática y en una concepción más precisa de la comunicación, caracterizada por la reducción del número de temas abordados y una adaptación de los contenidos a audiencias específicas. En términos generales, el FMI ha mejorado su reputación en todo el mundo, pero Latinoamérica sigue constituyendo un polo de confrontación. | **Palabras clave: crisis, reputación, Fondo Monetario Internacional, Latinoamérica, comunicación.**

1. Purpose and drivers

The IMF is one of the world's oldest international institutions and, arguably, one of the world's most controversial ones. On the one hand, many experts agree of the Fund's crucial role in a world where economic crises and dramatic fluctuations in the markets have become the rule. On the other, its reputation appears to be constantly at stake. Interestingly, while few seem to pay any attention to the fact that its two last managing directors have been involved in serious financial scandals, many concur that the Fund is a fundamentally "evil" institution that does not wait upon the interest of humankind.

In December 2001, the Argentinian cities of Buenos Aires, Córdoba or Rosario were crowded with people shouting and bearing placards criticising the Government of the time and the IMF, after the latter denied the debt refinancing and a bailout to Argentina, prior to the *corralito*[1]. This was just one heated example of the emotions many Latin Americans feel towards the Fund. No wonder parallel institutions such as the Bank of the South have emerged in an increasingly institutionalised regionalist Latin America. This mistrust –resentment for some– can be felt in all areas of government and society, which motivates the interest of this dissertation in the region.

The aim of this dissertation is to analyse how the IMF has tackled its reputational issues departing from its communication strategy viewed in the framework of crisis management and institutional communication. Through a brief and broad description of the IMF's history in the region and the nature of its reputation problems the question this dissertation aims to answer is: What does and has the International Monetary Fund done to restore its reputation in Latin America?

The interest of this question does not solely rest on the importance of the Fund as a global international institution or that of the continent, as a massive emerging economy. In the middle of a technological revolution that has placed the citizenship in the middle of everything, redefined the concept of accountability and fostered a raging demand for timely, transparent and proactive answers from governments and institutions, this dissertation is more topical than ever. As the world's society and economy are growing more and more integrated, the strategy implemented by the world's international financial

[1] *Corralito* was the popular name given to the bundle of economic measures that Argentina implemented on 3 December 2001 to stop a bank run. This measures fundamentally restricted the amount of cash the Argentinians could withdraw from their current and saving accounts, and time deposits and continued through to 2 December 2002.

institution par excellence to restore its reputation among its staunchest critics can be considered as one of the most ambitious reputation management programmes in history.

2. Literature review and theoretical framework

2.1. Definitions

A crisis can be defined as "the perception of an unpredictable event that threatens important expectancies of stakeholders and can seriously impact an organisation's performance and generate negative outcomes" (Coombs 2007b: 2-3, in Coombs & Holladay, 2012:20).

Crisis management can be defined as "a set of factors designed to combat crises and to lessen the actual damages inflicted" (Coombs 2007b: 5, in Coombs & Holladay, 2012:20). Besides, crisis management "seeks to prevent or lessen the negative outcomes of a crisis and thereby protect the organisation, stakeholders, and/or industry from damage" (Coombs 1999: 4, in Coombs & Holladay, 2012:20).

Crisis communication is the third element of the chain crisis-crisis management-crisis communication. It can be defined as "the collection, processing and dissemination of information required to address a crisis situation" (Coombs & Holladay, 2012: 20).

Political communication can be defined as the space where contradictory discourses are exchanged by the three actors that have the legitimacy for expressing themselves in politics, namely, politicians, journalists and polls[2] (Wolton, 1989, in Canel, 1999: 23).

Institutional communication can be defined as the set of rules (principles) and procedures (specific applications) of persuasive communication that, through psychological and informative means, institutions employ to influence receivers for the purpose of gaining their permanent support to exercise and distribute power and to do the public good (Canel, 1999: 84).

2.2. Literature review and theoretical framework:

This dissertation has thrived in a niche fed by two main fields of study: crisis management and political communication. More specifically, the subject matter of this dissertation should be understood as a case of crisis communication but also as a case of institutional communication. Both fields belong to the broader ground of communication. However,

[2] For some, political communication happens when communication affects politics, either intentionally or unintentionally (Canel, 1999: 21), but this discussion goes beyond the scope of this dissertation.

whilst crisis communication focuses on strategies, institutional communication involves a more rhetorical approach.

This section aims to provide a broad theoretical framework that lays the foundations for the analysis pursued later on in this dissertation (section 5), regarding the strategy implemented by the IMF to overcome its reputational crisis. Firstly, a brief explanation of the most prominent theories existing in crisis management will be provided. Secondly, the focus of this framework will switch into a more rhetorical approach that will set the path toward our case study.

2.2.1. The crisis management approach

As explained above, communication is the essence of crisis management. A crisis or the threat of crisis creates a need for information. Through communication, such information is collected, processed into knowledge, and shared with others. Hence the importance of communication throughout the whole crisis management process.

Many ascertain the consolidation of crisis management as a field of study took place with Steven Fink’s *Planning for the Intevitable* in 1986 (Coombs & Holladay, 2012: 21). Since then, many possible classifications for crises have been discussed. Many base on severity levels and often use colours, numbers or letters for illustrative purposes. Other authors, as Saura spells out (2005, 18-22), have designed crisis classification models that base on the stages (Fink, 1986: 69), nature (Millar, 2002), effects (Linke, 1989: 166) or origins (Piñuel, 1997: 169) of the crises to which they refer. Siomkos, on his part, distinguishes between discrete, continuous and latent crises (1992: 31). For him, a crisis is discrete when it takes place punctually or accidentally and its probability of impact is low; a crisis is continuous when its prejudicial effects linger over a long period of time; and, finally, it is latent when it remains still for years. Notwithstanding, there are authors who claim that crises can cloak in so many typologies that identifying an exhaustive classification model is very difficult (Piñuel, 1997: 169, quoted in Saura, 2005: 20).

Coombs and Holladay understand that the crisis management process comprises three stages, each of which has its own demand for creating knowledge and its own types of crisis communication (2012: 21). The section that follows aims to introduce each of the phases of crisis management: the pre-crisis phase, the crisis and the post-crisis phase.

2.2.1.1. The pre-crisis phase

The pre-crisis phase takes place before the crisis bursts. In this stage, crisis communication focuses on location and reducing risk. The very goal of this phase is prevention and palliation of the negative effects of the potential crisis. Some of the main strategies for this stage are compiled in TABLE I (Coombs & Holladay, 2012: 22).

TABLE I

Most prominent pre-crisis strategies (Coombs & Holladay, 2012: 22)

Prevention and palliation	Vigilance during the pre-crisis phases to aid crisis decision making and prevention (Olaniran & Williams, 2008).
	Using issues management in order to scan the general environment (González-Herrero & Pratt, 1996).
	Crisis sensing: media tracking, including the internet. According to Coombs, regarding crisis sensing "the practice outpaces the theory" (2007b).
	Risk communication to the population can be good when accompanied by a communication of the emergency warning systems and a claim of efficacy. While concerns over risks increase, so does acceptance for the organisation, since the population feels involved in the emergency plan instead of being lulled into a false sense of security (Heath & Palenchar, 2000).
Palliation	Use of pre-crisis messages to inoculate stakeholders about crisis and help build up resistance to a negative reaction and negative media coverage of the crisis (Wan and Pfau, 2004).
	Reputation building prior to a crisis is beneficial to an organisation in crisis (Coombs & Holladay, 2002, 2006; Dawar & Pillutla, 2000; quoted in Coombs & Holladay, 2012).

In this stage, the creation of a crisis-specific plan, team and spokesperson appear to be vital in the process (González-Herrero y Pratt, 1996). Regarding the plan, it must comprise the improvement of the crisis management skills of the crisis teams (decision making units), as a tool to facilitate situation awareness, which occurs when the team feels it has enough information to make a decision (Kolfschoten & Appelman, 2006; quoted in Coombs & Hallaway, 2012: 20-29).

Much ink has been spilled over the "dos and don'ts" of spokespersons in crisis situations, both by academics and practitioners. For example, there is a general consensus that "no comment" is a sentence to be avoided since it leads the audiences to think the organisation is guilty and is hiding something (Guth, 1995). Additionally, a spokesperson must maintain solid eye contact, use few vocal fillers, and few nervous adaptors since people use those three cues to assess deception (Feeley & de Turck, 1995, quoted in Coombs and Hallaway, 2012: 20-29).

2.2.1.2. The crisis phase

This is the phase that has inspired the largest amount of academic content, out the three comprising the crisis management process. It covers recognition of the trigger event and response (Coombs 2007b, quoted in Coombs & Holladay, 2012: 20-29). The Table below offers a brief summary of the most prominent research trends in this field.

TABLE II

Most prominent research trends in crisis communication: strategies (Coombs & Holladay, 2012: 29-35)

Tactical advice (28)	"Stealing thunder" effect. A failure to respond lets others provide the info that will frame how the crisis will be perceived by stakeholders. When it is the organisation that informs of a crisis occurring the reputational damage is lessened. 1. Avoid "no comment" or remaining silent 2. Be quick (within one hour, if possible: "stealing thunder") 3. Be accurate (inaccuracy erodes credibility) 4. Be consistent (particularly with several spokespersons)
Strategic advice (29-30)	There are four strategic focal points according to Sturges (1994): 1. Instructing information: protect physical security of stakeholders in order to avoid second crises. 2. Adjusting information: express sympathy and explain what the organisation is doing to prevent another crisis. 3. Reputation repair, how to ameliorate the damage caused by a crisis to an organisation
Corporate apologia[3]	Self-defence through communication in order to achieve social legitimacy, which is a form of reputation. It can be done through: 1. *Denial.* 2. *Bolstering*: remind people of the good things done. 3. *Differentiation*: remove the action from its negative context. 4. *Transcendence*: move the action into another more favourable context.
Image restoration theory (IRT)/image repair theory[3]	It begins when an organisation is accused of being responsible for an offensive act. There are three main types of strategies: 1. *Denial*: simple denial or shifting the blame into another party. *2. Evading responsibility:* provocation (response to someone else's actions), defeasibility (lack of info/control over situation), accidental or good intentions. *3. Reducing offensiveness:* bolstering, claiming little damage from the crisis, transcendence, differentiation, challenging those who

[3] Informal research methods are not systematic in the collection or interpretation of the data, so they cannot be used to make statistical predictions, but they are a source of in-depth understanding of the phenomenon studied. There are three schools of thought in this field, all three of them deeply rhetorical: corporate apologia, image restoration theory/image repair theory, and rhetoric for renewal (Coombs & Holladay, 2012: 22).

	say there is a crisis, compensation, corrective action or mortification (ask for forgiveness, admit guilt).
Rhetoric for renewal[3]	The difference with the IRT is its optimism on the future, emphasizing the help of victims. However, it is only possible when: 1. Strong pre-crisis ethical standard 2. Strong pre-crisis constituency-organisation relationships 3. The organisation's priority is not escaping blame 4. It desires to engage in effective crisis communication
Content analysis[4]	There are various elements that must be taken into consideration in order to maximise effectiveness in crisis management: 1. Culture plays a great role in the success of a strategy (Huang, 2006). 2. Getting out one's part of the story to the media can be crucial (Lebinger, 1997, and Ogrizek & Guillery, 1999). 3. Technical translation, given the technical nature of many crises, is a greatly important factor. It can be: direct, elucidating, quasi-SCIENTIFIC and transformational (Stephens & Malone, 2009).

TABLE II summarises the most prominent findings in crisis management with a focus on the sender. TABLE III offers a brief exposition of the most prominent theories that through formal research methods have focused on the receivers' reactions to the crisis response messages. While most of the theories above have been constructed by informal research methods, the ones below have been synthesised through the controlled, objective and systematic collection of data intended to generating generalisations and predictions.

TABLE III

Most prominent research trends in crisis communication: audience effects crisis communication research (Coombs & Holladay, 2012: 29-35)

Attribution theory (AT) overview	This social-psychological theory attempts to explain how people make sense of events. When an event happens, people make attributions of responsibility based on limited evidence. The rule is to blame the actor involved in the event (internal) or an environmental factor (external) and these assumptions shape affect and behaviours directed toward the organisation in crisis (Coombs, 1995, 2007a).
Situational crisis communication theory (SCCT)	SCCT is the application of AT to crisis communication. To understand who people will react there are several classifications (Coombs, 1995): ▪ Crisis types: victim (low crisis responsibility/threat), accident (minimal crisis responsibility/threat), and intentional (strong crisis responsibility/threat). ▪ Intensifying factors: crisis history and prior reputation. Regarding the outcomes (behaviours and affect):

[4] Content analysis is a transition method between formal and informal research. It uses informal data that can be randomly sampled and counted (Coombs & Holladay, 2012: 22).

	▪ Anger increase with attributions of crisis responsibility[5] (Coombs & Holladay, 2005). ▪ Affect is linked to behavioural intentions (Jorgensen, 1996), such as purchase intension and negative word-of-mouth, which can be particularly damaging since it can outlast memories of the crisis.
Contingency theory and crisis communication	The Contingency Theory is a grand theory of PR that explains the degree to which an organisation uses an advocacy or accommodative response to conflicts with stakeholders. It uses over 80 variables to help predict what stance should be used in a particular situation, encompassing: ▪ External factors: threats, industry environment, external environment, external public. ▪ Internal factors: Organisation, PR dept., dominant coalition, internal threats, individual, relationships.

2.2.1.3. The post-crisis phase

Post-crisis considers actions after operations have returned to normal and include providing follow-up information to stakeholders, cooperating with investigations, and learning from the crisis event (Coombs 2007b, quoted in Coombs & Holladay, 2012, 29-54). Particularly important is the production of final reports, as they constitute the first documented evidence of the cause of the crisis.

Since it is difficult to know for certain when a crisis is over, post-crisis communication is arguably an extension of crisis response communication. For instance, if an organisation has taken an adjusting information strategy and started providing psychological support for victims, it should be continued throughout the post-crisis phase. Another example could be renewal, which focuses on the future and rebuilding a reputation, which can take years to attain.

On the other hand, after a crisis, the organisation should focus on learning from the experience, as it constitutes an opportunity to evaluate the organisation's prior activity. Experts recommend the creation of multifunctional teams that collect and analyse information from a wide range of stakeholders (Elliot, Smith & McGuiness, 2002; Kovoor-Misra & Nathan, 2000).

Up to this point, we have set forth the fundamentals of crisis management, we have understood the different nuances existing among the terms that will be repeatedly used throughout this dissertation and we have been introduced into the different theories in

[5] It was the most compelling result of a study that examined a number of crises types for their ability to generate sympathy, anger and schadenfreude (taking joy from the pain of others).

crisis management to explore how they offer different solutions for the different needs that corporations and institutions may face in their positions. Now we will continue to review the theoretical knowledge that will strengthen the conclusions of this dissertation in the field of institutional communication.

2.2.2. The rhetorical approach

This section seeks to provide the fundamentals of institutional communication theory in order to gain a deeper understanding of the case study of this dissertation. This political communication approach very appropriately complements the crisis management theory set above. For Bland (1994), in terms of PR the real crisis is not what has occurred, but what people believe it has occurred. The most vital messages are not “what you believe you must convey”, but “what people expect you to convey” (quoted in Saura, 2002: 13).

Surprisingly or not, Brand’s idea seems to meet Coomb’s (2009, quoted in Coombs & Hallaway, 2015: 25), who differentiates between two types of crisis communication: crisis knowledge management (applied knowledge creation) and stakeholder reaction management, which aims to influence how stakeholders perceive the crisis. Communication is the essence of crisis management, and rhetoric is the art of persuading through communication.

The following section will offer a brief introduction to the field will be provided, emphasizing the limitations of political communication theory with respect to this dissertation. Secondly, the main theories in this field will be briefly outlined.

2.2.2.1. Political communication

Political communication is a controversial field of study. Many scholars do not consider it a distinct area of research and, among those who do, there is a blatant lack of consensus at defining it. Notwithstanding, political communication theory offers a privileged background for exploring the rhetorical implications of crisis management in a political environment, as TABLE V very well illustrates.

Despite the aforementioned controversy regarding the term, it is appropriate to outline four main elements that seem widely endorsed among scholars: the interaction of three actors (politicians, journalists and polls) that represent the three discourses legitimately expressed in a democracy (politics, information and public opinion), the coexistence of contradictory claims, and the dynamic relation among all actors involved. TABLE IV represents this ecosystem and its drivers.

TABLE IV

The political communication ecosystem and its drivers (Mariño, 2007)

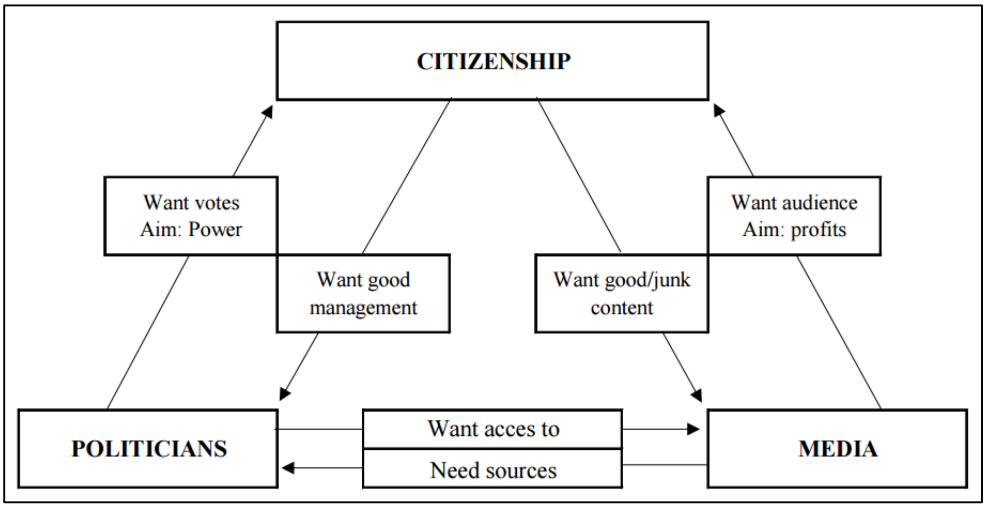


TABLE V

Basic elements of political communication (Canel, 1999: 24).

The conflict dimension of Political Communication	For Denton & Woodward (1998) political communication has four aspects of concern: 1. Budget: as resources are distributed through decisions. 2. Control: as the political power is conferred by the people's trust. 3. Approval: as power is useless without support. 4. Meaning: i.e., definition and transmission of symbols.
Characteristics of political communication	For Denton and Woodward (1998) there are three main characteristics: 1. Short-term-oriented: it pursues immediate and pragmatic results due to the importance of timing in politics. 2. Strategic: it is persuasive and intentional in order to have an influence in certain beliefs, attitudes, values or actions. 3. Mediated: since it is often filtered through the media[6]. 4. Oriented: it is designed for specific audiences.
Types of bidirectionality in interaction	According to Grunig and Hunt (1984) bidirectionality can be: 1. Asymmetrical: the addresser gathers information on the addressee in order to improve its persuasion. 2. Symmetrical: the final goal is the mutual understanding.

Before we proceed to present the most prominent ideas in this field, it is important to highlight that not all political communication can be applied to this dissertation. The IMF does not need to employ the same communication techniques that parties use in national electoral campaigns. In the IMF, the relation between the Board of Governors and the

[6]Journalists create content that skews the spatial-temporal coordinates. For example, they reconstruct a robbery in order to pick up the issue of public safety and, in doing so, they spread a sense of danger among the audience (Thompson, 1995, cited in Canel, 1999: 26).

people is very diluted, as we will discuss later on in the case study. For this reason, TABLE IV is not very accurate at describing the relation between the IMF and citizenship.

Citizens still demand good governance and politicians remain in need of the power that springs from the citizens. However, decision-makers are accountable to the countries' representatives and the highly technocratic nature of the IMF often understands decisions as a scientific problem with very few possible solutions. This is crucial to understand accountability in the IMF and to understand to what extent electoral techniques are not applicable to the IMF. The focus is to be put on institutional communication techniques.

The communication techniques used by institutions differ significantly from those used in campaigns. In this respect, M. J. Canel spells out three main characteristics of institutional communication: they are executed by people or institutions who hold power, their application is not occasional, unlike electoral communication techniques, but continuous over a period of time (e.g. a mandate). The last characteristic relates to its purposes. It can have three main purposes: exercising power (and prompting the assumption of decisions by the people), distributing power (within the institution itself, which also need communication) and doing the public good (as public knowledge of politics relates to its acceptance). These three characteristics have various implications that are to be borne in mind at assessing the IMF's crisis communication strategy toward Latin America. For instance, given the long-term nature of institutional communication techniques, the IMF cannot make promises "with incorporated expiry date" like politicians often do in their campaigns (Del Rey, 1997, quoted in Canel, 1999:84). Other implications will be further discussed in the following section.

2.2.2.2. Analysing institutional communication

In this section, two largely accepted analytic tools will be provided. The first one, illustrated in TABLE VI was described by André Gosselin in his book *Political communication*, and is very useful for understanding the factors *where* and *how* that communication teams take into consideration when designing a political communication strategy. The second one, illustrated in TABLE VII, aims to spell out an integrated set of techniques that can be implemented in four different categories of strategy.

Gosselin proposed an analytic tool for political communication. His tool comprises two axes. The first one divides political communication between *territories* and *arenas*. The second axis is about how political communication is activated[7] through six types of actions (Gosselin, 1998). Among these actions, the dramatist and the communicative are as the most common.

In her book Political Communication, M. J. Canel proposes a model of classification for the techniques and strategies used by institutions to maximise efficiency in communication (1999: 85; Graber, 1992:246). This model, summarised in TABLE VII, will be largely useful in this dissertation in order to analyse of the communication techniques employed by the IMF in its crisis and to restore its reputation in Latin America.

TABLE VI

Gosselin's two axes of political communication (Canel, 1999: 30)

Axis I (*where?*)	Territories	Borders of the actors of political communication (e.g. states, parties, lobbies, trade unions, social movements or firms).
	Arenas	Set of devices, formulas, frames, rules and strategies that define the situations of interaction where the discourses of the political actors can be confronted, assessed and spread (e.g. debates, courts of justice, talk shows, opinion journalism, financial press, press conferences or broadcasted political speeches).
Axis II (*how?*)	Teleological act'n	Goal-driven.
	Axiological actn	The driver are values, rules and some ethic criteria.
	Affective action	Use of psychology to influence the audience, often resorting to the human nature.
	Routine action	Subconscious conducts: both the addresser and the addressee are likely to reproduce conducts that are not irrational but lack a reflexive effort on the sense and consequences thereof (e.g. newspaper readers tend to read the even pages before the odd ones) (Canel, 1999: 31).
	Dramatist action	'Played' emotional responses to current political situations.
	Communicative action	Conversation with the public in order to find their support in the common understanding.

So far, this dissertation has sought to offer a theoretical background that sets the foundations for the analysis of the case study. The following section will focus on describing the latter. Firstly, a broad explanation of the history, nature and purposes of the IMF will be provided. Secondly, the focus will be put on the incubation and shaping of the crisis, and in the causes and origins thereof. Lastly, the switch in the strategy, policies and discourse of the IMF will be outlined for its subsequent discussion and evaluation in the section of analysis.

[7]These axes draw from the action typologies of authors like Weber, Mead and Garfinkel (Canel, 1999: 30).

TABLE VII

Strategies and techniques for political communication of institutions (Canel, 1999:85)

Communication strategy	Communication technique
Information disclosure	Adequacy to professional criteria of newsworthiness Stable relations with the media
Information concealment	'Unnoticed' lie Intentional confusion Language softening Neutralisation of negative information Off-the-record sessions Information leakage
Staging: events organisation	Press conferences Press briefings Special events Speeches
Persuasive communication	Advertising placements Direct mailing Communication campaigns Internet

2.3. Case study: The IMF in Latin America

The International Monetary Fund (hereinafter, IMF) is the main international organisation that aims to boost international monetary cooperation and holds power over everything that is linked to currency exchange, international use of money and the equilibrium of the current accounts of its members. Despite being created to prevent economic crises after the Big Recession in the 1930s, the criticism that it has drawn, especially since the early nineties, have eroded its reputation in some circles. Discussing the legitimacy of that criticism goes beyond the scope of this dissertation; our goal is to assess their nature, how they have affected the IMF and what it has done in the past and does today to defend itself from that criticism and restore its reputation.

2.3.1. The nature and purpose of the IMF

The IMF was created by 29 member States on 27 December 1947. Today, its membership is almost universal, standing at 184 members[8]. It is less than the UN but still enough to ascertain its role as a global governance institution. Its highest authority is the Board of Governors, made up by one governor and one alternate governor for

[8] There are seven countries missing: Andorra, Cuba, Liechtenstein, Monaco, Nauru, North Korea and Tuvalu.

each member country (generally the minister of finance or governor of the central bank). Every country has a voting share that depends on their quota.

Apart from its three fundamental objectives, it serves as a permanent forum for its member States to solve their differences in all aspects concerning international payments, currencies and exchange thereof. The IMF has got three tools for accomplishing its purposes. These are: surveillance, lending and technical assistance (most of which goes to low-income countries).

In the IMF's Articles of Agreement, surveillance refers both to the international monetary system and the monitoring of the economic and financial policies of member states. Besides, Article 4 establishes the commitment of all member states to collaborate with the IMF and among themselves to promote stability. Supervision can be bilateral and multilateral, and it is completed through periodical meetings between IMF economists and relevant actors and civil servants of the member States as well as through the Executive Board's annual reports.

Financial assistance aims to help the countries rebuild their reserves, stabilize their currencies, continue to pay for their imports, amortize their debts, re-establish the conditions for growth and take all necessary measures to correct the underlying sources of their imbalances. During the first two decades it was the industrialised countries which borrowed the most. However, during the oil crisis in the seventies and the debt crisis in the eighties many low and mid-low income countries were obliged to resort to the Fund. The nineties and the noughties, on the other hand, transitions in central and eastern union and the crisis of the developing countries raised again the financing rates.

The conditionality of the financial assistance of the IMF has been key to understand much of the criticism that has hounded this institution since its inception. Any country with a negative balance of payments can apply for financing at the IMF. The IMF, on the other hand, uses conditionality as a way to oblige the beneficiary countries to address the sources for their imbalances -and, by doing so, to make sure the borrowers are going to be able to pay back. If they do not comply with the IMF's requirements, the IMF then discontinues the financing. However, the conditionality system has changed largely since the eighties, as we will further discuss later on in section 2.3.2.1.

Technical assistance mostly focuses on low and mid-low countries. It aims to increase the human and institutional capacities of member states and to design effective economic policies in different fields, such as macroeconomics, taxes, income administration, expenditure management, monetary policy, currency exchange, financial stability, legal framework and statistics. This tool makes up the third tool of the IMF, whose purposes are described in TABLE VII. These purposes were first listed in the Articles of Agreement of the IMF, adopted at the United Nations Monetary and Financial Conference in Bretton Woods, on 22 July 1944.

TABLE VIII
The purposes of the IMF

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

This study seeks to explore how the organization is perceived based on the purposes set out above and examine the impact its actions have had in this respect since the end of WW2 up to the present day. Section 2.3.2. will offer a historical explanation of the facts and decisions that led to the configuration of the reputational crisis of the IMF in Latin America. After this explanation of the causes of the crisis, this dissertation will discuss its origin, in section 2.3.3. Lastly, section 2.3.4. will offer empirical evidence to establish a general picture of the crisis management response of the IMF.

2.3.2. History of perception, crisis and emergence.

This section attempts to summarize the process by which Latin American society started perceiving the IMF as negative. There were many actors involved in this process. However, to maximise impartiality and gain a more in-depth understanding of the general picture, we will initially focus on the outlining factors involved and then discuss the role of the various different actors.

International organisations are one of the most influential agents in the homogenisation, harmonisation and standardisation of public policies in the framework of the expansion and global integration of capitalism (Enríquez, 2010: 32). The Bretton Woods' IMF and the International Bank of Reconstruction and Development (hereinafter, the IBRD) have played a crucial role in the construction and promotion of the core points and guidelines that govern the strategies and policies of development of the countries. Bretton Woods sought the stabilisation of currencies and credit of all attending nations in order to accelerate their reconstruction after WW2 based on a solid foundation. Once its institutions had boosted reconstruction and economic growth in Europe and Japan, and kept communism from expanding, they shifted their focus to the developing world and adopted new objectives and sought to boost the insertion of new economies into the newly created financial and monetary international system (Gómez, 2002: 112-114).

Since the sixties, both the IMF and the IBRD have had a strong influence in regions like Latin America by boosting development strategies, designing international policies, codes of conduct, behavioural patterns and guidelines for public policies (especially economic policies) in developing economies. As a nascent science, ideas on development varied largely throughout the twentieth century. For the purposes of this dissertation, three stages will be emphasized: The Neoliberal period (1945-1968), the Neoclassic-monetarist period (1973-1990) and the Washington Consensus (1991-1997), and the period of dispute between the economic agenda and the social agenda for development (since 1998). Despite the importance of the Neoliberal period in setting the precedent for the IMF's crisis in Latin America, we will focus on the Neoclassic period and the perceived consequences of the Washington consensus in Latin America in order to proceed to explain the shift in policies and communication strategy brought by the mid-nineties.

2.3.2.1. Development as economic growth and reorganisation/stabilisation of the world economy: the supremacy of the Neoclassic-Keynesian synthesis (1945-1970s)

During the years following 1945, the world economy entered an expansionist phase with the ideas of John Maynard Keynes and the influence of Fordism/Taylorism on accumulation. For this reason, many political leaders embraced these ideas and increased the role of the State in the economy in order to reduce unemployment and generate and manage effective demand. The Neoclassical-Keynesian Synthesis inspired large part of the strategies and actions of the IMF, IBRD and UN until the late sixties. Until the eighties, the IMF's conception of conditionality largely ignored underlying structural problems of countries and based on macroeconomic policies, such as the control of credit expansion or the reduction of public deficits. In the case of Latin America, the IMF supported the stimulation of aggregate demand in order to diminish the effects of the economic depression, often by promoting expansionary fiscal policies that raised public expenditure and cut taxes (González, 200: 89-111, quoted in Enríquez, 2010: 40).

The Fund's strategy towards Latin America consisted of enabling the countries to leverage their comparative advantages through a trade environment. Latin America created high levels of employment and real revenues, developed its means of production, promoted exchange stability, avoided depreciation and corrected imbalances in the balance sheets of its countries. Between 1950 and 1970, the region achieved great growth rates –close to an annual 6 % in several countries–, underwent an industrialisation process and broadened its urban middle class. However, the industry-based import substitution (ISI) model that supported this growth evinced deep contradictions and imbalances. The farming sector fell behind and the generalisation of protectionist customs hampered exports and boosted the growth of transnational monopolies in the most dynamic sectors of the economies. As a result, the economies grew departing from an imbalanced public expenditure and ended up deeply indebted. The IMF was strongly criticised for not paying sufficient attention to restoring sustained growth, which could have resulted in the correction of the balance of payments and higher living standards, and to ignore the structural problems of the member states. The moratorium on payments declared in 1982 by Mexico's Prime Minister Miguel de la Madrid embodied the failure of the ISI model in Latin America and the irruption of the debt crisis.

One of the starkest and most well-known critics of the IMF at this time was Eduardo Galeano, who once asserted: "Today, most of the governments blindly follow their orientations. […] The IMF provides with loans or gives to others the indispensable go-ahead to do so. Born in the US, with seat in the US and at the service of the US[9]." (1980: 287). Many examples illustrate how the US benefited from the policies promoted by the IMF in Latin America: how American companies devastated the entrepreneurial

[9] Translation by the author.

environment in many Latin American countries[10], how the market opening resulted in a massive capital outflow[11] and how the "parasitic" Americanisation of the Latin American banking system benefited the US and was largely prejudicial to the local enterprises[12].

Much ink has been spilled on debating the extent to which Latin American elites are to blame on the mournful history of Latin America. An elite that is often referred to as *Lumpenbourgeoisie,* given their accommodative role toward the neo-colonialist powers. This elite has been largely criticised for its idle, passive attitude toward innovation and creative destruction, but also for its passion at defending their status at all costs. This, in a context of cronyist, corrupt military dictatorships in most of the region and an active Monroe doctrine seeking to increase US influence throughout the region, often meant that governments were too worried about complying with US interests to keep their status.

It goes beyond the scope of this dissertation to discuss the extent to which the IMF is to be blamed for those dreadful effects. Nonetheless, it is worth pointing out that, according to Stiglitz, one of the strongest critics of the IMF, the inefficiency of the private enterprises that had been benefiting from protectionist policies obliged consumers to pay

[10] According to a study conducted by the Institute of Social Sciences of the Federal University of Río de Janeiro, in 1965, more than half of the conglomerates with an equity value surpassing 4bn Cruzeiros were foreign, mostly from the USA. Out of the 17 groups that surpassed ₢10bn, only 5 of them were national conglomerates. Besides, the study concluded there were 10 groups exercising monopoly in their respective sectors, eight of which were subsidiary to big North American corporations (Vinhas de Queiroz, 1965, quoted in Galeano, 1980: 281). Something similar happened in Argentina, which competed Brazil in their quest for foreign investment. In FDI in the LAFTA Countries, Sergio Nicolau quoted General Juan Carlos Onganía (Argentinian Prime Minister) in a speech that defined the country's economic stance for the following years: "Foreign investments in Argentina will be considered on an equal basis as those with a local origin, according to our country's traditional policy, which has never been discriminatory to foreign equity". However, many big enterprises were given additional benefits, such as tax exemptions or special exchange rates. In 1962, two local private firms (Siam DiTella and Industrias Kaiser Argentinas) ranked among the top five biggest industrial societies in Latin America. In 1967, both had been bought by American entrepreneurs (CEPAL, 1969, quoted in Galeano, 1980: 283). Only between 1963 and 1968, fifty important Argentinian enterprises were denationalised (29 of which were bought by North American investors) in sectors including steel casting, car manufacturing, petrochemistry, chemistry, electricity, paper or cigarettes (García, 1968, quoted in Galeano, 1980: 283).

[11] On the other hand, this IMF-led opening resulted in capital outflow. According to the OAE, between 1950 and 1967, the capital invested by American firms in Latin America accounted for $3,921m (leaving reinvestments aside), whilst the utilities and dividends that had been sent abroad accounted for $12,819m (Galeano, 1980: 292). The earnings drained more than tripled the value of the capital invested in the region. Argentina, Brazil and Mexico ranked among the most affected countries in the region (Galeano, 1980: 292).

[12] Another consequence of IMF's policies was the Americanisation of the banking system in Latin America. According to the International Banking Survey, the number of bank branches existing in the region rose from 78 in 1964 to 133 in 1967 and, since then, the progress of the American banking became implacable. The size of the new entrants, mostly American billionaire multinationals, not only allowed for the execution of dubious corporate strategies (many business laws had been amended or abolished) that undermined fair competition (cases of dumping or setting up trusts); American banks started to reject loan requests to local enterprises with low liquidity and favoured mostly foreign big enterprises that offered lower risks (Galeano, 1980: 289).

more. And it was then when a loose monetary policy let inflation get out of hand. Countries cannot run high deficits for a long time and sustained growth is not possible with hyperinflation (2002: 53). This helps to explain the nature of the decisions taken in the next period.

2.3.2.2. The structural crisis of the world economy: development as a restructuring of the national economies and their insertion in the international markets through the neoclassic counterrevolution (1973-nineties)

As the countries of Bretton Woods abandoned the gold standard, a strong inflationary recession spread from the main industrialised countries, where it became generalised by 1973, towards Latin America and other strongly indebted developing economies. In 1982, the debt crisis plotted the course of the strategies of the IMF and the IBRD. Since this date, the IMF assumed a much more active role in the management of the world economy than ever before (Lichtenszteijn & Baer, 1986: 35-45, quoted in Enríquez, 2010: 43). In this context, the old Taylorist/Fordist/Keynesian ideas that had boosted demand and generalised the inflationary imbalances in the Latin American economies lost much support and the main international organisations embraced the ideas of economists like Milton Friedman, who vindicated a return to the classic economics. For Friedman, inflation is a monetary phenomenon caused by an accelerated increase of the quantity of money with respect to the production of goods and services ready to be sold[13].

During the debt crisis, the IMF monitored the compliance of national economies with its criteria on macroeconomic discipline and conditionality[14]. Following the harsh criticism addressed to the IMF in the eighties on the grounds of its management of the balance of payments crises, it broadened its conception of conditionality to include structural measures, such as price and trade liberalisation, privatisation or several policies concerning economic governance. The IMF, for instance, began to penalise countries that

[13]Friedman blamed this phenomenon on the loss-making administration of the countries, which financed their expansionary policies by printing money unrestrainedly (Enríquez, 2010: 44).

[14] The IMF still believed that the minimisation of the role of the State would bring development to Latin America. The bases of this paradigm were as follows: (1) the best mechanism for allocating and distributing resources is the market and the actions of the private enterprises; (2) diminishing inflation through moderating the money supply and the reduction of the fiscal deficit; (3) complete openness of national economies to competition; (4) attraction of foreign investment through: openness to trade and financial inflows, easing the labour market through reforms and lower salaries, avoiding overvalued exchange rates, privatisation of public companies and definition of transparent property rights; and (5) higher interest rates to boost internal savings, attract foreign investment, break massive capital flights and enabling the return of expats and emigrants (Rhomberg y Heller, 1977; Crockett, 1981; Larosière, 1982; FMI, 1996, quoted in Enríquez, 2010: 45).

applied expansionist economic policies, like Argentina or Brazil, and to serve as an intermediary between strongly indebted governments and their private international creditors (Enríquez, 2010: 44).

The IMF then started to push for the renegotiation of the debt servicing in Latin America[15]. Additionally, the indebted countries were obliged to nationalise the private debts in order to engage new loans. This blocked any opportunity of growth, as the continent's external debt grew from $230bn in 1980 to $533bn in 1994. In 1997 the debt reached $714bn, $793bn in 1999 and more than a trillion by the end of the century (Franceso, 2004). This all led to the lost decade, when the region's income per capita was yearly dropping by 0.9 % in the eighties and by 1.5 % in the nineties.

The Fund's influence and power, evinced in the clauses of conditionality of their letters of intent, provoked the contraction of the aggregate demand and the moderation of the money supply. This diminished the capacity of the countries to address social problems. These measures were part of the so-called Washington Consensus (hereinafter, WC), a set of 10 neo-liberal economic policy prescriptions that were promoted for crisis–wracked developing economies by the US Treasury Department and other Washington-based economic institutions, including the IBRD and the IMF. The ten policies can be consulted in TABLE XIX.

TABLE IX

The ten measures of the Washington Consensus (WHO, 1994)

1	Fiscal discipline	Strict criteria for limiting budget deficits
2	Public expenditure priorities	moving them away from subsidies and administration towards previously neglected fields with high economic returns
3	Tax reform	broadening the tax base and cutting marginal tax rates
4	Financial liberalization	interest rates should ideally be market determined
5	Exchange rates	managed to induce rapid growth in non-traditional exports
6	Trade liberalization	by dismantling tariff and nontariff barriers
7	Increasing FDI	Foreign direct investment was promoted by reducing barriers
8	Privatization	state enterprises should be privatized
9	Deregulation	abolition of burdens to the entry of new firms or restricting competition (except areas of safety, environment and finance)
10	Secure Intellectual Property Rights	without excessive costs and available to the informal sector

[15] In the eighties, the Argentine economy had contracted by about half a per cent a year, while inflation had soared. At its peak in the late eighties, Argentine inflation exceeded 3,000 per cent—compared with a peak in Latin America as a whole of just under 500% (Krueger, 2004).

For political economist Saad-Filho, the WC encompassed four elements: firstly, the rise of modern neoclassical theory within development economics (inefficiency of the state). Secondly, the belief that "countries remain poor because of misconceived state intervention, corruption, inefficiency and misguided economic incentives[16]" (2010: 6). Thirdly, the conviction that it is the responsibility of the state to ensure a core set of functions and institutions necessary for ensuring market economy (law, IPR, democracy, even military). Lastly, the IBRD would be in charge of studying development whereas the IMF is to ensure orthodoxy and the enforcement of the relevant policies through conditionalities on countries facing balance of payments, fiscal or financial crises.

Despite its social effects, the IMF's intervention was deemed successful at addressing the imbalances of many Latin American economies by the dismantling of many protectionist policies. However, it further enabled the expansion of global financial networks[17] and, arguably, the proliferation of speculative transactions by private financial agents. Its conception of development benefited the stability of macroeconomic variables through monetary tightening but was indeed detrimental to the economic growth and the employment rates in the region (Enríquez, 2010: 48-49).

However, the ultimate damages of these strategies of adjustment and structural change were perceived by the region's population (IBRD, 1991): poverty worsened and spread together with marginalisation and social exclusion, the region ratified its submissive role in the global market (since a large portion of the nations' means of production were dismantled and their internal markets deeply weakened), the power of private initiative in the field of development balanced off the State's, the financial and technological dependence of the region increased and the ability of the Governments to take strategic decisions nationally diminished significantly.

The weakened economic gravitas of the Latin American countries, in collision with the speculative boom that the world saw in the final years of the eighties, had to face serious financial and bank crises that forced many national firms into bankruptcy. This caused a further diminishment of their means of production, raised their unemployment rates and largely showed their vulnerability. The late nineties brought an increase of the levels of

[16] Interestingly, Saad-Filho adds: "There is little specification of what the end-state would look like but, presumably, all countries would eventually approach an idealized version of the United States" (2010: 6).
[17] According to Enríquez, the expansion and consolidation of capitalism were mostly fostered by the global financial bubble, the progress of the international systems of integrated production and the regional integration (2010: 48-49).

poverty, social exclusion that fostered inequality, political instability, underground economy and crime (Enríquez, 2010: 51).

In Argentina, the 1991 Convertibility Plan aimed at delivering high growth and low inflation through disciplined macroeconomic policies and market-oriented structural reform. As the IMF demanded, Argentina adopted a fixed exchange rate system in order to prevent the authorities from printing money to finance public deficits. Between 1991 and 1992, Argentina's annual GDP grew by 10 %, and between 1993 and 1994, by 5 % (Krueger, 2004). Following the IMF's recommendations on fiscal and monetary austerity, Argentina even privatised its social security system in 1994. However, despite its role as a guardian of stability, the Fund did not prevent the private investors from panicking, and the IMF was attributed an active role in the financial disorders that were obscuring the economies of the region (Aglietta y Moatti, 2002; Stiglitz, 2002).

On the other hand, many structural weaknesses remained untouched and only between 1998 and 2002 Argentina's economy dropped by 28 %, poverty rates reached 75 % of the population (Cibils, Kar & Weisbrot, 2002). According to Anne Krueger, some of the origins of Argentina's crisis were the lack of fiscal cushion (created when growth performance was strong), the overoptimistic assessment of the economy's growth potential, the inefficient fiscal system, the fixed exchange rate regime, the growing imbalance between exports and imports (the debt to export ratio rose from 455 % in 1998 to 530 % in 1999) and the dollarization of many financial assets, which implied a serious credit risk in the event of a devaluation[18] (2004).

Argentina's crisis is not only important to illustrate the social ruthlessness of some of the policies promoted by the IMF and their economic consequences. It is also very important as a case that achieved a great notoriety worldwide and contributed to the erosion of the IMF's legitimacy and to the reputational issues that constitute the subject-matter of this dissertation. Besides, Argentina also is the perfect example of the populist movements that spread throughout Latin America in the nineties. In 2001, Argentina's Prime Minister Néstor Carlos Kirchner created a discourse that sought to re-establish the weakened representative linkage between politics and the people by polarising the political scenario.

[18] To these factors, the author adds two others: incomplete implementation of reforms and a lack of ambition of the reforms, *specifically if it had included serious reform of the labor market and if it had tackled the problem of fiscal relations between central and provincial governments* (Krueger, 2004).

Kirchner's communication strategy vindicated a clear separation between "us-people" and "them- power". It aimed to break the generalised perception that linked government to corruption, impunity and neoliberalism, and to substitute it by a new order where he was to play the legitimate representative of those wronged (Retamozo, 2014: 243). This movement was based on the establishment of a common enemy a –IMF, military dictatorships, privatised companies, neoliberalism, corrupt politicians, inefficient justice, multinationals. Despite the bad reputation of populism, it has been perceived as one of the reasons why democracy in some countries survived neo-liberalism[19] (Weyland, 2004).

In countries like Argentina, Brazil, Bolivia, Chile, Ecuador and Venezuela, the political discourse faded away from neoliberalism. The new nationalist governments, yet open to trade, questioned the asymmetry of international relations and the denationalisation process undergone, and sought to recuperate strategic activities and resources. Moreover, these new political trends were favoured by the years of economic bonanza that followed 2004. This also contributed to the discredit of neo-liberal policies[20] and further eroded the IMF's reputation in the region.

This clearly begs the question, how did the IMF react to its own reputational crisis? Did its Executive Board ever admit to being prejudicial to Latin America? In order to shed some light on this question, we turn to Anne O. Krueger speech where she touched on Argentina's great depression (1998-2002), available in APPENDIX I and commented in the Analysis, in section 5. After Argentina's default Anne O. Krueger was quite proactive. She participated in the Guayaquil Conference on the Debt in 2000, where the IMF proposed a new model of debt restructuring (SDRM). Moreover, in 2002, she praised Lula for his sensible economic policies and anti-poverty schemes. A few months later, on 29 July 2004, the Fund's Independent Evaluation Office published a report admitting the role of the IMF in plunging Argentina deeper into its currency crisis, in 2001. The report asserted: "In retrospect, the resources used in an attempt to preserve the peg could have

[19] It is important to point out the differences between this stream of populism and the so-called "neo-populism" that many authors use to design the group of highly personal leaders with vast support in the poorest sections of society that implemented macroeconomic and social reforms in several Latin American countries, including Menem in Argentina, Collor de Mello in Brazil and Carlos Andrés Pérez in Venezuela.
[20] Interestingly, a study prepared by the Inter-American Development Bank on the Electoral Consequences of the Washington Consensus (Lora, 2005) found that reforming parties paid a hefty price for the adoption of pro-market reforms, except when such reforms had been undertaken in conjunction with stabilization policies in high-inflation economies.

been better used to mitigate some of the inevitable costs of exit." (Conway, 2004; IMF, 2004).

The IMF recently published a report in which it reflected about the three main lessons that it had drawn from its experience in Latin America. Firstly, it attempted to increase its attention to weaknesses in states' baking sectors and their consequences in macroeconomic stability through voluntary national assessments[21]. Secondly, it realised that conducting a successful liberalisation of international capital flows was more complicated than expected. Thirdly, "the severity of the contraction in economic activity that accompanied the Asian crisis necessitated a re-evaluation of how fiscal policy should be adjusted when a crisis was precipitated by a sudden stop in financial inflows" (2016b). Introducing these tactics put in place by the IMF at two very different moments are a useful way of approaching the next sections, where the aim is to explain the new strategies embraced by the Fund with respect to its policies and communications. Why was candour the best strategy the Fund's External Relations department (EXR) could find? What was the rationale behind these tactics? A deeper approach to elucidate how these new approaches can fit in an integrated crisis management strategy will be provided in the analysis.

2.3.3. Switching policies in the IMF

In a context of generalised financial crises that spread virulently, the Bretton Woods institutions redefined their approach to managing the expansion and integration of capitalism and its negative effects, mostly due to the recurring instability and the financial imbalances of the developing economies. The damage in the Latin American economies together with the big recession that shook the South East Asian economies made the IMF advocate a reform in the international financial architecture, combating poverty and strengthening national institutions. This section sets forth some of the most prominent changes of the IMF's policies. Namely, a new revision of conditionality, an approach to poverty, an enhanced dialogue with countries, an increased transparency and accountability, a will for even-handedness, and an increased voice of developing countries under the wing of the Board of Governors.

[21] The IMF was making reference to the Financial Sector Assessment Program, launched together with the World Bank in 1999 (2016b).

In May 2000, Managing Director Horst Köhler reformed conditionality so that the letters of intent gave more space to countries to set their own priorities –and even to change them depending on the evolution of the circumstances–, and increased coordination with other international institutions and with the member countries. Indeed, nowadays borrowers are invited to discuss with the Fund the conditionality and the demands of the countries, depending on their level of income, are subject of study in order to increase learning on the part of the IMF (Ahmed, Lane & Schulze-Ghattas, 2001). Besides, in 1999, the IMF's concessionary facility was recalled the Poverty Reduction and Growth Facility (PRGF), which emphasizes the Fund's role in reduction of poverty and growth.

Indeed, the traditional focus of the IMF on macroeconomic aggregates has been softened through a swift towards poverty. Yet many critics cast doubt on the effectiveness of the Fund's programmes against poverty (Hajro & Joyce, 2009: 295-306; Stiglitz, 2002). TABLE XI offers examples of the IMF's poverty programmes in Latin America, especially in the fields of unemployment and *per capita* income.

TABLE X

The IMF's poverty programmes in Latin America

Progresa Mx, mid-1990s	The Education, Health, and Nutrition Programme in Mexico was strongly promoted during the second half of the nineties.
HIPC Ho, Ni, Bo, Ht, 1996 IMF and IBRD	The Heavily Indebted Poor Countries (HIPC) Initiative aimed to manage and relieve the debt of marginalised countries in poor regions and, in doing so, fight poverty. The four countries in the region that benefited from it were Honduras, Nicaragua, Bolivia and Haiti.
PRGF Poorest states, 1999 IMF and IBRD	The Poverty Reduction and Growth Facility (PRGF) aims at curbing poverty through (conditional) loans at very low interest rates to the poorest member States. Other addressed issues include: the rationalisation of public expenditure, transparency and accountability.
UNMDG Needed regions, 2000 IMF and UN	The IMF took part in the UN's Millennium Development Goals programme by giving advice in the design of public policies, offering technical assistance and loans, contributing to relieving debt and optimising the aid provided. In 2015, the IMF committed itself to the 2030 Agenda for Sustainable Development.
MDRI HIPC countries IMF, IDA and AfDF	The Multilateral Debt Relief Initiative (MDRI) underpinned the HIPC by providing complete relief on eligible debt to several low-income countries. The G8-led initiative involved the IMF, the International Development Association (WB) and the African Development Fund.

As mentioned above, the IMF has sought to engage in a constructive dialogue with other actors. This goes beyond borrowers and affects every member state. Since 1999, the IMF and the World Bank have been conducting national assessments to find out more about its membership and to discuss the reasons why its advice could face opposition (IMF, 2015; Truman, 2006: 5). The IMF's main assessment tool for this purpose is the Triennial Surveillance Review (TSR), conducted in 2011 and again in 2014. Additionally, in 2013 the Independent Evaluation Office (IEO) reported a reputational improvement among its membership. According to its study, members of the IMF consider it more open, listening and responsive (2013). Arguably, the Fund is now much more inclusive than two decades ago; now it seeks to enhance the efficiency of its policies and operations by communicating with its membership. However, these general facts are only partially trustworthy, as they only comprise the opinions of the countries' authorities and their results are put in relative terms. Those who criticise the IMF for being at the service of the governments and not of the people can still do it in peace.

These reports offer very significant information regarding additional criticism that the IMF has traditionally faced, such as its alleged partisanship. It is interesting to point that, in the Group of 20, less than 15 % of respondents from the Middle East, Europe and Africa believed the IMF's advice was not evenhanded. The percentage rose to around 20 % in the case of Asia Pacific but, in the case of the Americas[22], was about 65 %. Additionally, according to the same report, whereas 70 % of the respondents concurred with IMF's risk assessments of their state, 20 % of respondents in the Americas deemed them too optimistic and 30 % saw them as too alarmist (IMF, 2013: 25).

Beyond this symbolic increase in the voice of the countries, December 2010 brought a *de facto* increase in the voting quota of the developing countries under the wing of the Board of Governors. All the total quotas of the member states were upgraded and the relative quotas were significantly revised to reflect the evolution of the relative weigh of every country by almost tripling the basic votes. Thanks to this reform four emerging countries began to rank among the 10 major shareholders of the Fund –namely, Brazil, China, India and Russia.

In 2011, the fifteenth general revision of the Articles of Agreement, the Amendment on Voice and Participation was passed in order to increase the voice of the emerging economies. However, this reform has not yet come into effect as the approval of the Congress of the US, the IMF's largest shareholder with 17.68 % of votes, is still

[22] It is crucial to recall that the term "Americas" also includes the US and Canada.

pending[23]. Amendments on the voting system require 85 % of votes. This has heated up a bit the traditional controversy around the role of the United States in the Fund.

On the other hand, the discourse of the IMF continues to support the importance of a balanced and non-deflationary economic growth through the implementation of policies that were compatible with macroeconomic stability and international competition. However, more than a decade since the IBRD realised the negative effects of the privatisation of the basic services upon ample impoverished and marginalised groups, the IMF still understands development as sustained economic growth that fosters the reduction of poverty in the framework of the measures of the WC (Enríquez, 2010: 53).

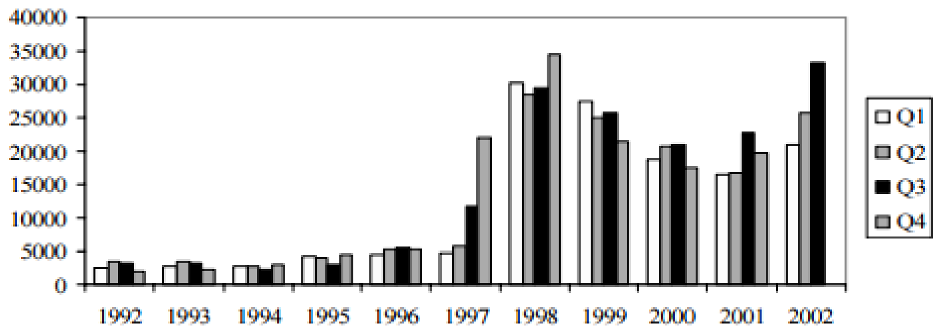
The next section aims to address the Fund's communication tactics since the mid-nineties, emphasizing its new attitude with respect to transparency and accountability, as it constitutes one of the main tools of the IMF in its reputation management strategy.

2.3.4. A new approach to communication and transparency in the IMF

Mostly due to the Asian financial crisis that followed July 1997 but definitely influenced by the subsequent crises in Russia (1998), Brazil (1999) and Argentina (2001), IMF turned into the media spotlight. As shown in TABLE XI, the number of references to the Fund more than quadrupled in a few months. This arguably prompted the creation of the Fund's first integrated communications strategy in July 1998, as well as the successive five meetings that have taken place under the wing of the Executive Board to programme its evolution, as it will be further discussed further on in this section.

TABLE XI

Number of references to the IMF, FMI or IWF in press publications[24] (IMF, 2003b: 9)



[23] Information available at: IMF. (2016a). *IMF Members' Quotas and Voting Power, and IMF Board of Governors.* IMF. Retrieved Jan 28, 2016, from http://www.imf.org/external/np/sec/memdir/members.aspx
[24] Excludes republished news, market data, and calendars. Source: Factiva.com database.

In 1998, with Michel Camdessus as Managing Director, consulting firms Edelman Public Relations Worldwide and Wirthlin Worldwide were engaged by the IMF to provide recommendations *for improving the ways in which it communicates information about its work to the public* and, in doing so, increasing the IMF's openness (IMF, 1999). The 1999 Edelman report, summarised in TABLE XII, conveyed one clear message: to improve results in the media and other circles, the IMF needed to sharper focus and enhance the coordination of its messages (IMF, 2003b: 12). The IMF was facing serious criticism and, as spotlight, building up a strategy based on the Edelman report was more needed than ever. The following quotation from the Annual Report of the Executive Board for the Financial Year 2000 illustrates very well the stress the IMF was under.

> *Notwithstanding its efforts to enhance its external communications, the IMF faced continued criticism by the press, NGOs, member countries' legislatures, the academic community, and the wider public, which was most visibly expressed by public demonstrations against the IMF and World Bank at the time of both institutions' Spring 2000 meetings* (IMF, 2000: 154).

TABLE XII

Summary of the consultation report commissioned by the IMF regarding its perception in several groups (IMF, 2000: 154)

Communications with the Public	• Lack of understanding of the functioning of the IMF among many members of the media, business, civil society, and academia. • Deficient coordination of the IMF's public output and lack of proactivity.
Communications with Financial Markets	• Eroded credibility of the IMF due to perceived policy mistakes and weak communication with markets. • Need for an approach to regional interests and sensitivities to make statements and publications more user-friendly.
Communications with the US Congress	Despite improvements in openness • Need to respond to criticism from both opponents and supporters. • Need to be more active in its liaison to the US Congress
Media Operations	• The technical and nuanced language burdens transparency • The IMF needs to improve its newsroom services during its ministerial meetings (twice a year). • The higher transparency has created a higher demand for documents for interpretation, analysis and perspective.

Indeed, the first strategy engaged by the IMF comprised four main elements. Firstly, the Fund needed to focus on a few main messages. Secondly, it had to adjust its messages to improve the citizenship's understanding of its actions. Thirdly, it had to promote a two-way dialogue with legislatures, private financial sector, civil society organisations and critics. Lastly, it had to extend the reach of its communications (IMF, 2003b: 12). These four elements have provided the backbone of the subsequent external communication policy reviews, broadly condensed in TABLE XIII, each one of which has provided a little specialisation and update with respect to its predecessor. This was particularly important in 2007, when the Fund resolved to consolidate its presence on the internet.

The current framework guiding the Fund's communications dates back to 2007. Despite an increased emphasis on consistency with respect to its predecessor, its principles are noticeably similar. Namely, increasing the citizenship's understanding and support for the IMF's functions and policies; enhancing the integration of communications and the Fund's operations; maximising the impact of new materials and technologies; and, lastly, reorienting efforts to reflect different audiences. In this regard, 2007 brought in web sites in the IMF's six most used languages[25], including Spanish, with access to translated speeches, summaries and other major documents of the Fund. In 2014, the Executive Board supported the decision of synchronising the Fund's reports on transparency and those on communication.

TABLE XIII

The six meetings of the Executive Board to discuss the IMF's external communications strategy

Meeting date	Main measures
July 1998	The IMF's external communications activities have three purposes (1998a: 13): • Increasing the understanding and quest for sound policies and best practices through the dissemination of staff analysis and research, advocacy, and consensus building; • *Contributing to public understanding and support for* the *institution, by providing information on the IMF's work, policy positions, and processes and meeting a high standard of public accountability; and* • *Helping influence economic policy in individual countries through the communication of IMF views in the context of bilateral surveillance and the provision of financial assistance.*
February 2000	Strengthen IMF external communications. Recommendations from outside consultants that the IMF develop a strategy comprising (IMF, 2000): • Conveying a clearer message • Increasing transparency

[25] The languages introduced were Arabic, Chinese, French, Japanese, Russian, and Spanish (2014b: 26).

	• Increasing proactivity, coordination and focus of the Fund's external communications: *employing more resources to external relations, reorganising its external communication function, increasing publications and documents available online, engaging in more frequent public discourse through speeches, press briefings and additional materials.* • Advertising the IMF's greater role in transition processes, assistance to the poorest countries and emerging markets, etc. • Increasing communication with parliamentarians of member countries.
March 2003	Publication of *A Review of the Fund's External Communications Strategy* (2003b), promoting a more forward-looking external communications strategy by: • Increasing communications effectiveness • Focusing and coordinating the Fund's communications • Improving the availability and accessibility of information and messages • Engaging proactively in outreach and dialogue with non-officials • Broadening the reach of the Fund's communications
March 2005	Publication of *Integrating IMF Communications and Operations: Responsibilities of the External Relations* Department (IMF, 2005b): • Further integrating communication and IMF operations • Increasing openness and publications • Developing and implementing regional and country communication plans, translating more into other languages. • Giving special coverage to the success of the MDGs. • Ensure all staff members have access to more information and a common approach to disseminating it.
June 2007	Publication of *The IMF's Communication Strategy* (2007a), a more detailed action plan aiming at responding to a change in the global context. • Building understanding and support for the IMF's Reform Agenda • Using communications to make operations more effective • Further allocating roles and responsibilities across the Fund • Increasing emphasis on the Web • Revamping publications • Making more effective use of languages other than English • Rebalancing Outreach Across Key Constituencies • Strengthening Internal Communication
August 2014	Publication of the *Review of the IMF's Communications Strategy*, with a clear focus on transparency (IMF, 2013: 6): • Increasing publication rates and timeliness. • Translating more public communications into other languages. • Clarify the Fund's rules on confidentiality and avoid leakages. • Improve evenhandedness through an annual table to the Executive Board specifying all dismissed requests. • Responding to new needs, particularly regarding the new surveillance era. • Prioritise the completion of the 2009 archives policy reforms by digitalising of paper-based records and declassifying materials. • The communication strategy must be revised more frequently. • Emphasis in cost-effectiveness.

The role of the internet has been vital in the process of configuration of the IMF's communications strategy as we know it today, all the more since it has fostered the enhancement of transparency, one of the Fund's biggest projects. Increasing transparency has been sought through publications, communication and public access to Archives. For this reason, it can be considered as great part of the IMF's communication strategy and one of its major successes. IMF made Archives openly accessible in 1996 with a fixed 30-year lag for all documents. In May 1997, the Fund established a system of Public Information Notices (PINs) for voluntarily[26] disclosing some basic information following the conclusion of Article IV consultations with members upon request[27] (IMF, 1998b: 3).

Since 1996, the Fund has put its efforts into reducing the lag, increasing the array of documents (current and old) available, promoting the translation into several languages and improving accessibility for users. The Fund's archive policy was reformed in 2009 and in 2010 a digital library and bookstore were established to provide global access to Fund publications and data, which in 2013 comprised over 90 % of country documents and policy papers were published (IMF, 2014b: 28). With respect to the Archives' lag, it now stands at 3 years for most Board documents, 5 years for Board minutes and 30 years for other documentary materials. However, it is necessary to point out that the publication of all policy documents, despite presumed, is still voluntary[28] (IMF, 2013: 9-10).

The IMF's communications campaign has sought to gain the citizenship's understanding and support through a "sharpened focus" while trying to preserve its coherence and consistency with its role. The IMF currently has a technology-based strategy that consists of making more information more available, accessible and comprehensible, while reorienting efforts to reflect different audiences and promoting the two-way dialogue with legislatures, private financial sector, civil society organisations and critics. In this regard, the Executive Board has assumed the importance of communication as a way to improve the effectiveness of the Fund's activity itself, by turning its acceptance and reputation into financial stability.

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[26] Of the 136 consultations completed during 1997/98, 77 resulted in the issuance of PINs (IMF, 1998b: 3).

[27] The 2013 Transparency Report clarified (9): Voluntary *means that the publication of country documents is subject to the concerned member's consent. Presumed means that the Fund encourages each member to consent to the publication of such documents by the Fund. The exception relates to statements on Fund decisions on waivers of applicability or for non-observance of performance criteria and waivers for non-observance of assessment criteria. These statements are not covered under the "voluntary but presumed" publication regime because they are factual and do not, therefore, require the member's consent.*

[28] The last big change in this regard took place in 2009. Before that, only Article IV and UFR staff reports were presumed to be voluntary (IMF, 2013: 9-10).

The example of Argentina

To the surprise of many, Argentina's *corralito* was not a turning point in the crisis management strategy of the IMF. Indeed, it did not provoke an immediate response by the Fund, who would first pronounce in this respect in a press briefing on 6 December 2001, three days after the decision was decreed by PM De la Rúa. Nonetheless, a whole study was released by the Fund to evaluate its role in Argentina between 1991 and 2001. In this report, published in July 2004, the Fund's Independent Evaluation Office (IEO) made a series of critical statements toward the management of the crisis on the part of the Government of Argentina. According to this report, Argentinian policymakers did not take all necessary corrective measures sufficiently early and they failed at fully implementing all the commitments made under the programme with the Fund. The IMF, on its part, "supported by its major shareholders, also erred in failing to call an earlier halt to support for a strategy that, as implemented, was not sustainable." (IMF, 2004: 64-66). The report also includes ten self-critical lessons that are available in APPENDIX I.

The contribution made by its First Deputy Managing Director and Chief Economist, Anne O. Krueger, at the Economic Honors Society of New York University, on 23 March 2004 proves very enlightening regarding the IMF's efforts to increases its accessibility and openness. In her speech, in APPENDIX II, she admitted and talked about the catastrophic consequences of the policies of the IMF in Argentina. For her, there were two crucial factors involved in the lack of success of the WC policies in Latin America: the insufficient ambition of the reforms implemented in the countries, especially with regard to labour markets and the lack of follow-through for the reforms adopted (Krueger, 2004).

An ongoing effort

In their 2007 Meeting the Directors noted that "effective communication requires a tailored approach, depending on audience, circumstance, and product, along with easily readable and accessible documents that are more effective in persuasion" (IMF, 2007b). No wonder the Fund's EXR became highly specialised, particularly since the 2008 financial crisis. On 1 May 2013, EXR was renamed as the IMF's Communications Department (COM), which now comprises a Crisis Management Team (CMT) to "manage security, health, or disaster-related events that could affect staff, assets, operations, and reputation", a Crisis Communications Team and a "crisis communications framework", which "allows the department to mobilize staff and resources at short notice, to disseminate information, and to take remedial action, as needed." (2014b: 26)

Undoubtedly, there is a huge amount of interesting information available that certainly contributes to a deeper understanding of the new approach to communication and transparency implemented by the IMF since the mid-nineties. However, given the restrictions of this dissertation and in order to safeguard its agility, this section concentrates on providing the basics upon which the conclusions of this study will be built. The next section aims to outline the objectives and questions that drive this dissertation, paving the way to its subsequent discussion in the section of analysis. Additionally, in order to shed some additional light on the factors that have influenced the arguments and conclusions of this dissertation, a brief explanation of the methods that have been used to collect and analyse the information set out in the previous section will be provided.

3. Objective and questions of this dissertation

This dissertation aims to elucidate the nature of the crisis confronted by the IMF in Latin America and to analyse the reputation management strategy implemented to address it. On the one hand, this study attempts to discuss the general background that prompted the configuration of the crisis, its nature, evolution and characteristics from a broad perspective. What type of crisis is there in Latin America? Why so? What is the biggest criticism? When did the crisis begin? On the other, questions regarding the IMF's response to this crisis, its reputation management agenda, its purposes and conditioning factors, and its strengths and weaknesses will also be addressed. What are the phases of the IMF's reputation management strategy? When did it begin? What are its bases? How did the Fund address the criticism it confronted? Is the crisis over? Much effort has been put in maintaining the impartiality of this study. Despite not being statistical in nature, a large amount of information and many authors and sources representing both sides of the story have been considered in order to provide the best answer to the main question of this study: What does and has the International Monetary Fund done to restore its reputation in Latin America?

4. Methodology

This section aims to summarise the process of data collection and data analysis followed during the planning, preparation and writing of this study. Due to the vast array of actors (e.g. journalists, academics, officials, politicians), arenas (e.g. print and broadcast media, political rallies, academic publications, political rallies) and territories (e.g. states, parties, lobbies, trade unions, social movements) that condition and influence the perception of the Fund, attempting to make an exhaustive collation, classification and systematic analysis of all the information available could be a life's work. The task undergone by this study is more manageable and arguably more useful: to study in a broad sense the background and nature of the reputation crisis experienced by the IMF and to present a thorough analysis of the strategy implemented to address it. The methodology employed can be thus classified into a wide-ranging category of informal research methods which, albeit not systematic in the data collection or interpretation, constitute a source of in-depth understanding of the subject matter of the study (Coombs & Holladay, 2012: 22).

Regarding the sources of this dissertation, data originate from academic theoretical works on political communication and crisis management; historical and economic literature, both critic and supportive, describing the role of the IMF in Latin America; and briefings and papers published by the Fund, including financial year reports. Despite the large body of press material and the array of political discourses that contributed to the erosion of the IMF's reputation in the region, this dissertation focuses principally on academic works. This is due to the fact that the emphasis of this dissertation was to be on the IMF's role in addressing this reputation crisis, and not on the reputation crisis itself. Of course, analysis of the IMF's strategy needed a previous examination of its circumstances, which automatically includes the crisis itself and the actors, territories and arenas involved. However, for the purposes of this dissertation, the analysis provided by scholars in the field has been deemed sufficient.

The data collected have been analysed in four phases. Firstly, a review of literature available on the field has been conducted to identify the core issues and actors. Secondly, a more in-depth, empirical examination of the literature reviewed has been performed to assess the extent of the issues identified and the vindications of each of the actors. This phase is based on economic analyses and reports with a high statistical value. Thirdly, to understand the IMF's decision making in the configuration of its crisis communication and reputation management strategy, the complete range of reports describing each of the Executive Board's reviews of the Fund's external communications and transparency policy has been carefully reviewed and analysed, including all the appendices of high statistical value thereby attached. Lastly, the ideas resulting from the previous three steps have been contrasted with the ideas set forth in the theoretical framework in order to describe and organise the findings of this study in an academically pertinent, comprehensive way. Given the great importance of perceptions in this dissertation, great attention has been paid to explaining the case study. The more thorough the understanding of the crisis, the more impartial our conclusions can aspire to be.

5. Analysis and discussion

5.1. The crisis

This dissertation began with a definition of crisis as an event that threatens important expectancies of stakeholders and can seriously impact an organisation's performance and generate negative outcomes. Considering this definition and considering the evidence collected throughout this dissertation, there is little doubt that what the IMF was facing in the early twenty-first century was indeed a crisis. However, given that crises often emerge jointly with other crises of different kinds, it is possible –indeed, it is likely– that we should be talking about the IMF's crises –e.g., an internal, a managerial and a reputational crisis converging in time. However, in order to elucidate this matter, an exhaustive study of the causes, origins, agents and factors of the situation would be necessary.

Given the limits of this dissertation, many questions must remain unanswered but we do have solid evidence that proves the existence of a reputational crisis involving the IMF. On the other hand, its scope also is difficult to define. Despite the weight of evidence and many studies suggesting that the reputational crisis of the IMF is global, the contrasting perceptions of the different countries with respect to the Fund mean we have to talk about different crises, one of which materialized in Latin America[29]. Without a doubt, the influence of the populist and leftist governments that mobilised public discontent during the nineties and noughties contributed to a certain distortion of the IMF and its projection. For this reason, the reputational crisis of the IMF in Latin America has deeply subjective influences. However, it is also important to point out that the reputational erosion of the IMF in the region is very uneven. Particularly, the attitude of traditional US allies such as Colombia or Puerto Rico differs much from that of the members of the Bank of the South.

[29] For instance, in 2006 US Treasury Under Secretary for International Affairs Timothy Adams suggested that the IMF was becoming a development institution focused primarily on its low-income members that should instead focus on its core mission: "international financial stability and balance of payments adjustment." (Truman, 2006: 3).

Some of the main differentiating characteristics of this crisis, as seen in the literature review, include criticism regarding its evenhandedness (the IMF is often perceived as an American imperialist tool and accomplice of military dictatorships), perceptions that it is oppressive and despotic (in pursuing its *market fundamentalism*[30] at all costs and using conditionality as a weapon) and a generalised discontent regarding the IMF's management of the currency crises, particularly in Argentina and Brazil. Other characteristics of the IMF's crisis at a more global level[31] but still applicable to the subject matter of the present dissertation comprise criticism that the IMF is poorly representative (large asymmetries regarding the members' voting quotas), dubiously democratic (excessively technocratic and seating *membership*, not *citizenship*), opaque and ruthless.

The dynamics of the crisis process were as follows: first, it was not unexpected or sudden. Therefore, it was not an issue crisis or an emergency crisis. This also implies that it was not a discrete crisis, as Siomkos puts it, but rather a continuous one. The media coverage, social and political activity, academic literature and further sources that prove the blatant social discontent toward the IMF throughout the last quarter of the twentieth century suggest it was not merely a latent crisis.

Having said this, we can ascertain with a moderate level of certainty that the reputational crisis started in the early eighties, when the IMF started to make the first amendments to its conception of conditionality, which many critics already perceived as inappropriate. However, despite all changes, the following years only helped to put more pressure into Latin Americans throughout the *década del repunte* ("the upturn decade") in the nineties, particularly following the establishment of the leading principles of the Washington Consensus. It was in the mid-nineties when the Fund first stood up for the creation of an integrated communication strategy that helped enhance its connection with the citizenship. It would be risky to establish the origins of this decision, but the proximity in time between the Asian crisis, the dramatic rise of the number of references to the Fund

[30] Term largely used by economist Joseph Stiglitz (2002).
[31] In January 2003, IMF's Economic Counsellor and Director of the Research Department Kenneth Rogoff wrote a very critical article for Foreign Policy against the demonization of the Fund. He identified four among the IMF's most common types of criticism:

> *First, IMF loan programs impose harsh fiscal austerity on cash-strapped countries. Second, IMF loans encourage financiers to invest recklessly, confident the fund will bail them out (the so-called moral hazard problem). Third, IMF advice to countries suffering debt or currency crises only aggravates economic conditions. And fourth, the fund has irresponsibly pushed countries to open themselves up to volatile and destabilizing flows of foreign capital* (Rogoff, 2003).

in the worldwide press and the changes in transparency and external communication it underwent suggests this relation was not accidental.

A very important decision that the IMF had to face before designing an integrated crisis communication strategy was to define the boundaries of its crisis. If spelling out the origins and causes of the Crisis has proved difficult in this dissertation, this task was not any easier for IMF. Besides, the Fund had to weigh up what it felt responsible for and what people believed it was responsible for. The dilemma was solved by defining what it was willing to admit being responsible for. Of course, it could have remained silent, but a corporate apologia strategy was almost a compulsory option considering the impossibility of resorting to denial or even evading responsibility. In the Fund's own words: it was about "putting forward consistently a more balanced view of the IMF's role, in terms of successes and failures*"* (IMF, 2005b).

Additionally, in the middle of the Crisis, speaking out and clarifying the stake of the IMF was also a way to thump the table and restore the order around its rule. Chaos only increases notoriety. In this case, for example, many governments unwilling to take responsibility for their wrong decisions could have used the Fund as scapegoat. Without a doubt, the report commissioned to Edelman's consultants in 1998 configured the basis for the communication strategy of the following years. This report led to the configuration of a communication strategy that sought to improve understanding and support for the Fund, to back the credibility of its policies and to do so without prejudice of its nature of financial institution. In other words, becoming a humanitarian institution by offering financial assistance with little or no conditionality was never on the table.

5.2. The crisis communication strategy

We now proceed to analyse in greater depth the communication strategy put in place by the IMF since May 1998, understood as a crisis management communication framework. As previously stated, the origin of the Crisis is very difficult to determine. For this reason, it is very difficult to make an integrated assessment of the strategy implemented in the pre-crisis phase. Nonetheless, a little explanation of the inception of the strategic efforts of the IMF must be provided before plunging into the crisis phase. Similarly, since the crisis is still ongoing, given its continuous nature, the following section will have to have an open ending regarding the prospective evolution and potential challenges the Fund might have to face in the future.

5.2.1. Pre-crisis phase

Given the continuous nature of the IMF and the ample number of factors that, separately in time, contributed to the configuration of the Crisis, trying to confine this phase into specific dates would be as imprudent as futile. However, considering the literature reviewed, there are signs that the IMF went through this phase. More specifically, since 1998, it put much efforts into crisis sensing, departing from the 1999 Edelman Report, and tried to curb discontent in Latin America through an issues management strategy, very important during the debt crisis in the eighties, based on short term, theme-specific responses to concrete issues. However, the IMF's pre-crisis tactics primarily focused on palliation and information (e.g. ad-hoc press briefings or PINs after 1997), and left prevention aside.

Some of the strategies that experts and researchers recommend to put into place prior to a potential crisis (e.g. outlining a plan of coherence and consistency for non-appointed spokespersons or designing a crisis-specific plan and team) would not be brought in until the mid-noughties. This might be due to the fact that EXR's situation awareness was limited until the establishment of a system of surveys and consultations in 1999 that sought to create knowledge directly from the citizenship. Besides, the first exhaustive studies on crisis management date back to the second half of the eighties, and this field has not been largely accepted until very recently. Notwithstanding, it is interesting to point out the creation of the PINs as early as 1997, setting the basis for the integrated transparency strategy implemented by the IMF, which constitutes one of the milestones of the Fund's crisis management strategy.

5.2.2. Crisis phase

Given the youth of crisis management as a distinct field when the IMF started taking its first integrated responses to a crisis, in the second half of the nineties, it had not got the chance to apply any formal research method in crisis management, including the ones applied to audience effects. Rather, the Fund's strategies were configured on the basis of informal research methods, content analysis and a great dose of rhetoric. As previously mentioned, the Fund's crisis communication strategy sought to improve understanding and support for the Fund, to back the credibility of its policies and to do so without prejudice of its nature of financial institution.

The four points of the IMF's initial strategy, approved by the Executive Board in its 1999 meeting[32], were the result of a deep reflection on a broader question –the Fund needed to undermine the legitimacy of the criticism rallying against it. The Fund was well aware of its unpopularity and knew that a big proportion of the criticism it was facing was either deeply rooted in its very structure and essence, or deeply subjective. The former were questions that went far beyond a crisis communication strategy and that were fiercely protected by the very articles of association of the institution (particularly regarding the voting quotas). Still, the IMF largely reviewed its approach to conditionality, to poverty and its external relations, in its ambition to promote a more evenhanded, democratic system of symmetrical communication with its members. The latter was a criticism that the Fund attempted to muddle through by using communication for self-defence, as illustrated by the 2004 Report on the Evaluation of the Role of the IMF in Argentina.

The strategy of the Fund thus focused on the remaining criticism, particularly those involving the Fund's unsuccessful policies and perceived defaults, and in trying to improve people's understanding on the functioning of the institution and on the decisions and drivers thereof. The Fund understood that most criticism stemmed from insufficient external communications. Firstly, this information vacuum was an ideal climate for criticism to thrive. Secondly, it was favouring the adoption of possibly mistaken policies. Lastly, given the reputational risks of potentially unsuccessful policies, the Fund was taking on too much responsibility by taking decisions on its own. Particularly after great crisis in the seventies, when the global economy became largely unpredictable, staying accountable turned too heavy of a weight to carry. Prompting the involvement of other actors through increased transparency and symmetrical communication with legislatures, private financial sector, civil society organisations and critics, was to become a necessary exhaust valve that largely diminished the Fund's chances of becoming a scapegoat.

For this reason, as part of the IMF's integrated reputation management strategy and a source of social accountability, much importance has been given to the provision of accessible, comprehensible and persuading information that conveys the IMF's side of the story. This has been primarily sought through an increased media independence and a "sharpened focus" strategy, encompassing an *issue pruning* and a more audience-

[32] The four points can be summarised into: focusing on a few main messages, increasing understanding of the Fund's actions, promoting a two-way dialogue with legislatures, private financial sector, civil society organisations and critics, and extending the reach of communication.

specific approach to communication. On the one hand, the Fund's interest is to provide non-mediate information to the audiences, *id est,* the IMF has been particularly worried about increasing its voice through the development of its own means of communication, decreasing independence from the media. Decisions such as the establishment of an open access on-line database for documents and information, the diminution of lags for the publication of documents that used to be considered sensitive, or even the increase in the rate of publications and press briefings (currently standing at once a fortnight) have responded to the Fund's interest in not being mediated.

On the other hand, this interest in increasing the independence with respect to the media is complementary to the "sharpened focus" approach, backed by an *issue pruning* and a more audience-specific approach to communication. Whereas the first one refers to the reduction of the number of important issues on spotlight to one or a few, the latter led to the creation of different categories of documents within the Fund's database. These are vital to promote understanding in the citizenship, beyond educational or intellectual limitations, a feeling of accessibility and openness that highly intricate contents would not provide, an extended reach in communication and, what is more, they prompt effective, symmetrical communication. Some of the different categories are configured by levels of specialisation, quantity of information, simplification and languages. It was particularly in its meeting in 2003 that the Executive Board had a more in-depth discussion in this issue. Interestingly, despite translations into languages other than English were already available, their success was limited[33]. However, due to the deep, politicised and mediatised resentment against the IMF that was thriving in Latin America, increasing efforts in media independence through a successful communication in Spanish was crucial. In 2007 the use of languages other than English was further enhanced.

Regarding Sturges' conception of strategic advice, IMF's crisis communication strategy toward Latin America has mainly focused on reputation repair through a new approach to external relations. Notwithstanding, the will to keep on offering its support to the region and expressing its sympathy ("adjusting information"), as well as its determination to prevent successive crises ("instructing information") from occurring were also part of the main message sent by the IMF after Argentina's disaster. What is most interesting was the Fund's subsequent self-defence, based on the principles of bolstering, differentiation

[33] The report gives a few reasons why these translations were unsuccessful and suggests a few ideas aimed to tackle it.

and transcendence. Some could argue that the IMF could not deny its responsibility in the fatal dénouement of the Argentinian crisis, prompted by the Fund's ruthless impositions. This dissertation defends the position that –legitimately or not– it could have, but deliberately chose not to do it.

On the other hand, from an IRT perspective, the Fund did try to evade some of its responsibility, mostly through adducing lack of control over the situation and reassuring the Fund's good intentions, and to reduce offensiveness. The later included its mortification and subsequent apologies followed by the long-term, communication-based reputation management strategy that is being analysed in this section. This long-term strategy certainly matches the "rhetoric for renewal" model analysed by Coombs and Holladay. Despite the existence of a strong pre-crisis constituency-organisation relationship –preeminent characteristic of this model– is very questionable, the importance of ethical standards (in words of the IMF, "reputation" and "consistency") and the strategic mortification followed by a redemption focused on the citizenship and civil society are enough evidence to assert that the Fund's strategy was indeed optimistic in pursuing renewal. Of course, a renewal focused on objective, feasible improvements through an enhanced symmetrical communication with legislatures, private financial sector, civil society organisations and critics.

5.2.3. Post-crisis phase

As aforementioned, the Crisis is still ongoing and, considering the IMF's large amount of subjective and essential criticism, margins of error, and likeliness to be scapegoated, there are reasons to believe that the IMF will face permanent reputational crisis. However, some decisions taken under the wing of the IMF can be arguably comprehended in a post-crisis strategic framework. Examples include the preparation of final and retrospective reports on prior crises, the continuing of polices adopted during the peak of the Crisis (particularly social policies or its quest for a symmetrical communication environment) or the creation of CMT and a distinct Crisis Communications Team therein. Particularly interesting is the latter, as it embodies the Fund's will to channel some of the attention paid to stakeholder reaction management into knowledge management, understood as the collection and analysis of information from a wide range of stakeholders. This is crucial to do an efficient follow-up of its crisis and to maximise learning from prior crisis events. It ultimately helps to ensure a positive outcome of its crisis management strategy, to prevent potential crises and, in the event thereof, to address them more effectively.

6. Conclusions and propositions

In conclusion, the IMF is in a constant reputation crisis with particular characteristics in the case of Latin America. Although the IMF's reputation varies throughout the region, the subjective dimension of the crisis in Latin America probably is its most defining characteristic, incubated throughout the 20th century and fuelled under the wing of populist and leftist governments in a context of institutionalised regional integration. The Fund's first integrated crisis management strategy was implemented in the late 1990s, when its reputation was particularly contested after its media presence had risen dramatically. This strategy was to tackle three types of criticism: essential criticism, which was addressed through reform, mostly in the areas of conditionality, poverty and representativeness; subjective criticism, largely influenced by the populist and leftist governments that prospered in the region in the nineties and noughties; and criticism stemming from technical failures.

To restore its reputation in Latin America the Fund sought, on the one hand, to put forward consistently a more balanced view of the IMF's role, in terms of successes and failures. This strategy, midway between apology and the self-defence, hoped to improve understanding and support for the Fund, to back the credibility of its policies and to do so without affecting the nature of the financial institution. On the other hand, the IMF stood up for a "rhetoric for renewal" crisis communication strategy that emphasized external relations. For the IMF, information asymmetry is highly detrimental to its reputation, as it fosters subjective criticism, erodes the Fund's ability to implement the best policies and increases the Fund's chances of suffering accountability scandals and being scapegoated by other actors. The external relations strategy thus sought a two-way dialogue with all relevant actors while ensuring representation of the IMF's stance. With respect to the citizenship, this translated into providing open, accessible, non-mediated and persuading information to the public through media independence and a sharpened focus strategy based on *issue pruning* and a more audience-specific approach.

Between 2009 and 2011, COM conducted research into the role of the Fund as a trusted advisor to assess key stakeholders' perceptions[34]. The study showed that, basing on its activity during the 2008 crisis, the Fund had been seen as speedy, open, collaborative and

[34] According to the Fund, the study –based on interviews to country authorities, executive directors and mission chiefs, emphasized the Fund's main image, strengths and weaknesses; effectiveness during the 2008 crisis; and its potential future activity in the country and globally (2014b: 35).

adaptable. However, in Latin America the Fund's advice was still perceived as rigid and biased tool limited to developing countries but with limited on industrial economies (IMF, 2014b: 35). In parallel, another study was conducted among civil society organisations. Despite recognising the IMF's surveillance on issues such as inclusive growth, social issues and income distribution, evidenced that the Fund's documents remain difficult to understand and more consultations with civil society on surveillance (more than once every three years) should be implemented (IMF, 2014a: 25). Despite the reform of the IMF in terms of transparency and openness has been huge and it has certainly ameliorated the Fund's overall reputation worldwide, there is still much work to do.

Firstly, the Fund should not give up on Latin America, which still requires a lot of work in terms of reputation repair. In this regard, the Fund's quest to maximise its media independence, as well as the promotion of the use of Spanish under its wing, could be crucial for its future success. The IMF has undergone a deep reform that has rendered much of the criticism against it obsolete, yet many essential changes are yet to be addressed. The revision of the voting quotas in 2010 was a great piece of news for those who believe in a more democratic IMF. However, the paralysation of the subsequent revision in the US Congress has woken those who dreamt and raised the eyebrows of those who, like many Latin Americans, still mistrust the alleged evenhandedness of the Fund and believe in the many who are benefiting from the traditional underrepresentation of emerging economies.

Secondly, the Fund has still a long way to go in terms of accessibility and audience specificity, which is a crucial pillar in the promotion of understanding, support and credibility of the Fund among citizens. It is not only about increasing publications or translations available. In order to achieve an effective symmetrical communication system, the Fund will have to keep on working on the simplicity of its output, to ensure the means to promote a two-way dialogue with citizens and, particularly in Latin America, to further approach the civil society by increasing its physical presence (e.g. physical diplomacy, official visits or activities). In October 2015, Latin America hosted an Annual Meeting of the IMF after almost half a century. Not surprisingly, considering that the Fund's headquarters are in the capital of the US, Latin Americans still feel little connection with the Fund which is perceived as a foreign institution. In a Latin America defined by an increasingly institutionalised regionalism, the Fund needs to overcome this barrier to gain the consideration of Latin Americans.

This dissertation has sought to make a small contribution to the fields of crisis communication management and institutional communication from an institutional perspective, and by using informal research methods. However, it opens the fields to many more studies conducted in the area, changing some of the variables that have conditioned the research. By emphasizing the role of the citizenship or the media in the IMF's reputation crisis, for instance, future studies could yield useful information regarding the factors that contribute the most to the Fund's reputational erosion, the impact of strategy, the particular success of some of its measures, the relationship between budgetary allocations and success in reputation management or the actual weight of media independence[35].

On the other hand, new geographical areas could be studied on their own, or compared to other regions deemed adequate. This could reveal some relevant information about the Crisis in Latin America from a comparative perspective and offer applicable knowledge on how to individually tackle. Moreover, a comparison among the different perceptions of the IMF in Latin America by countries would also be very interesting and not difficult to carry out, leaving the time factor aside. Finally, the Fund has undergone various different crises of different kinds. This has constituted a burden for impartiality throughout the whole research process. An effort to distinguish, categorise and analyse in a controlled, objective and systematic manner the different crises in which the IMF has been involved would be very valuable and constitute a turning point in crisis management theory of financial and international institutions.

[35] Monitor the type of media where the IMF is referred to the most and create a classification of whether it is beneficial or detrimental to the Fund's reputation in order to find out to what extent media independence is relevant in the Fund's reputation restoration.

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APPENDICES

APPENDIX I

Lessons from the Argentine Crisis (IEO, 2004: 70-73)

The Argentine experience yields a number of useful lessons for the IMF. Many of these arise from Argentina's prolonged use of IMF resources and validate the lessons drawn by the IEO's previous evaluation (IEO, 2002), which emphasized the need for periodic strategic reassessments of program achievements and of the rationale for continued IMF engagement in a program relationship. We present below ten additional lessons, some of which have already been drawn by the IMF and have led to improvements in its policies and procedures[36]. These are grouped under three broad topic areas: surveillance and program design, crisis management, and the decision-making process.

Surveillance and program design

Lesson 1. While the choice of exchange rate regime is one that belongs to country authorities, the IMF must exercise firm and candid surveillance to ensure that this choice is consistent with other policies and constraints. This has been repeatedly endorsed by the Executive Board at least since 1997 but was not observed in the case of Argentina. Recent emerging market crises have shown that fixed exchange rate regimes are difficult to maintain under open capital accounts. The case of Argentina clearly suggests that this lesson may also apply to "hard" pegs, if the necessary political support is lacking for the policies needed to make the adjustment mechanism palatable in the longer term. The Argentine experience also suggests that domestic political considerations often make it difficult to change a fixed exchange rate regime, whether during good times or during bad times[37]. Therefore, exit from an unsustainable peg is usually forced by events, entailing even greater costs than would be the case if it occurred through a voluntary exit at an appropriately chosen point. Part of the problem is that the costs and benefits of alternative exchange rate regimes, especially the stringent requirements of sustaining a fixed peg, are typically not widely discussed in countries' domestic political debate. This is where the IMF can play a useful role by ensuring that a genuine policy debate takes place, in good times, about the costs and benefits of the existing exchange rate regime. This means that there must be regular in-depth discussions of the issues with the authorities, as part of

[36] See, most notably, PDR (2003). This paper was discussed by the IMF Executive Board on November 17, 2003.

[37] During good times, there is no incentive for politicians to risk an exit from a successful fixed exchange rate regime, particularly when it enjoys popular support. During bad times, if balance sheet dollarization is extensive or foreign currency exposure is high, the costs of exit are so high that no politician would be willing to take the political risk.

routine surveillance exercises. Discussing exchange rate policy when a fixed peg is involved is inherently sensitive and can potentially alarm the markets. It is precisely for this reason that discussion should be made a routine exercise, something the markets expect to occur as a matter of procedure.

Lesson 2. The level of sustainable debt for emerging market economies with open capital accounts may be lower than had been thought, depending on a country's economic characteristics. Argentina's experience exemplifies the proposition that is now well recognized in the IMF, namely that "debt intolerance" in many emerging market economies deserves special attention and that the conduct of fiscal policy should therefore be sensitive not only to year-to-year fiscal imbalances, but also to the overall stock of public debt. As has been noted by IMF staff (Reinhart and others, 2003; IMF, 2003; and PDR, 2003), a stock of debt that otherwise looks reasonable relative to other countries may be too high, when account is taken of the currency of denomination, the country's openness to trade, the revenue base, the fiscal flexibility of the government, its past record of default and inflation, and the role assigned to fiscal policy in macroeconomic stabilization.

Lesson 3. The authorities' decision to treat an arrangement as precautionary poses a risk that, in practice, the standards for IMF support will be weakened. While it is obviously not possible to draw conclusive judgments from a single case, and the IMF's policies make no such distinction between precautionary and other arrangements, the fact that the arrangements during 1997–99 were being treated as precautionary was interpreted by both sides to imply that the IMF's leverage with the Argentine authorities was weak. The precautionary nature of the arrangement and the fact that, as a consequence, the IMF's exposure to Argentina was declining, were taken to justify relatively weak fiscal and structural conditionality and the regular accommodation of slippages. Weak program design and weak implementation in the context of arrangements being treated as precautionary did not serve the purpose of preventing the country from pursuing policies that proved to be unsustainable. When there is no pressing balance of payments need, it may be better not to agree to an arrangement, thus subjecting the country to market discipline rather than to program reviews by the IMF, especially when there are doubts about a country's ability to implement a strong reform program. At a minimum, the precautionary nature of an arrangement should not be used to justify weaknesses in program design or slippages in implementation.

Lesson 4. While country ownership of IMF-supported programs is critical, it is not sufficient since ownership of misguided or excessively weak policies is likely to lead to an undesirable outcome. Country ownership is important, particularly in areas of economic policy that have far-reaching social implications, but there are often trade-offs between the extent of ownership and the strength of the policies embedded in an IMF-supported program. These trade-offs need to be discussed openly between the IMF and the authorities. An important lesson of the Argentine experience is that strong ownership should not deter the IMF from forcefully making its views known. The IMF should be prepared not to support a strongly owned program, if it is judged inadequate in generating a desired outcome, but should be prepared to explain the rationale and evidence behind such decisions.

Lesson 5. Favorable macroeconomic performance, even if sustained over some period of time, can mask underlying institutional weaknesses that may become insuperable obstacles to any quick restoration of confidence, if growth is disrupted by unfavorable external developments. This is particularly relevant in a country with a history of recurring crises. In Argentina, the IMF broadly identified these weaknesses and sought to address them through structural conditionality and technical assistance. Despite these efforts, many of the fundamental weaknesses in fiscal institutions remained intact and the same weaknesses that had created a repeated cycle of debt default and hyperinflation in earlier decades again proved fatal. The lesson of the Argentine crisis is that institutional weaknesses that are deeply rooted in the political system are very difficult to change, and that the role of an external agent, such as the IMF, in the reform process is unclear. When difficult changes are not forthcoming, even though macroeconomic performance may be favorable, it is probably counterproductive for the IMF to remain engaged in a long-term program relationship.

Crisis management

Lesson 6. Decisions to support a given policy framework necessarily involve a probabilistic judgment, but it is important to make this judgment as rigorously as possible, and to have a fallback strategy in place from the outset in case some critical assumptions do not materialize. In the absence of a well thought-out alternative strategy, and with only an ill-defined exit strategy, it took the IMF a long time to change gears in the face of the demonstrated failure of the program to achieve its stated objectives. This led to repeated attempts to use the same strategy when it was evident that it had failed. The need for contingency planning in a program designed to deal with a capital account crisis has already been noted in the IEO's earlier evaluation report on this topic[38]. The additional lesson of the Argentine experience is that contingency planning efforts should encompass not only alternative strategies but also "stop-loss rules"—that is, a set of criteria to determine if the initial strategy is working and to guide the decision on when a change in approach is needed.

Lesson 7. The catalytic approach to the resolution of a capital account crisis works only under quite stringent conditions. The Argentine experience confirms the lessons drawn from the experience with the other capital account crises of the last decade, as corroborated by two recent IMF studies (Cottarelli and Giannini, 2002; and Mody and Saravia, 2003). These studies suggest that several conditions are required for the catalytic approach to work (Box 4.2). First, economic fundamentals must be sound. Second, the government must be credible in terms of policy actions and past behavior to give confidence to the markets that their concerns have been adequately addressed. Third, serious debt sustainability analysis must suggest that, with high likelihood, the country is not insolvent. Fourth, the exchange rate regime must be broadly assessed to be sustainable. When there are well-founded concerns over debt and exchange rate sustainability, it is unreasonable to expect a voluntary reversal of capital flows.

Lesson 8. Financial engineering in the form of voluntary, market-based debt restructuring is costly and unlikely to improve debt sustainability if it is undertaken under crisis conditions without a credible, comprehensive economic strategy. An important lesson of the Argentine crisis (in particular, the mega-swap of June 2001) is that market-based, NPV-neutral financial engineering operations do not work in the midst of a crisis when risk premia signal a high probability of default. This is because such operations are by definition performed at interest rates that are significantly higher than in "normal" times and therefore improve short-run cash flows only at the cost of a higher debt service burden. Even when there is only a liquidity problem, such operations could turn it into a solvency problem[39]. Only a form of debt restructuring that leads to a reduction of the NPV

[38] See Recommendation 3 in the evaluation report on the role of the IMF in recent capital account crises, IEO (2003a), p. 53.

[39] As Appendix 8 explains, variants of this voluntary debt reprofiling involving use of official resources as enhancements (either through policy-based guarantees to raise new money as in the case of World Bank operations or through use of IMF resources as in the $3 billion set aside for debt restructuring operations in the September 2001 augmentation) do not change the basic picture that any voluntary debt restructuring under crisis conditions increases the NPV of the debt as measured using the interest rates that prevail during normal times. The use of official resources for such purposes is thus necessarily inefficient.

of debt payments or, if the debt is believed to be sustainable, a large financing package by the official sector, has a chance to reverse unfavorable debt dynamics. In either case, financial engineering can only be one piece of an overall policy framework. The fact that these two approaches were successfully used in 2002 in Uruguay and Brazil, respectively, suggests that this lesson has already been learned.

Lesson 9. Delaying the action required to resolve a crisis can significantly raise its eventual cost. When the required policy change has large up-front costs, it is understandable that the authorities of the country concerned will systematically resist the shift and push for additional official financing as long as possible. By the same token, there is a natural reluctance on the part of the IMF to force such a policy shift against the will of the authorities. This reluctance reflects the fear of being blamed for the costs of pre-emptive action, as well as the difficulty of fitting together the pieces of an alternative policy package. The longer the crisis drags on without its fundamental causes being addressed, however, the larger would be the likely costs to the economy. This is not to say that the costs could be altogether avoided if the action is taken early, but delayed action is likely to lead to further output loss, additional capital flight, and greater deterioration of asset quality in the banking system. To minimize the costs of any crisis, the IMF must be proactive. First, it should make a realistic assessment of the need for a policy shift and, if such a shift is deemed necessary, provide financial support only when the country is able to commit credibly to the policy changes needed to ensure viability, including, if necessary, a commitment to negotiate an NPV reducing restructuring of the country's obligations. Second, it should stand ready to help the country through the regime shift with a package of policies and financing to minimize the transition costs, as regime changes are typically highly disruptive and risk triggering secondary runs on the banking system and an overshooting of the exchange rate.

Decision-making process

Lesson 10. In order to minimize error and increase effectiveness, risk analysis, accountability, and predictability must be improved in the IMF's decision-making process.

- In the case of Argentina, neither financial risks to the IMF nor the country's capacity to repay were adequately discussed in a formal manner, or early enough to affect decision making. Rules and limits on access to IMF resources are expressed as a percentage of quota. Internal discussions on the level of access thus tend to focus on this metric and the impact of the proposed level of access on the IMF's financial position and risks is hardly examined, even in the case of large borrowers like Argentina. More attention to financial risks in decision making would likely raise the bar on the odds of success required to keep supporting a questionable strategy by a relatively large borrower. In fact, this was one of the first operational lessons discussed by the IMF following the Argentine crisis.

- The Argentine crisis revealed weaknesses in the decision-making process relating to (i) the type of information considered and (ii) lack of transparency regarding who is responsible for a particular decision. The Executive Board, which is formally accountable for financing decisions, is not fully informed of all the factors that staff and management consider when making their recommendation—reflecting in part the highly sensitive nature of some information and concerns about potential leaks. Critical decisions are sometimes made outside the Executive Board in direct interactions between management and the IMF's major shareholders. While informal contacts with major shareholders is a normal and necessary part of management's responsibilities, effective crisis management requires that the locus for decision making remain at the level of the Board—on the basis of candid analysis by the staff. Otherwise, accountability will be weak and suboptimal decisions are more likely.

- There was also a lack of clarity as to why a particular decision was made. The absence of clear rules led to excessive reliance on discretion, which in turn created an environment of great uncertainty and unpredictability as to what the IMF would do next and encouraged the Argentine authorities to pursue questionable measures in an attempt to gamble for redemption[40]. A more rule-based decision-making process could likely result in a faster resolution of a crisis when a solution is uncertain[41].

[40] Some observers have explained that undisciplined economic policymaking in Argentina during 2001, including by Congress, was supported by the general sense that the IMF stood ready to come to Argentina's rescue at all costs

[41] A rule may not always lead to the best outcome. Any responsible decision would thus require some element of discretion.

APPENDIX II

Meant Well, Tried Little, Failed Much: Policy Reforms in Emerging Market Economies (Krueger, 2004)

Introduction

I'm delighted to be here tonight. You have some distinguished speakers lined up, so I'm honored to be included in this program of roundtable talks. I congratulate you on your initiative, both in forming the society and in the energetic program you have put together.

As you know, the IMF operates in a rapidly changing world—constantly adapting to new challenges in the world economy. I'll be saying something more about that later. But as you also know, for us at the Fund, change is currently very close to home. I accepted this invitation in somewhat different circumstances, so I'm pleased that I was able to make it here.

I was anxious to come not least because I want to discuss issues of great importance both for the Fund's work and for the emerging market and low income countries with whom we do much of our work. The timing is important, too—partly because the challenges I want to outline need urgent action, and partly because there may never be a better opportunity to take up those challenges and confront them successfully.

I'm sure many of you are curious about the quotation in the title of my talk: or perhaps you have all been busy tracking it down! For those of you who haven't tried, or haven't succeeded, let me enlighten you. It is from one of Robert Louis Stevenson's more obscure works, "*Across the plains."* Let me read the full quotation: *Here lies one who meant well, tried a little, failed much: surely that may be his epitaph, of which he need not be ashamed.*

Perhaps unfortunately for economic policymakers, Robert Louis Stevenson is no longer around to defend them. Failed reforms tend to be judged more harshly—by economists, of course, but above all by those who suffer as a result—the poor, the jobless and the hungry.

In a country like the United States, of course, policy failure might knock one or two per cent off GDP growth, or even lead to a temporary contraction of the economy. For some people that will mean the loss of a job, default on a mortgage and repossession of their home, or perhaps no access to health insurance. For those directly affected, the pain is acute of course: for the person who loses his job, the unemployment rate is 100%. But in macro terms, the impact is marginal—we're talking about a relatively small number of people. Bear in mind, too, that the U.S., in common with other industrial economies, has a social safety net which makes temporary hardship easier to bear.

In emerging market economies, by contrast, policy failures can be catastrophic. Argentina is the most obvious recent example: in one of Latin America's richest economies, tens of millions of people have been affected, the poverty rate has soared, the economy contracted by more than 20%. More than 50% of the population now lives below the poverty line, in a country with a much less well-developed social safety net.

But there are many other examples besides Argentina—the sharp contractions suffered by some countries after the Asian crises of 1997-98 spring to mind.

So I want to look this evening at why the record on economic policy reform has been so mixed in emerging market economies, and what can be done to improve performance in the future. And—of course—I want to do so in the context of the IMF's work: what is it that we can and should do to help foster sound economies policies and prevent financial crises.

High hopes

They say politics always ends in tears. So, in all too many cases, does economic reform. The idea of fresh start is always an appealing one for policymakers. Postwar history is littered with examples of governments seeking to put the past behind them, of policymakers determined to prove that they have found the holy grail. Alas, this is hardly ever true—well, let's be clear—it is never true.

One big hindrance is that benefiting from experience of others not a natural human trait. We all like to make our own mistakes. In the economic sphere, fresh starts have, all too often, come to sudden stops. Sometimes that is because of external shocks. But reform efforts have on many occasions petered out for internal reasons. These include a lack of enthusiasm or underlying commitment; too great an emphasis on the short term; and with worrying frequency, the explanation that "reform fatigue" has set in.

Another important factor, though, is one that often gets overlooked: the issue of uncertainty that affects all economic policymaking to one degree or another. This can critically complicate what are already difficult decisions, and can reinforce the natural inclination of policymakers to do the minimum they judge necessary in terms of reforms. I want to come back to this point, since I believe the tension between what economists want to do, and what political leaders are prepared to try, can have a crucial impact on the outcome.

"Meant well"

But first, let's go back to the three stages implied in the title of my talk. There can be no doubt about the good intentions of many economic policymakers. Even the most cynical analysis would recognize that no one wants to be responsible for economic decline. In the past 20 years, most emerging market governments have embraced some reforms aimed at developing more market-oriented policies. Most have given the impression that they were, and are, wholeheartedly committed to genuine reform.

But appearances can be deceptive. In some cases, tough commitments were made without a full understanding of what was involved. In other cases, the commitment was only skin-deep: rhetoric seen as alternative to real reform, or at least as a way of buying time. Public opposition to policies that have painful implications for some sections of the population can also weaken political resolve.

"Tried little, failed much"

The gap between rhetoric and reality starts to become clearer if we look more closely at what those would-be reformers actually did. Francisco Gil Diaz, the Mexican Minister of Finance, put it bluntly in an analysis last year: "*The policies that have been undertaken are not even a pale imitation of what market economics ought to be, if we understand market economics as the necessary institutional framework for a sound economy to operate and flourish. What has been implemented throughout our continent is a grotesque caricature of market economics."*

Countries like Mexico and Chile have been exceptional in their efforts to promote sustainable macroeconomic reform. But in most parts of Latin America—and elsewhere in the world—there have been two main problems. One was insufficiently ambitious reform—especially with regard to labor markets. Not aiming high enough at the outset is almost certain to mean that the outcome will be seriously disappointing.

The second problem was lack of follow-through for those reforms that were adopted. It is hardly surprising that policymakers prefer to avoid politically difficult decisions—and prefer to do the minimum necessary by way of unpopular reform. But this inevitably damages the prospects for success.

Argentina in the nineties

Let's look more closely at a couple of examples. I am sure I would disappoint you if I didn't mention Argentina. Now is not the time to rehearse the aftermath of the crisis in 2001. More relevant for our purposes is what happened before the crisis erupted. In my view, Argentina's experience in the nineties neatly encapsulates what we're discussing here: a reluctance to follow-through, to confront the structural changes that would have been an essential element of successful sustainable macroeconomic reform.

In the eighties, the Argentine economy had contracted by about half a per cent a year, while inflation had soared. At its peak in the late eighties, Argentine inflation exceeded 3,000 per cent—compared with a peak in Latin America as a whole of just under 500%.

The 1991 Convertibility Plan was seen as new dawn: the aim was to deliver high growth and low inflation, based on disciplined macroeconomic policies and market-oriented structural reform. Argentina wanted to escape from past inflationary failures: and it showed every sign, initially, of a readiness to take the difficult steps needed to deliver macroeconomic stability.

Central to the plan was its guarantee of peso convertibility with the dollar at parity. Having a fixed exchange rate system was seen as crucial for building up the anti-inflationary credibility that the government needed. A quasi-currency board was established in order to underpin the system and so reinforce the government's commitment. As you know, a currency board requires the central bank to back the monetary base with foreign exchange reserves—in other words, it prevents the government, or the central bank, from printing money to finance public deficits. Almost at a stroke this eliminated one of the principal sources of government-induced inflation.

And the early results were promising.

In the first two years of the plan, Argentina experienced real annual GDP growth of over 10%, and more than 5% in 1993-94. Inflation was down to single digits by 1993. There was a huge surge in capital inflows. The loss of confidence in emerging markets that followed Mexico's so-called Tequila crisis of 1995 seemed to do little more than interrupt performance improvements temporarily. Argentine growth rebounded in 1996-97. But this apparently impressive performance masked structural weaknesses that weren't confronted:

Fiscal control was undermined by off-budget expenditures; and it was too weak to prevent growing reliance on private capital flows to finance government borrowing. The estimated structural fiscal position went from rough balance in 1992-93 to a deficit of about 2.75% of GDP in 1998. But there was persistent off-budget spending, mainly as a result of court-ordered compensation payments after the social security reforms of the nineties, and arrears to suppliers. This raised the government's average new borrowing requirements to more than 3% of GDP a year over this period. In 1996, for example, when off-budget spending is included, the total deficit was 4% of GDP.

These figures show how vulnerable the public finances were to slow growth: because no fiscal cushion had been created when growth performance was strong.

The problem was made worse by overoptimistic assessments of the economy's growth potential. There were more temporary factors at play than were realized at the time. This, of course, meant that the authorities had less room for maneuver on the fiscal front than they believed.

The decentralized system of government in Argentina made fiscal control particularly difficult. The provinces, for example, had little incentive to improve revenue performance or constrain expenditure growth: and this important weakness in the fiscal structure was not tackled. Exports grew, but nowhere near as fast as imports. By the late nineties, there was an uncomfortably high debt to export ratio: it was 455% in 1998, and jumped, unexpectedly, to 530% in 1999.

In spite of some financial deepening during nineties, Argentina's financial system was relatively under-developed compared with many other countries. In spite of significant strengthening of the banking system, Argentine banks remained exposed to risks that eventually materialized: their low profitability and the dollarization of many financial assets ensured that there was a serious credit risk in the event of a devaluation. Yet before the crisis broke, Argentine banks had been regarded by most economists as the soundest in Latin America.

Added to all this was the fact that the pace of structural reforms lost momentum in the mid-90s; indeed, some reforms were reversed. Perhaps the biggest weakness here was the labor market which has tended to be heavily regulated in Argentina. Individual workers have long enjoyed considerable protection, with high barriers to dismissal and the guarantee of generous fringe benefits.

Some reforms were introduced in the nineties. In 1991, for example, there was some modest improvement in flexibility. In 1995 came equally modest steps that made it easier to hire temporary workers and introduced more flexible working hours. But these improvements did not go far, and reform in this area quickly lost momentum. To make matters worse, Congress diluted a further government attempt to increase labor market flexibility—so much so, in fact, that the final outcome promoted further centralization of collective bargaining. The result of all these lukewarm changes was predictable: unemployment rose, to 12% in 1994; and productivity growth fell to zero in second half of nineties.

Last but not least, of course, was the fixed exchange rate regime. It became increasingly clear during the nineties that successful operation of the quasi-currency board required much better fiscal control than the government was able to deliver. Since the collapse, of course, there has been much debate about whether the pegged exchange rate regime was ever appropriate as a long-term policy instrument.

The arguments over the exchange rate regime have ensured a plethora of different explanations of the eventual crisis. But it is clear that the impact of the crisis would at least have been mitigated if the original reform program had been more ambitious—specifically if it had included serious reform of the labor market and if it had tackled the problem of fiscal relations between central and provincial governments; and if this more ambitious program had been fulfilled. Effective implementation of fiscal, labor market and structural reforms could have ensured that the economy was robust and flexible enough to cope with the shock of a devaluation without the complete economic collapse that we saw.

Turkey in the eighties

Argentina might be at the forefront of many minds at present: but it is by no means the only example of what we might call the failure to follow-through. And this is not a problem confined to Latin America. Turkey in the eighties is another example of hopes that were subsequently disappointed.

For Turkey, the big date was January 26, 1980. This marked the start of serious economic reform efforts after years of false starts. IMF standby arrangements in 1978 and 1979 had been failures. In 1955 Turkey's per capita income had been estimated to be roughly double that of Korea; by 1980, Turkey had fallen significantly behind Korea. Inflation reached 100% in 1980. Power shortages were common in Istanbul and elsewhere.

A big shake-up in both policymaking and policy was intended to signal a completely fresh approach—remember what I said earlier about politicians' fondness for clearing the decks and starting afresh. The reforms had two main aims: economic stabilization, including a reduction in the rate of inflation; and a deliberate shift away from import substitution and towards an export- and market-oriented economy.

The lira was devalued, and a more flexible exchange rate regime was established. Price controls on State Economic Enterprises were relaxed. Structural reforms were introduced in the financial sector. The trade regime was liberalized. And there were efforts to improve revenue collection and reduce the fiscal deficit.

It is important to remember that in many respects these reforms enjoyed considerable success. Inflation came down to around 30% by 1983. Exports rose from about 5% of GDP in the late seventies to 20% of GDP by 1987. The economy had been contracting in the late seventies. GDP growth was slow in the early eighties, but from 1984 onwards, the economy started to grow at around 5% a year. At first, the government succeeded in reducing the fiscal deficit. In some respects, the reforms introduced succeeded in shifting Turkey permanently towards a more export-oriented economy.

Nor did the reforms peter out quickly. They had continued after the military had seized power in September 1980 and only lost momentum briefly ahead of democratic elections in 1983. New structural measures were introduced in what is regarded as the second phase of reform, from 1983 onwards.

The real disappointment in Turkey's case is that, ultimately, the government failed to follow-through on its attempt permanently to bring inflation under control. Once inflation started to pick up significantly in 1987, the real exchange rate was allowed to appreciate. But this made exports less competitive and ducked the real cause of the resurgence in inflation—our old friend lax fiscal control. Efforts to reduce the fiscal deficit were only partially successful and short-lived. In 1981, it had been brought down to 1.7% of GDP; by 1984 it had risen to 5.3% and even by 1988 it stood at 3.4% of GDP. Inflation meanwhile, had started to climb once more—up to 70% by 1989.

Sound fiscal policies are, of course, difficult enough for politicians to maintain, let alone work towards from a position of weakness. They involve unpopular decisions which governments would prefer not to have to take. But the consequences of postponement are, in reality, equally painful, as Turkey's experience over the past decade or more has shown. By 1989 it was clear that the appreciation of the exchange rate, and accelerating inflation (fuelled by government spending ahead of elections, as well as rising government borrowing) were storing up trouble for Turkish economy. The fact that a different Turkish government was once again struggling to deal with these problems at the turn of the century underlines the extent of the shortcomings of the eighties reform program.

Lessons to be learned

What can we learn from these examples, and the many others that come to mind? If we look at shortcomings in the economic policies of industrial countries we can see how difficult it can be to pursue the tough and controversial reforms that are really necessary. The persistent failure to tackle chronic problems in Japan's banking and corporate sectors; continuing weak demand in many European economies, the growing fiscal deficit here in the United States: these have all highlighted the reluctance of policymakers everywhere to tackle awkward structural problems.

Structural reforms are needed in many parts of the industrial world. There is always room for improvement, everywhere. But comparing industrial and emerging market countries misses the key point. Rich countries have more room for maneuver. Emerging market economies have far more pressing needs—reform for them is vital and urgent if they are to raise their growth rates and reduce poverty.

It is important to understand the full scope of the reforms that are needed in many cases. The IMF has had a lot to learn about this. In the past decade or so, we have come to realize that economic stability has to encompass a much wider range of factors than had previously recognized. There has to be fiscal and debt sustainability, of course. But sound governance—at the national and corporate level; effective and respected institutions; a well-established legal system; recognition of, and protection for, property rights; a well-functioning financial sector: these are all vital ingredients for lasting economic success.

Some areas of policy that economists have traditionally thought of as micro are, in fact, crucial for successful macroeconomic reform—given the number of references I've made to them already, you will not be surprised to learn that I include labor markets in this list. To reduce poverty, faster growth in poor countries has to bring employment growth: but rigid markets often prevent that.

Implementation is also vital—simply talking about reforms will not deliver them. This is primarily the responsibility of governments themselves: but the Fund and the international financial community have a part to play. How we can most effectively play that part is not always clear.

There is, for example, much talk, these days, about the need for whistle-blowing—for the IMF to issue public warnings when governments are failing to deliver on their reform commitments, especially when these are linked to a program involving financial support from the IMF. There are times when some bluff-calling is in order.

But we in the Fund need to guard against making public criticism or warnings that are principally motivated by a desire to cover our own back, in case things go wrong. Private pressure can in many cases be far more effective in persuading a reluctant government to follow through on its promises. After all, the Fund and its 184 member countries set much store by the fact that we are an institution that operates by consensus and co-operation. The Fund seeks to support countries undertaking economic programs that they themselves have endorsed. That is true whether or not the Fund's financial resources are involved. Economic reform programs cannot have much chance of success if the country involved—and by that I mean both the government and what we might call broader civil society—has not endorsed those reforms, or is not convinced of their desirability.

I mentioned the problem of reform fatigue. I think this a characteristic that many economic policymakers tend to share, regardless of whether they are in industrial, emerging market or low income economies. It is unfortunate because it display an attitude of mind based on a false premise—that reform is a discrete process. In reality, reform has to be ongoing—economies are in a state of constant flux, and policies need similarly to adapt to continuing change in the world around us.

Uncertainty

This brings me back to the point I mentioned earlier—the uncertainty inherent in the reform process. It is easy to spot mistakes with hindsight. It is sometimes possible to see at the time that policymakers are storing up trouble for themselves. But in many cases the degree of uncertainty involved is such that the outcome of any one policy option is uncertain. This uncertainty sometimes leads us to deliver harsher judgments on policy failures than might be altogether fair.

The problem is that economic policymaking always involves trying to measure the probability of one outcome as opposed to another, given the uncertainties in the world economy. From the economist's perspective, the best way to proceed is to adopt those policies that seem most likely to deliver the preferred outcome. So, for example, the policy prescription for Country A might include a sharp devaluation, and a large budget surplus.

The politician, understandably, has a different perspective. He shares the same long-term objective: sustained, rapid economic growth. But he wants to take the least painful policy measures consistent with achieving that objective. Will the reform program fail if the devaluation is smaller, and something is shaved off the target for the fiscal surplus? In all honesty, the economist cannot say no, the program will no longer deliver: only that the chances of success have been reduced, and the risks of being blown off-course by unforeseen events have increased.

Why increase the risks of failure, the economist might reasonably ask. After all, much is at stake. The politician can, equally reasonably, point out that a more modest reform program might be better than none at all: too radical a program could, in an extreme case, lead to the sort of popular unrest that undermines the prospect of even modest reform.

How to improve the record?

Such arguments are not easily resolved, since both positions involve judgments about probability as well as different, but often equally valid, perspectives. One way of narrowing the differences, is to look back at what has worked elsewhere—and what hasn't.

Another is to seize the opportunity for reform when the tension between the two perspectives is narrowed. There are times when economic crisis can offer the best hope of pressing ahead with difficult reforms. But this is sometimes used as an excuse to postpone reform when the timing is most auspicious.

In most cases, reforms are best undertaken when the outlook is benign. Economic growth provides the best environment to press ahead with fiscal and structural reforms. A buoyant economy can cushion the pain for those groups likely to be most affected by economic adjustment.

Now is just such a moment. The American economy continues to grow at a robust rate, in spite of concerns about jobs growth. Japan is once again experiencing growth, and emerging market Asia is the fastest-growing region. Many parts of the world are enjoying more buoyant conditions than for some time.

This is precisely when reforms have the best chance of success. Governments must overcome the temptation to sit back when the economic outlook brightens. Instead they should see—and seize—the opportunity to confront difficult issues, and try to overcome what is often entrenched opposition to structural reform.

Conclusion

I said at the outset that we humans aren't best known for our ability to learn from the experience of others. That does not mean we shouldn't try. When we seek to improve the track record of economic policy reform, it is essential to understand what worked in the past, what didn't—and why.

Some lessons are obvious, as I have indicated. And the international community—including the IMF—has learned much from experience. The fact that, in spite of the global economic turbulence of recent years, there have been so few financial crises is, I believe, an illustration of that. Governments, along with the international financial institutions, have got better at crisis prevention.

Reducing the risk and incidence of crises, though, is only part of the battle. Too many countries around the world are performing below potential. The ability to deliver faster growth, raise living standards and reduce poverty depends on sound economic policies. In too many places such policies are still proving elusive. In too many places, sound, sustainable policies are seen as an alternative to growth and poverty reduction. Yet experience has shown over and over again that the opposite is true: sound policies offer the best hope of rapid growth.

Economic policymaking is, by its nature, uncertain. There can be no absolute guarantees, in the sense that policy X will produce a growth rate of Y%. But we do know what works, and what doesn't. We also know that reform is more easily embraced in good times rather than bad. That is when the tension I spoke of, between economists and politicians, is at its lowest point. And that is why we at the Fund are convinced that policymakers need to make the most of the currently benign outlook. The Fund is there to help, and to provide support in whatever way we can. But ultimately, it is national policymakers who have to seize this propitious moment.

Thank you very much.

APPENDIX III

Overview

Crisis

- Defined as an event that threatens important expectancies of stakeholders and can seriously impact an organisation's performance and generate negative outcomes.
- IMF crisis:
    - reputational in nature
    - deeply subjective (populism and leftist governments)
    - geographically uneven
    - continuous
    - 3 phases
- Criticism:
    - Geographic classification:
        - In Latin America:
            - Evenhandedness
            - Oppressive and despotic
            - Managerial criticism
        - Other criticism:
            - Poor representativeness
            - Dubiously democratic
            - Opaque
            - Ruthless
    - Nature classification:
        - Essential criticisms → reform
        - Subjective criticisms → self-defence, limited results
        - Technical failures → realistic approach through information
- Timeline:
    - 1980 reputational crisis commences
    - 1997 Public Information Notices (PINs)
    - Late-1990s integrated communication strategy

- Response:
    - What it is willing to admit being responsible for: "putting forward consistently a more balanced view of the IMF's role, in terms of successes and failures."
    - Improve understanding and support for the Fund, to back the credibility of its policies and to do so without prejudice of its nature of financial institution.

I. Pre-crisis phase

- Very limited
- Since 1998, 1999 Edelman Report
- Issues management-based: short term, theme-specific responses to concrete issues (palliation and information, but hardly prevention): PINs since 1997

II. Crisis phase

- Ongoing
- Informal research methods, content analysis and a great dose of rhetoric (poor academic basis)
- Cause of the crisis? Insufficient external communications
    - Ignorance promotes criticism → for self-defence, steal the thunder
    - Scarce participation prompts mistaken policies
    - Imbalanced accountability
    - These all: scapegoating
- 1999 Executive Board's 4 points:
    - Focusing on a few main messages
    - Increasing understanding of the fund's actions
    - Promoting a two-way dialogue with legislatures, private financial sector, civil society organisations and critics
    - Extending the reach of communication
- Structural changes:
    - Conditionality
    - Poverty
    - External relations (symmetrical communication)

- Communication:
    - Convey IMF's side of the story
        - Open, accessible, persuading
        - Media independence
    - "Sharpened focus strategy"
        - Issue pruning → accessible
        - Audience-specific approach → comprehensible
- Reputation management strategy:
    - Apologetic
    - Self-defence → bolstering, differentiation and transcendence
    - Optimism (rhetoric for renewal) → adjusting and instructing information

III. Post-crisis phase

- Ongoing
- Continuing of policies adopted during the peak of the Crisis
- Follow-up, learning
    - Final and retrospective reports on prior crises
    - Crisis Management Team (CMT) and its Crisis Communications Team