STOCKTAKING THE FUND'S ENGAGEMENT WITH REGIONAL FINANCING ARRANGEMENTS

April 11, 2013

EXECUTIVE SUMMARY

Following the global financial crisis of 2008-09, regional financing arrangements (RFAs) have been recognized as an important layer of the global financial safety net. This paper summarizes the current landscape of RFAs, and discusses IMF-RFA coordination to date and options for enhancing cooperation going forward. In so doing, it intends to contribute to discussions underway at international fora and solicit views from the Fund and RFA memberships on how to enhance cooperation.

Strengthening of the global financial safety net has been a central part of the response to the recent global financial crisis. The Fund enhanced its ability to preempt and mitigate financial crises by quadrupling its lending resources and overhauling its lending toolkit. Complementing these crisis-fighting initiatives, new RFAs have been established and existing ones have been expanded. As these responses have unfolded, there have been increasing calls for a more structured approach to coordinating lending by RFAs and the Fund.

Historically, most RFAs were established to avert financing instability and/or safeguard regional integration. But dissatisfaction with Fund conditionality and concerns about Fund governance may also have been relevant triggers. The lending frameworks (funding, instruments, terms, conditionality) among RFAs vary widely. Some require Fund involvement in their lending operations; others do not. In general, RFAs' safeguards requirements are less developed than those of the Fund, while some RFA conditionality goes beyond macro-critical measures.

There is currently limited formal guidance on modalities for IMF-RFA coordination; while this leaves flexibility to tailor coordination to individual cases and region-specific circumstances, it risks the perception of uneven treatment and delays in providing financial assistance given different objectives and processes among the different institutions. Introducing more structured coordination might enhance the predictability of IMF-RFA co-financing and increase efficacy of crisis fighting.

Possible options that respect the independence and differing mandates of RFAs and the Fund include fine-tuning the current flexible approach or developing a set of overarching principles and detailed procedural guidelines on IMF-RFA cooperation. Aspects that could be covered include (i) aligning lending terms; (ii) clarifying how qualification to precautionary instruments would be applied; (iii) establishing avenues for regular dialogue between Fund and RFA staffs outside of crises; and (iv) creating the expectation that co-financing operations would be subject to certain principles and safeguards similar to the Fund's lending framework, such as debt sustainability, market access, and capacity to repay.

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***Prepared by the Staff of the International Monetary Fund. Does not necessarily reflect the views of the IMF Executive Board.**

ACRONYMS

ACF	Anti-Crisis Fund (of the Eurasian Economic Community)
AMF	Arab Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus China, Japan, and The Republic of Korea
BoP	Balance of Payments
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
EC	European Commission
ECB	European Central Bank
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ESM	European Stability Mechanism
EU	European Union
FCL	Flexible Credit Line
FLAR	Fondo Latinoamericano de Reservas (Latin American Reserve Fund)
G-20	Group of Twenty
GFSN	Global Financial Safety Nets
MEFP	Memorandum of Economic and Financial Policies
MoU	Memorandum of Understanding
NAFA	North American Framework Agreement
NAFTA	North American Free Trade Agreement
PLL	Precautionary and Liquidity Line
RFA	Regional Financing Arrangements

MOTIVATION

1. **Following the global financial crisis of 2008-09, regional financing arrangements (RFAs) have been recognized as an important layer of the global financial safety net (GFSN)**. The GFSN comprises a network of country insurance and lending instruments—encompassing multilateral institutions like the IMF, RFAs, bilateral creditors, and individual countries' own defenses—that countries could draw on to cope with financing shortfalls, volatility and contagion from a crisis.[1] Specifically, RFAs provide financial assistance to countries in difficulties, drawing resources pooled or committed at the regional level. RFAs have been part of the GFSN since the 1970s, while the crises of the 1990s and other developments (e.g., ratification of the North American Free Trade Agreement (NAFTA)) created a further impetus to establish RFAs in some regions. Most recently, the global financial crisis led to the emergence of very large RFAs, and the strengthening of existing RFAs. Together with global and national efforts, a few of these RFAs have played a significant role in responding to the global financial crisis.

2. **RFAs potentially have an important impact on the functioning of the international monetary system and on the work of the Fund**. There are synergies between RFAs and the Fund in terms of increased firepower in global response to crises, better understanding of economies and policies by sharing experiences and expertise, and strengthened ownership of adjustment programs and associated policies. At the same time, the existence of multiple layers in the GFSN could pose coordination challenges due to the diverse mandates of RFAs and multilateral institutions such as the Fund.

3. **Against this background, this paper recaps the current landscape of RFAs and explores the scope for increased IMF-RFA coordination, as called for by policymakers and academics**. In the absence of a formal framework governing the relationship among the different layers of the GFSN, the Fund has so far coordinated its financing operations with some RFAs on a case-by-case basis. While this allows flexibility in responding to region-specific circumstances, and has generally functioned effectively so far, a growing academic literature suggests the need for a more structured approach to IMF-RFA cooperation, and/or a clearer division of labor based on comparative advantages and mandates. The IMFC, in its recent communiqués, has repeatedly underscored the importance of effective cooperation, while the G-20 Leaders endorsed a set of broad principles for IMF-RFA cooperation in November 2011.[2] This paper discusses experience with IMF-RFA coordination to date and looks at other examples of coordination, such as that with the World Bank, which may offer insights going forward. It stops short of providing specific proposals to enhance

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[1] See IMF (2011a) for a broader discussion of the GFSN.

[2] Communiqués of the International Monetary and Financial Committee at its 22nd meeting, October 9, 2010, and 23rd meeting, April 16, 2011; Group of Twenty (2011).

coordination, which could only be considered after holding consultations between the Fund and the various RFAs.

4. **The paper is organized as follows**. Section II provides background on recent developments and academic literature. Section III summarizes the current landscape of RFAs, including their objectives, institutional and lending frameworks, and modalities for cooperation with international financial institutions. Section IV reports on the experience to date of Fund cooperation with RFAs, and Section V concludes by looking ahead at possible options to enhance coordination.

BACKGROUND

5. **Strengthening of financial safety nets has been a central part of the official sector's response to the recent global financial crisis**. Domestic policy responses (i.e., countercyclical policies and international reserves), while essential, may not be sufficient to deal with the rapid propagation of shocks in a highly interconnected world economy (Figure 1). The different layers of the GFSN can provide complementary and effective protection via diversification of risks.[3] Specifically, in the aftermath of the Lehman bankruptcy in 2008:

- The Fund enhanced its ability to preempt and mitigate financial crises including by quadrupling its lending resources and revamping its lending toolkit. Fund resources were rapidly deployed on a larger scale and in a more frontloaded manner than before, enabling policy accommodation to cushion the global shock; conditionality was streamlined; and new instruments were established to provide contingent financing to members with very strong fundamentals (the Flexible Credit Line (FCL)) or with sound fundamentals (Precautionary and Liquidity Line (PLL)).

- Major central banks played a vital role in stabilizing financial markets at the peak of the crisis by establishing bilateral swap lines to countries in need of foreign exchange liquidity. Multilateral development banks also participated in some of the official sector support packages via policy-based lending tools.

- Establishment or expansion of RFAs has also been a key crisis response.[4] As one of the epicentres of the crisis, the European Union (EU) has been particularly active in expanding its RFAs, including by establishing and adapting over time a new financing mechanism for euro

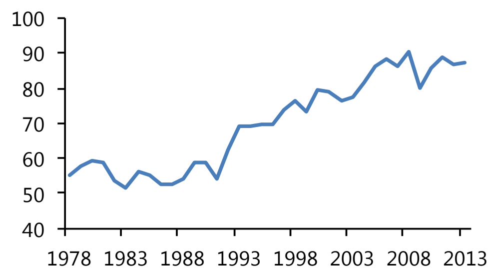
[3] See IMF (2011a) for analysis.

[4] There are also proposals to create a liquidity reserve fund in Latin America, possibly by expanding the Latin American Reserve Fund (FLAR). See Latin American Shadow Financial Regulatory Committee (2012) and Ocampo and Titelman (2012).

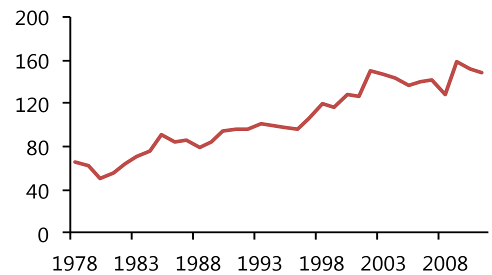
Figure 1. Background for Strengthening of Financial Safety Nets

In a highly interconnected world economy…

Trade Openness 1/
(In percent of GDP)

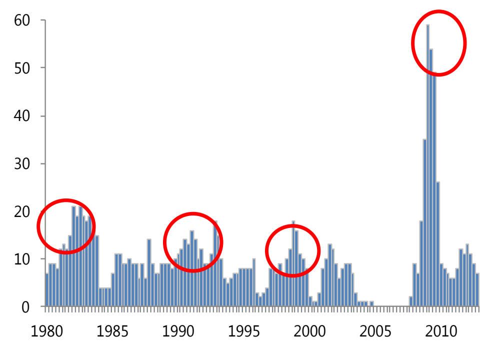


Financial Openness 2/
(In percent of GDP)

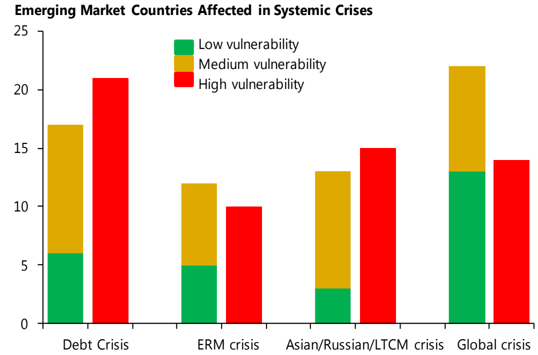


…shocks propagate quickly and can turn systemic, limiting the effectiveness of domestic policies…

Number of Countries Affected by Systemic Crises

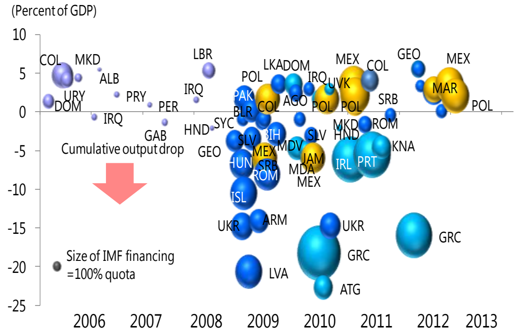


Emerging Market Countries Affected in Systemic Crises

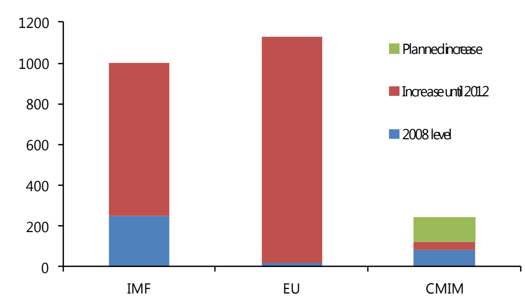


…necessitating coordinated response by the official sector at the regional and global levels.

Deployment of Fund General Resources
(Percent of GDP)



Increased Multilateral and Regional Firewalls
(In US$ billion)



Sources: Lane and Milesi-Ferretti (2010); IMF (2011a); EU and AMRO websites; WEO; and IMF staff calculations.
1/ Trade openness is defined as imports plus exports over GDP.
2/ Financial Openness is defined as external assets plus external liabilities over GDP, including reserve assets.

member states hit by the crisis. In other regions, the crisis provided impetus to countries in East Asia to strengthen its existing RFA in terms of resource size, institutional frameworks, and lending toolkit. A new RFA was created in 2009 by the five CIS countries that are members of the Eurasian Economic Community and Armenia to support stabilization programs and resilience to external and domestic shocks.[5]

6. **As these responses have unfolded, there have been increasing calls for a more structured approach to the coordination between RFAs and the Fund**.

- In November 2011, the Leaders of the Group of Twenty (G-20) endorsed six principles for cooperation between the IMF and RFAs (Box 1). The Principles acknowledge that enhanced cooperation would strengthen official sector response to crises and promote financial stability. They encourage ongoing or early cooperation and complementarities based on comparative advantages of each institution. Pursuant to the Principles, consistency of lending conditions should be sought to the extent possible, in particular as concerns policy conditions and facility pricing, while emphasizing independent decision-making by each institution and the need to have some flexibility as regards adjustments to conditionality and on the review timing. Finally, the Principles require that RFAs respect the preferred creditor status of the Fund.

- Some academics have also argued for more formalized cooperation, including through more detailed guidance on modalities, a multilateral review to ensure consistency of the respective mandates of the RFAs and the Fund, or collective representation of RFAs at the Fund. While not mutually exclusive, other academics have called for a clearer division of labor between RFAs and the Fund, for example by having RFAs deal with the management of idiosyncratic crises of small countries in a region, with the Fund being called in for cases where a crisis is of a systemic nature and/or a larger amount of financing is needed (Box 2).

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[5] Although it would not strictly meet the definition of an RFA for the purpose of this paper (See ¶7), as it is a trans-regional initiative, the leaders of Brazil, China, India, Russian Federation, and South Africa (BRICS) agreed at their meeting in March 2013 that establishment of a self-managed contingent reserve arrangement with an initial size of US$100 billion is desirable subject to internal legal frameworks and appropriate safeguards. They also agreed to establish a new development bank to mobilize resources for development projects in BRICS and other emerging market and developing countries.

Box 1: G-20 Principles for Cooperation between the IMF and RFAs

Based on contributions by the EU and by ASEAN+3 countries 1/ of the G-20, six non-binding broad principles for cooperation were agreed, and endorsed by G-20 Leaders in November 2011. The preamble to the Principles states that collaboration with the IMF should be tailored to each RFA in a flexible manner in order to take account of region-specific circumstances and the characteristics of RFAs.

1) An enhanced cooperation between RFAs and the IMF would be a step forward towards better crisis prevention, more effective crisis resolution and would reduce moral hazard. Cooperation between RFAs and the IMF should foster rigorous and even-handed surveillance and promote the common goals of regional and global financial and monetary stability.
2) Cooperation should respect the roles, independence and decision-making processes of each institution, taking into account regional specificities in a flexible manner.
3) While cooperation between RFAs and the IMF may be triggered by a crisis, ongoing collaboration should be promoted as a way to build regional capacity for crisis prevention.
4) Cooperation should commence as early as possible and include open sharing of information and joint missions where necessary. It is clear that each institution has comparative advantages and would benefit from the expertise of the other. Specifically, RFAs have better understanding of regional circumstances and the IMF has a greater global surveillance capacity.
5) Consistency of lending conditions should be sought to the extent possible, in order to prevent arbitrage and facility shopping, in particular as concerns policy conditions and facility pricing. However, some flexibility would be needed as regards adjustments to conditionality, if necessary, and on the timing of the reviews. In addition, definitive decisions about financial assistance within a joint programme should be taken by the respective institutions participating in the programme.
6) RFAs must respect the preferred creditor status of the IMF.

1/ See Appendix I for lists of EU and ASEAN+3 countries.

Box 2. Review of Literature on RFA-IMF Cooperation

While a few academics (for example, Henning (2002)) had early-on recognized possible tensions between regional and multilateral financing arrangements and proposed measures to reconcile them, recent experience with IMF-RFA cooperation in response to the global financial crisis has led to broader discussions on how to reap the benefits while avoiding coordination failures.

One strand of arguments stresses the need for effective and more formalized cooperation:

- Citing the cost of delays and coordination failure in the midst of a crisis, Henning (2011) stresses the need to organize IMF-RFA coordination on an ex ante basis. To this end, he proposes, among other suggestions, a multilateral review of RFAs in which consistency between RFAs and the Fund could be assessed at, say, the IMF Executive Board.
- In a similar vein, Volz (2012) argues that more nuanced guidelines than the G-20 Principles are necessary to ensure that RFAs complement the Fund's work and do not complicate the Fund's mandate of safeguarding global stability. He also suggests formal representation of RFAs at the IMF Executive Board and cooperation in economic monitoring and analysis.
- Lamberte and Morgan (2012) call for coordination on qualification of countries for precautionary financing instruments. They also suggest involving central banks that provide swap lines and multilateral development banks in coordination, as well as direct lending by the Fund to RFAs to address the issue of political stigma.
- Eichengreen (2012) points out that coordination between multilateral and regional financing arrangements has limitations, reflecting less-than-full agreement on the purposes and circumstances under which financial assistance should be extended. RFAs prefer to outsource negotiation of a member's painful adjustment program, but also wish to influence program terms in order to meet their particular needs. As an ambitious measure to resolve such disagreements, he suggests that the Fund enter into co-financing only when it provides the majority of program financing, to ensure that it has the loudest voice in negotiations.

While not mutually exclusive, another line of arguments focus more on establishing a clear division of labor between RFAs and the Fund:

- Ocampo and Titelman (2012) review the history and functions of FLAR, arguing that FLAR has had a strong capacity to serve its small member countries and propose that FLAR, with expanded membership and resources, should provide support needed by small- and medium-sized members. The Fund would be called in to provide financing to large members and allow access to its resources by FLAR.
- Arguing that the main purpose of RFAs seems to be to provide alternatives to IMF conditionality, Jeanne (2010) suggests a "two-tier system" in which an RFA lends up to a certain amount, which can be increased by Fund lending associated with stringent conditionality. Sussangkarn (2012) argues that RFAs should act as first line of defense by providing short-term liquidity with no conditionality, while the Fund should be involved only when it is evident that significant adjustment is necessary.
- Kawai (2009) advocates reducing or dismantling the formal link of CMIM swaps to a Fund-supported program. He argues that Fund conditionality and political stigma prevented CMIM swaps from being activated during the global financial crisis. He does not rule out coordination with the Fund but does not elaborate on its modalities.

CURRENT STATUS OF RFAs

7. **Existing RFAs take various forms**. For the purposes of this paper, an RFA is broadly defined as a financing mechanism through which a group of countries in a region pledges financial support to members that are experiencing, or might experience, a liquidity shortage or balance of payments difficulties. Resources are provided either through drawing from a pool of contributed or borrowed resources or through a swap of financial assets. This definition excludes stand-alone bilateral swap arrangements, lending instruments of multilateral or regional development banks concerned with provision of development financing, or central banks of currency unions providing liquidity.[6]

Origins and objectives[7]

8. **Most RFAs were established to avert financing difficulties, exchange rate pressures, or financial instability in the context of increased regional integration**. The origin of the Latin American Reserve Fund (FLAR) was the Andean Reserve Fund established in 1978 to avert balance of payments pressures in the context of the Andean Community integration process; the North American Framework Agreement (NAFA) was introduced in 1994 as a complement to NAFTA; the Chiang Mai Initiative (CMI) of the ASEAN+3 was established following the currency crises that hit East and South East Asian countries in the late 1990s. In Europe, the EU's Balance of Payments (BoP) Assistance Facility started in 1972 to address balance of payments difficulties during the various stages of economic convergence; and the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM), were established during the recent eurozone crisis to safeguard the financial stability of the euro area in the context of a currency union.[8]

9. **Some RFAs have broad objectives**. The Arab Monetary Fund (AMF) and FLAR include promotion of policy coordination and harmonization, and regional integration. The AMF's objectives also include eliminating trade restrictions, promoting development of capital markets, and promoting structural reforms, including in the financial sector and public finances. The Eurasian Community Anti-Crisis Fund (ACF) aims to help implement large investment projects to promote economic integration.

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[6] In the context of a currency union, the regional central bank can play a role that is similar to an RFA. For example, in the context of the eurozone crisis, the European Central Bank (ECB) has provided liquidity to financial institutions in the euro area and purchased sovereign bonds of euro area member states in the secondary market. However, the objective of the ECB's measures is to safeguard an appropriate monetary transmission mechanism from a monetary policy perspective, within the ECB's mandate of achieving price stability in the euro area. This is the same role a national central bank would play in a non-currency union country, and does not meet the definition of an RFA since the ECB is prohibited from providing financing to governments of euro area member states. At the same time, as discussed in Box 3, in eurozone program discussions the ECB is a member of the "troika", alongside the European Commission (EC) and the Fund.

[7] Table 1 provides an overview of these RFAs, and Appendix I provides additional detailed information

[8] The EFSF is a temporary facility that may engage in new support programs until June 30, 2013.

Table 1. Overview of Existing RFAs

Arrangement	Establishment/Origin	Objectives	Type	Resource size and funding structure	Size relative to GDP/IMF quota (2011, percent)	Lending Instruments/Conditionality	Fund Engagement	Institutional Frameworks
A. Arab Monetary fund (AMF)	Founded in 1976.	Correct BoP disequilibria, promote exchange rate stability and eliminate payment and trade restrictions, promote development of capital markets, and develop policy coordination.	Loans drawn from pooled member resources (via capital subscription); supplemented by market borrowing.	Authorized capital of US$2.7 billion. US$2.2 billion loans outstanding at end 2011.	0.1/10.9	Terms and maturities vary across 7 credit facilities ranging from short-term to 7 years. Maximum lending ceiling for each facility ranges from 50% to 175% of paid-in capital (up to 475% by adding these limits. A program is required for loans over 100% of paid-in capital.	No explicit role for the IMF.	Legal entity of public international law. All decisions are made by the absolute majority of voting power.
B. Latin American Reserve Fund (FLAR)	Created in 1991 following the accession of third countries to the Andean Reserve Fund (FAR). FAR created in 1978 in response to need for Andean countries to address external imbalances and facilitate regional integration.	(i) Support the member countries' BoP ; (ii) improve the conditions of members' reserve investments; and (iii) contribute to harmonization of members' exchange rate, monetary, and financial policies .	Loans drawn from pooled member resources (via capital subscription); supplemented by market borrowing.	Subscribed capital is US$2.34 billion; paid-up capital is US$2.03 billion as of December 2011.	0.2/29.2	Terms and maturities vary across 5 loan types (including a precautionary Contingent Credit), from 30 days up to 3 years. Access limits at 250% of paid-in capital (260% for Bolivia and Ecuador). Central Banks present policy measures but FLAR has always accepted the program without adding conditionality.	No explicit role for the IMF.	Legal entity of public international law. Each country has one vote and one chair. Most decisions are made by 3/4 qualified majority. Board approval not required for short-term and contingent credits.
C. North America Framework Agreement (NAFA)	Established in 1994 as a financial agreement parallel to the North American Trade Agreement.	Provide short-term liquidity support to avert exchange rate pressures and financial instability in the context of increased integration.	Rubric for a network of bilateral currency swap arrangements.	US$9 billion	0.1/10.9	90-day central bank swaps, renewable up to one year	US Treasury Secretary requires letter from IMF Managing Director stating confidence in the borrower's policies.	No legal entity or independent secreatariat.
D. RFAs in the European Union								
1. Balance of Payments Assistance Facility	Established in 2002 to provide medium-term financial assistance for non-euro area EU Member States in financial difficulties. Originally the medium-term financial assistance set up in 1971 to avert BoP crises in the context of European integration.	To achieve orderly exchange rate conditions, encourage applicable MSs to adopt economic policy measures likely to prevent the occurrence of an acute BoP crisis and to support its efforts towards convergence.	Lending facility financed by market borrowing by the EU.	Maximum lending capacity is €50 billion. Financed through capital markets using the creditworthiness of the EU, and lent under the same conditions under which it was borrowed (back to back loans).	1.5/212.3	Loans and appropriate financing facility. Can be used for precautionary financing. Amount, duration, and other terms are decided by the Council. Program and conditionality are presented in an MoU and loan agreement.	No formal link to Fund-supported program but organised jointly in recent cases; members obliged to consult EU before approaching IMF	Council Regulation No.332/2002. Decisions are made by qualified majority of the Council acting on a proposal from the Commission made after consulting with the EFC.
2. European Financial Stabilisation Mechanism (EFSM)	Established in 2010, essentially reproducing EU BoP Assistance facility for all EU Member States.	As above, but available to all EU member states.	Lending facility financed by market borrowing by the EU.	Maximum lending capacity is €60 billion. Financed through capital markets using the creditworthiness of the EU.	0.5/69.6	Loans and appropriate financing facility. Can be used for precautionary financing. Amount, duration, and other terms are decided by the Council. Program and conditionality are presented in an MoU and loan agreement.	The EFSM Regulation states that its activation will be in the context of a joint EU/IMF support.	Council Regulation No.407/2010. Decisions are made by qualified majority of the Council acting on a proposal from the Commission made after consulting with the EFC.

Table 1. Overview of Existing RFAs (Concl.)

Arrangement	Establishment/Origin	Objectives	Type	Resource size and funding structure	Size relative to GDP/IMF quota (2011, percent)	Lending Instruments/Conditionality	Fund Engagement	Institutional Frameworks
3. European Financial Stability Facility (EFSF)	Established in May 2010 as a temporary mechanism to support euro-area member states until June 2013.	Preserve the financial stability of the Economic and Monetary Union by providing temporary stability support to euro area Member States.	Lending and other financing facility financed by market borrowing.	Maximum lending capacity was €440 billion when first set up. Borrowings are backed by gaurantees of euro area MS in accordance with their share in paid-up capital of the ECB.	4.7/702.4	(i) Loans to Member States in financial difficulties; (ii) Intervention in debt primary and secondary markets; (iii) precautionary assistance; (iv) Loans to governments for bank recapitalization.	The Framework Agreement envisages that financial support shall be provided in conjunction with the IMF.	Private company set up under Luxembourg law.
4. European Stability Mechanism (ESM)	Inaugurated in October 2012 as a permanent crisis resolution mechanism designed to safeguard financial stability in the euro area.	To provide financial assistance to Euro Area member states experiencing or threatened by financing difficulties	Loan and other financing facility drawn from pooled member resources (via capital contributions), supplemented by market borrowing.	Maximum lending capacity is €500 billion (combined lending capacity of EFSF/ESM is €700 billion) against capital contribution of €700 billion. €80 billion is paid-in capital, provided in 5 equal installments. In addition, €620 callable capital from 17 euro-area Member States.	5.6/798.1	(i) Loans to Member States in financial difficulties; (ii) Intervention in debt primary and secondary markets; (iii) precautionary assistance; (iv) Loans to governments for bank recapitalization.	A euro area Member State requesting financial assistance from ESM is expected to address, wherever possible, a similar request to the IMF.	Intergovernmental institution under international law. Board of Governors are the Finance Ministers of euro area member states. Most important decisions require unanimity. Emergency voting procedure allows approval of financial assistance by a qualified majority of 85% of the votes cast.
E. Eurasian Economic Community (EurAsEC) Anti-Crisis Fund (ACF)	Established in 2009 to assist its member states in overcoming the consequences of global financial crisis, to ensure their long-run economic stability and to foster economic integration.	To support stabilization programs by supporting budget, balance of payments, and currencies, and to help implement large investment projects.	Loans drawn from pooled member resources (via budget contribution)	Budget contributions from member states totalling US$8.5 billion.	0.4/77.0	(i) Financial Credits are extended only to central governments to support stabilization programs. (ii) Investment Loans are available to governments and/or companies implementing large investment projects that spur regional integration as well as large national investment projects.	No explicit role for the IMF.	ACF is treaty-based but is not a legal entity or an organization. ACF Council (top decision-making body) consists of ministers of finance of member states. Eurasian Development Bank manages the resources of ACF. Decisions are made by a simple majority.
F. Chiang Mai Initiative Multilateralization (CMIM)	Established in March 2010. Originally, the CMI was established in May 2000 as a network of bilateral swap arrangements provide "sufficient and timely financial support to ensure financial stability in the East Asian region."	To address short-term liquidity and BoP difficulties and to supplement the existing multilateral financing arrangements.	USD-Local currency swap arrangements among ASEAN+3 countries (13) plus HKMA.	US$120 billion (to be increased to US$240 billion when the amended Agreement takes effect). Contributions are based on the commitments by member countries to provide financial resources within agreed amount. Funds are transferred only when a request for drawing is made.	0.8/219.1	90-day swaps that can be renewed up to seven times (approximately two years). When Agreement is amended, maturities will be lengthened and a precautionary line will be introduced.	Disbursement of an amount in excess of 20 percent of the maximum access is conditional on the existence of a Fund-supported program. When Agreement is amended, this threshold will be raised to 30 percent, and to 40 percent in 2014 subject to review as needed.	Based on a contract called "The CMI Multilateralization Agreement." Not a legal entity per se, though a regional surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO) was established as a company under Singaporean law. Lending decisions are made by 2/3 qualified majority of the voting power.

Sources: RFA websites; Henning (2011); IMF (2010).

Motivation and rationale

10. **Many of the motivations for the creation of RFAs are similar to those for multilateral institutions like the Fund**. Specifically:

- If RFA resources can be readily accessed, they can provide insurance against shocks in a cost-efficient manner. Economic and financial interconnectedness create spillovers and contagion risks, particularly among countries with geographic proximity,[9] but accumulating reserves at the country level is costly. Moreover, reserves might not be readily used by countries for "fear of losing reserves."[10]

- Pooling resources can help countries gain access on better terms to international capital markets and can provide a source of countercyclical financing.[11]

- Sharing resources create incentives to put in place a regional peer review or surveillance mechanism to monitor members' economic developments and policies, contributing to early identification of crisis risks and prevention of a regional crisis. In cases where such a mechanism already exists, its effectiveness is likely strengthened by sharing resources.

- In a currency union, an RFA provides an additional mechanism to cushion country adjustment in response to idiosyncratic shocks.

11. **The emergence of RFAs may also have been prompted by dissatisfaction with past Fund-supported programs and/or governance of the international financial institutions**. For example:

- Limited emphasis on conditionality attached to some RFA financing may be evidence that some RFA members consider Fund conditionality too onerous. For example, FLAR has always accepted the member's program without adding conditionality, while any conditions attached with bilateral swaps under the NAFA are subject to the discretion of the institution that provides hard currency. At the other end of the spectrum, programs in Europe have tended to include significant conditionality.

- RFAs may enable more rapid access to emergency financing as compared with the Fund or other multilateral institutions. The CMI and its successor, the Chiang Mai Initiative Multilateralization (CMIM), put in place a regional "self-help" mechanism to provide "sufficient and timely" financial support, and supplement international financing arrangements. They stemmed from the experience of the Asian crisis where financing by the

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[9] IMF (2011b).

[10] IMF (2011c).

[11] Ocampo (2006). Experience in the FLAR and the EFSF/ESM seems to confirm this benefit.

Fund and other international financial institutions were perceived as insufficient to deal with the scale of external financing needs and/or too late (including because stigma concerns delayed countries from turning to the Fund until the crisis reached a critical level).

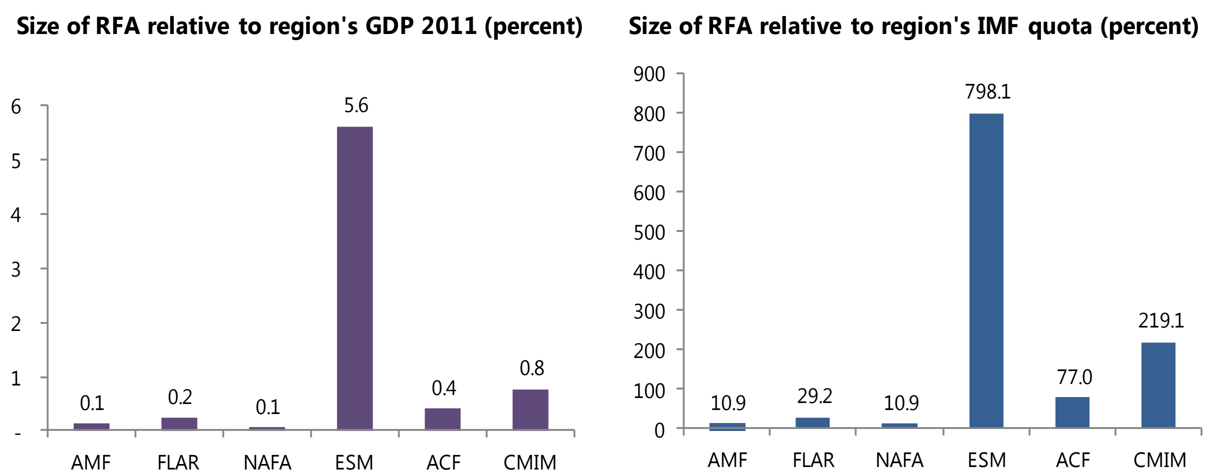
- More generally, the existence of RFAs in emerging markets and developing economies may reflect a weak sense of ownership and concerns about the governance of multilateral institutions. It is also argued that emergence of RFAs as well as the wide use of bilateral swap arrangements is related to lingering political stigma associated with requesting Fund financial assistance.[12]

Institutional frameworks

12. **The institutional structure and lending frameworks across different RFAs vary widely**. In general, the framework depends on the objectives and idiosyncratic factors of the RFA and its members. Specifically:

- ***Resources***: While the European RFAs are sizable, other RFAs are small relative to standard metrics such as regional GDP (Figure 2). Although even small RFAs can effectively help countries, especially small members, the amount of financing available may be insufficient to cover region-wide crises if multiple countries simultaneously suffer liquidity shortages or balance of payments difficulties—a situation where risk diversification by pooling regional resources is ineffective.

Figure 2. Size of RFAs Relative to Regions' GDP and IMF Quota



Sources: RFA Websites; IMF, and IMF staff calculations

[12] For example, Volz (2012).

- ***Funding***: Most of the RFAs borrow on capital markets or from monetary and financial institutions, backed by contributions in the form of paid-in capital (from international reserves or the budget), and/or explicit or implicit guarantees from members. Under the NAFA and CMIM, which take the form of swap arrangements, resources are not borrowed or pooled; instead members make a commitment to provide a portion of their international reserves to the requesting member when a request for drawing is made.

- ***Lending***: In most cases, financial assistance by RFAs is in the form of loans to members facing balance of payments or other financing needs. As noted above, NAFA and CMIM assistance is extended via swaps of a member's local currency and a reserve currency or another strong major currency. Other forms of assistance include purchases of bonds issued by members in the primary and secondary markets and loans to sovereigns for recapitalization of the banking system, such as in the ESM.[13]

- ***Precautionary lending***: Until 2011, only FLAR provided contingent credit; since then, the EU has incorporated precautionary loans in its lending toolkit. The CMIM is also set to introduce a precautionary swap line when its Agreement is amended. As for instrument design, the ESM's Precautionary Conditioned Credit Line and Enhanced Conditions Credit Line appear similar to the Fund's FCL and PLL, respectively. Also, the CMIM Precautionary Line resembles the PLL in terms of qualification, but has greater flexibility regarding the extent of ex post conditionality. No mechanism is currently in place between these institutions and the Fund to coordinate the respective qualification criteria (Table 2).

[13] In addition, there have been discussions about providing the ESM with a tool to recapitalize the euro area banks directly.

Table 2. Overview of Precautionary Financing instruments

	FLAR	ESM		CMIM	IMF		
	Contingent Credit	**Precautionary Conditioned Credit Line (PCCL)**	**Enhanced Conditions Credit Line (ECCL)**	**CMIM Precautionary Line (CMIM-PL)**	**Flexible Credit Line (FCL)**	**Precautionary and Liquidity Line (PLL)**	
Duration	Six months; renewable subject to approval by FLAR.	One year, renewable up to twice (each for six months)		Six months; renewable up to three times (each for six months)	One year or two years; renewable	From one to two years; renewable	Six months; renewable in cases where BoP need is longer than originally anticipated due to exogenous shocks
Access limits	Up to 2 times of paid-in capital (2.1 times for Bolivia and Ecuador)	None		Subject to maximum access set aside for the member for both CMIM Stability Facility (for actual BoP need) and CMIM-PL	None	Overall cap of 1000 percent of quota; First-year access limit of 500 percent of quota	In addition to the overall access cap (see left), a per arrangement limit of 250 percent of quota (500 percent of quota in exceptional circumstances due to the impact of exogenous shocks)
Eligibility or Qualification criteria	None	(i) Respect of the commitments under the stability and growth pact; (ii) A sustainable general government debt; (iii) Respect of the commitments under the excessive imbalance procedure; (iv) A track record of access to international capital markets on reasonable terms; (v) A sustainable external position; and (vi) The absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system.	Access to an ECCL is open to ESM members that do not comply with some of the eligibility criteria required for accessing a PCCL but whose general economic and financial situation remains sound.	Executive-Level Decision-Making Body (ELDMB; Deputies' level) will apply the following five criteria for ex ante qualification and ex post conditionality: (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy.	(i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) steady sovereign access to international capital markets; (iv) a relatively comfortable reserve position; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation; (vii) the absence of bank solvency problems; (viii) effective financial sector supervision; and (ix) data transparency and integrity.	Qualification is assessed in the following areas (The requesting member is expected to perform strongly in most of these areas and not to substantially underperform in any of them): (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy. The Fund shall not approve a PLL arrangement for a member facing: (i) sustained inability to access international capital markets, (ii) the need to undertake a large macroeconomic or structural policy adjustment (unless such adjustment has credibly been launched before approval), (iii) a public debt position that is not sustainable in the medium term with a high probability, or (iv) widespread bank insolvencies.	
Ex post conditionality	None	Where a PCCL is drawn, the beneficiary ESM Member will be subject to enhanced surveillance by the European Commission for the availability period of the credit line and should adopt measures aimed at addressing the sources or potential sources of difficulties.	The beneficiary ESM Member will be subject to enhanced surveillance by the European Commission for the availability period of the credit line. and should adopt corrective measures aimed at addressing the weaknesses and avoiding any future problems in respect of access to market financing, while ensuring a continuous respect of the eligibility criteria.	ELDMB to set ex post conditionality according to its assessment of the member's fundamentals and policies	None	Indicative targets and standard PCs. Conditionality may also include other PCs, prior actions and structural benchmarks where warranted. Focused on addressing remaining vulnerabilities.	Standard PCs. Conditionality may also include prior actions.
Reviews	None	Continuous respect of the eilgibility criteria will be monitored by the European Commission; Enhanced surveillance when drawn (see above)	Enhanced surveillance (see above)	Semi-annual reviews	Mid-term review of qualification in cases of two-year arrangements	Semi-annual reviews	None
Financing terms	When disbursed, repayable in six months; repayment period can be extended once for six months. Commitment fee applied.	Subject to a decision by ESM Board of Governors.		Maturity: six months for the IMF de-linked portion; and one year for the IMF linked portion. Commitment fee applied.	When purchased, repurchases need to be made in 3 ¼ to 5 years. Commitment fee applied for precautionary arrangements.		
Other requirements	Granting or the credit is the purview of the Executive President and subject to the availability of liquid resources at FLAR. Credit needs to be secured to the satisfaction of FLAR.			The requesting member needs to submit an economic report to ELDMB.	The member needs to submit a written communication outlining its policy goals and strategies and its commitment to take adequate corrective measures to deal with shocks.	The member needs to submit a written communication outlining its policy goals and strategies and measures aimed at addressing its remaining vulnerabilities, together with a quantified macroeconomic framework.	

Sources: FLAR, ESM, and AMRO websites; IMF.

- ***Terms and maturities***: Lending terms differ based on the type of assistance both across and within RFAs. Some are bilateral swaps or close to them, while others resemble Fund instruments, trade finance, or even medium-term development financing. For example, the AMF and FLAR have a number of loan types with varying maximum access, maturity, and conditions according to the nature of financing needs. Swap arrangements usually have tight restrictions on access limits and maturity—e.g., the NAFA swaps take the form of three-month swap arrangements that can be renewed up to one year, while the CMIM uses 90-day swaps that can be renewed up to seven times (approximately two years).[14] EU lending instruments are flexible in these aspects with no specific access limits or maturity.

- ***Conditionality***: The AMF, ACF, and EU arrangements require agreement with the requesting member on an adjustment program and conditionality for their lending.[15] Under the swap arrangement schemes (the NAFA and CMIM), conditionality is subject to discretion of the member(s) providing hard currency; while a Fund-supported program is not required for activation of CMIM swaps for drawings of up to 20 percent of the requesting member's maximum access, the CMIM may set its own conditionality on this portion. FLAR requires an adjustment program by a requesting member but, as a general rule, it has always accepted the member's program without adding conditionality. Reflecting the objectives and institutional frameworks, the areas where RFAs attach conditionality tend to vary. Relations between RFA and Fund conditionality, including Fund program involvement as a requirement of RFA lending, are discussed in the next section.

- ***Governance***: Most RFAs are legal entities established by international agreement or domestic corporate law, while swap arrangement schemes do not depend on the creation of such an entity. The AMF and FLAR are legal entities of public international law. The EU arrangements are based on Council Regulations (the BoP Assistance Facility and the European Financial Stability Mechanism (EFSM)); on a corporate law of a member state and the Framework Agreement between euro area countries and the entity (EFSF); or on an international treaty (ESM).[16] By contrast, the NAFA and the CMIM do not have a legal entity—the former is based on a group of bilateral swap arrangements and the latter on a single multilateral contract among the authorities. The ACF does not have a separate legal entity, and its resources are managed by the Eurasian Development Bank. Many RFAs have

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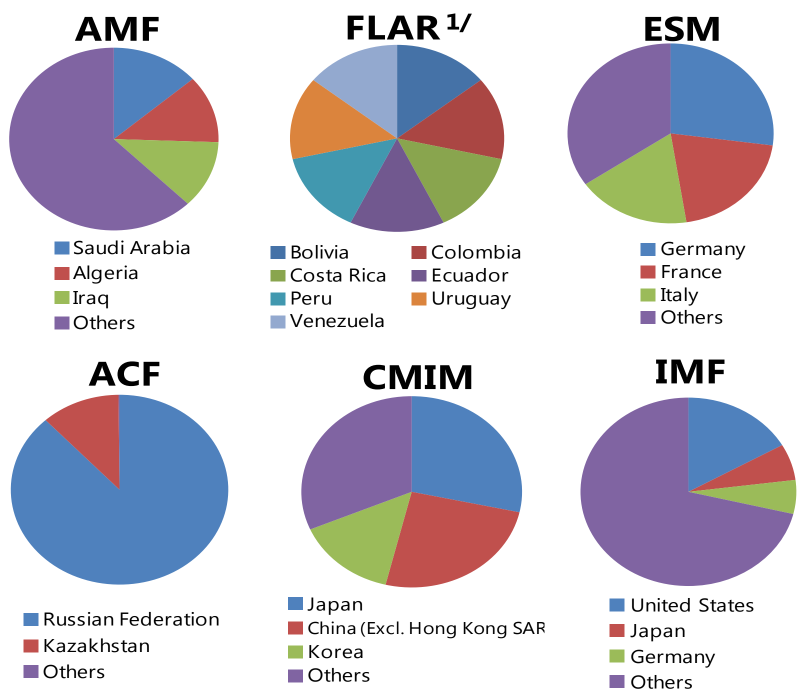
[14] The maturity of the swaps under the CMIM will be extended if the CMIM Agreement is amended as announced in May 2012. See Appendix I. F. for details.

[15] Some types of loans granted by the AMF have no conditionality attached. See Appendix I. A. for details.

[16] It should be noted that there are multiple decision-making bodies related to EU mechanisms. For example, the decision to grant a loan under the BoP Assistance Facility and EFSM is adopted by the EU Council, whereas the EC undertakes program negotiation and reviews. The ESM has its own decision-making bodies but delegates to the EC the authority to conduct debt sustainability analyses, negotiate MoUs, and monitor implementation of programs. The ESM Board of Governors consists of euro area finance ministers and is separate from the EU Council.

an organization that plays the role of a secretariat, but their size and functions vary. Distribution of voting power generally corresponds to the financial support and/or economic size of individual RFA members, and is generally concentrated in a small number of countries (Figure 3), while unanimity is required for key lending decisions at the EFSF/ESM (Appendix I).

Figure 3. Distribution of Voting Power



Sources: Annual Reports, Articles of Incorporation, and other information on RFAs' websites; IMF
1/ FLAR consists of seven member countries and every member has one vote.

EXPERIENCE WITH IMF-RFA COORDINATION

A. Lending

13. **Some, but not all, RFAs require the Fund's involvement in lending operations.** The CMIM requires the existence of a Fund-supported program to provide assistance in excess of 20 percent of maximum access.[17] The Fund's envisaged role varies across EU mechanisms: The BoP Assistance Facility legally allows provision of loans solely by the EU, but programs have been jointly

[17] CMI and CMIM arrangements with regard to IMF involvement can be seen as an expansion of the past practice among central banks where bilateral swap operations, including as bridge financing, were made contingent on the approval of a Fund arrangement with the borrower.

developed with the Fund as a matter of policy and practice. At the same time, the Facility obliges members to consult the EU before approaching the Fund. The EFSM Regulation explicitly states that its activation will be in the context of a joint EU/IMF support, and the EFSF Framework Agreement also envisages provision of its support in conjunction with the Fund. The ESM treaty explicitly states that the requesting member state should address a similar request to the Fund wherever possible.[18] In the case of NAFA, the U.S. Secretary of the Treasury seeks a letter by the IMF Managing Director that states his/her confidence in the economic policies of the borrower when drawing from the Exchange Stabilization Fund. For loans by the AMF, FLAR, and ACF, no explicit Fund role is envisaged, although informal contacts at the staff level often take place.

14. **Operational experience with IMF-RFA cooperation has been limited**. While a few RFAs trace their origins back to the 1970s, the experience with IMF-RFA cooperation occurred mostly during the past two decades, with the bulk occurring over the past five years. In an early example, contributions from the NAFA provided a portion of the financing to an US$18 billion exchange stabilization fund for Mexico in January 1995.[19] However, the financing from the NAFA preceded IMF Board approval of Mexico's US$17.8 billion Stand-by Arrangement (SBA). Program design under the SBA was not formally coordinated between the IMF and the NAFA.[20] More generally, lending by RFAs, such as FLAR, has been incorporated in Fund-supported programs as a source of financing, but the RFA has not explicitly been involved in designing the program.

15. **Since 2008, significant Fund resources have been committed to a number of programs in collaboration with EU institutions, with variable burden-sharing across these programs**.[21] In Europe, reforms to existing institutions and lending instruments, along with the establishment of the ESM, created a lending infrastructure conducive to greater collaboration with the IMF. There is no single rule of thumb for burden sharing (i.e., the share of RFA financing vis-à-vis the IMF) under these arrangements, with the IMF providing as little as 20 percent or less of total financing (e.g., Latvia in 2008 and Greece in 2012) to more than 60 percent (e.g., Hungary in 2008 and Romania in 2009/2011).[22] Fund financial commitments under these programs vary based on country-specific

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[18] In the case of financial assistance for recapitalization of Spain's banking sector, however, loans were provided solely by the EU. The Fund is not a party to the program and Fund staff provides independent monitoring to Spain's recapitalization efforts. See ¶17 and ¶27.

[19] As part of the arrangement, NAFA sought an assessment letter from the IMF Managing Director concerning Mexico's macroeconomic performance and capacity to repay, reflecting the practice of the U.S. Treasury regarding the operations of its Exchange Stabilization Fund.

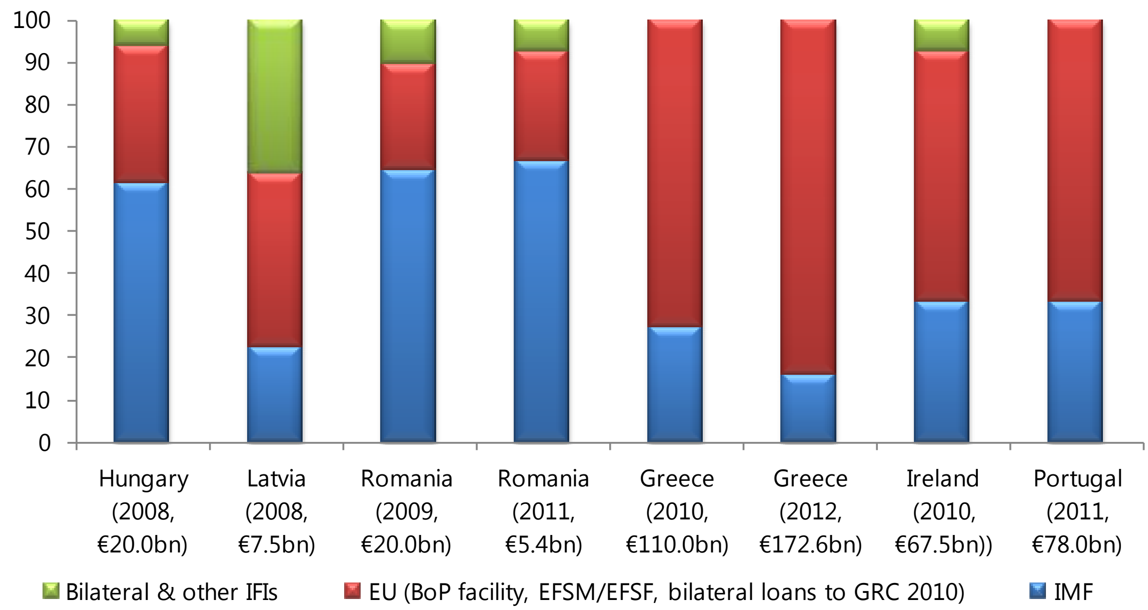
[20] However, there was substantial informal coordination between the IMF and the United States, including during the IMF missions to Mexico at that time.

[21] Euro area assistance to the first Greece program was extended in the form of bilateral loans from 16 euro area member states as the BoP Assistance Facility is available to non-euro area EU member states only and financing mechanisms for the euro area member states were not yet in place.

[22] In the case of Poland, the Fund has provided access to its resources without the involvement of EU institutions in the context of the FCL arrangements since 2009.

circumstances, as well as the overall financing need, the role of bilateral creditors to provide assistance in individual country cases, and the terms of financing instruments at the disposal of various creditors.[23]

Figure 4. Burden Sharing in Co-Financing with the EU (percent)1/



Sources: Program documents, WEO, and IMF staff calculations
1/ Excludes Poland under FCL arrangements, where the Fund has provided access on its own.

16. **RFAs outside Europe are also examining the scope for co-financing with the Fund**. Although neither the CMI nor CMIM have been activated, the CMIM has prepared a set of operational guidelines concerning the procedures for activating swap operations, with a view to possible co-financing of requesting members' adjustment programs with the Fund. The ACF has also expressed possible interest in coordinating its lending with the Fund and, like FLAR, has provided financing to some of its members in the context of Fund-supported programs.

[23] In certain cases, some contributions are earmarked only to certain activities in the modalities for program financing. For instance, in Greece's program since 2012, the funds for bank recapitalization and resolution come only from the EFSF.

B. Monitoring and other technical assistance

17. **Apart from lending, IMF-RFA coordination can also cover independent monitoring and other technical assistance.** Specifically:

- The Fund has been providing monitoring in the context of European financial assistance for recapitalization of the financial sector in Spain.[24] The terms of reference (TOR) agreed with the Spanish authorities and the European Commission (EC) make clear that the Fund will provide independent advice, and is not party to the Memorandum of Understanding for the financial assistance or implementation of conditionality. The purpose of Fund staff monitoring is to support Spain's efforts to recapitalize and restructure its financial sector with support from the ESM.

- The Fund has also coordinated with RFAs to provide technical assistance to member countries and, subject to approval by the Executive Board, provided technical assistance directly to RFAs. Outside of cooperation on RFA programs, the Fund has provided technical assistance to the AMF on domestic bond market development in Arab countries. It has also allowed participation of officials of international agencies, including the EU and FLAR, in its training programs.[25]

C. Modalities and Institutional Considerations

18. **There is currently limited formal guidance on modalities for coordination, leaving ample flexibility to tailor joint work to country-specific circumstances**. In Europe, the process for coordination has evolved over time from an ad hoc, less structured modality in the earlier cases, toward a more structured, "Troika" framework consisting of IMF, EC and ECB staff in euro area programs (Box 3). In such a process, the macroeconomic framework, program design, and conditionality are coordinated between the Fund and the RFA before these are jointly discussed with the authorities, with a view to ensuring consistency in positions. However, no such practice exists in other regions.

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[24] Such monitoring is provided as technical services under Article V, Section 2 (b) of the Fund's Articles of Agreement.

[25] Although not a case of technical assistance, Fund staff has also engaged in dialogue with AMRO as part of outreach activities.

Box 3. Experience of Cooperation with EU institutions

Since the onset of the global financial crisis, Fund resources have been committed to a number of programs on which there has been close cooperation, including co-financing, with the EU institutions. As members of the EU and the IMF, program countries have requested financial assistance simultaneously from the Fund and regional institutions. Over time, reforms to the scale and types of financing available from the IMF and the EU institutions, as well as new challenges from evolving country situations, have led to a variety of different forms of cooperation, reflected in varying forms of IMF involvement.

Program discussions have mostly resulted in a unified and consistent set of macroeconomic and structural policy parameters. For programs with EU member states outside the euro area, program discussions are conducted on a trilateral basis between the authorities, the EC, and the IMF. In addition, the ECB has participated in discussions for the euro area programs. Program parameters are set out in the Memorandum of Economic and Financial Policies (MEFP) of the IMF and the Memorandum of Understanding (MoU) of the EC.

Cooperation between the EU institutions and the Fund draws on the respective mandates. In general, the Fund has played a greater role in designing the macroeconomic framework, while the EC has taken the lead in ensuring consistency of program design and conditionality with EU-wide rules and institutions, particularly on structural issues and with regard to fiscal targets. In the euro-area programs, the ECB is also involved in program discussions, with particular focus on the financial sector strategy.

The need to coordinate among multiple institutions has produced an additional layer of complexity. In particular, issues have arisen over:

- **Engagement with country authorities**: Engagement among the IMF, EC, ECB, and the member country can be complicated. The Fund has a primary duty to help requesting members resolve their underlying balance of payments problems. In carrying out its lending mandate, the Fund has a formal relationship only with the individual member country that requested financing and is subject to the uniformity of treatment principle. Regional entities, however, routinely refer to regionally-agreed targets when designing rescue programs of individual member countries. This can raise questions as to whether program negotiations with country authorities are more constrained (i.e., due to regional commitments). Perceptions about whether the program has been designed with the adjustment needs of the borrower in mind, as opposed to the objectives of the regional entity, ultimately have a bearing on the ownership of the program and its success. In practice, the extent to which country authorities are involved in a tripartite discussion varies across programs and depends on individual country circumstances, while they also have a say in regional policies to varying degrees.

- **Flexibility:** In the context of EFSF/ESM, key lending decisions are made on the basis of unanimity. Accordingly, important issues can require involvement of all member states as well as the EC and ECB – all of whom may have differing priorities – potentially leading to multiplication of policy "redlines" and limiting room for maneuver. The room for maneuver in designing program policies can also be constrained by the rule-based policy framework underpinning the EU or the euro area (e.g., excessive deficit procedures, competition rules, framework governing the provision of Eurosystem liquidity to banks, etc.).

- **Timing**: Coordinating between multiple institutions and member states, in the context of a crisis, can lead to delay in provision of financial support and corresponding deterioration of program prospects.

- **Confidentiality**: the broad involvement of many member states can also make it difficult to keep policy discussions and key decisions confidential, potentially affecting implementation, especially of market or politically-sensitive measures.

Coordination has improved over time with experience, but will continue to be challenging. On the ground, the Troika structure has enabled effective information sharing, more streamlined program discussions and reviews, and helped ensure that external communications are well coordinated. Nevertheless, difference of views that arise from fundamentally differing institutional mandates and priorities will continue to pose challenges.

19. **Both the Fund and RFAs are guided by their own mandates, policies, and procedures, which differ from one another**.

- The Fund's operations are governed by the Articles of Agreement. The Fund is required to make its general resources available to its members to assist them in resolving their balance of payments problems in a manner that is consistent with the Articles of Agreement and that establishes adequate safeguards for their temporary use. Such financing is subject to policy conditionality, safeguards, and other requirements—such as access limits and phasing—that aim to preserve the revolving the nature of Fund financing consistent with its quota-based resources.[26] With a view toward ensuring the uniformity of treatment, the details of these requirements have been developed with the adoption of rules, policies, procedures and practices over time.

- The frameworks governing the lending operations of RFAs generally afford greater flexibility than the Fund's lending framework (e.g., no formal requirements or established practice on assessing debt sustainability and market access, or the borrower's capacity to repay). In some cases, RFA financing vehicles afford greater latitude than the Fund's lending instruments (e.g., some RFAs can directly purchase sovereign bonds in the secondary and primary markets). Nonetheless, some RFAs are cast within regional institutional arrangements, including regional treaties and, in some instances, legally-binding obligations (e.g., macroeconomic targets and/or common market policies) may reduce the room for maneuver in designing program policies.

- At all times, the Fund, as an independent international institution, makes its own judgments on when and under what terms to provide financing, program design and monitoring. In particular, cross-conditionality, under which the use of the Fund's resources would be directly subjected to the rules or decisions of other organizations, is prohibited under the Fund's Guidelines on Conditionality.[27] The Fund cannot delegate its responsibility in assessing whether the conditions for the use of its resources have been met. If the Fund assesses that the conditions have not been met, it will not disburse, irrespective of the judgments reached by RFAs.[28]

- Because an RFA's institutional arrangements are different from the Fund's lending framework, as well as the lack of a formal structure governing IMF-RFA relations, an RFA and its member may choose to agree on a financing arrangement without formal Fund

[26] Article V, Section 3(a).

[27] Decision No. 12864-(02/102), as amended.

[28] Conversely, in cases where the Fund makes an assessment that the conditions have been met, but this judgment is not shared by other organizations, the Fund may not be in a position to allow use of its resources because of the absence of financing assurances; i.e., the program is not fully financed.

involvement. In practice, however, some RFAs have in place formal requirements for Fund involvement, while in many other cases informal coordination with the Fund takes place (See ¶13 above).[29]

- Currently, the Fund can only provide its general resources to individual countries. Membership rights under the Fund's Articles of Agreement, including the right to request and use Fund resources, are exercised by members individually, and as such, the Fund cannot provide its general resources to RFAs. Only countries can be Fund members, and the Executive Board consists of country representatives.

LOOKING AHEAD

20. **Recent experience with RFAs suggests significant potential for IMF-RFA cooperation to enhance global financial stability**. In particular, joint IMF-RFA financing can increase the firepower available to tackle large-scale crises by pooling risks and mobilizing resources at the regional and global levels. At the same time, combining regional and IMF expertise can boost program ownership and chances for program success. From the standpoint of RFAs, Fund involvement can help enhance program credibility and financial safeguards by leveraging the Fund's established policy commitment tools, giving members confidence that the authorities will implement policies to overcome BOP difficulties (e.g., conditionality) and meet financing and safeguards requirements (e.g., on debt sustainability, market access, capacity to repay, and financing assurances). Fund involvement can also contribute to further diversification of risks in view of the Fund's near-universal membership, which is particularly relevant in case of region-wide shocks.

21. **The division of labor between RFAs and the IMF—specifically in a lending context—can play to institutional strengths and capacities**. This division of labor has evolved over time based on the comparative areas of each institution.

- Through their knowledge of regional economic, social and policy issues, the involvement of RFAs strengthens ownership and boosts legitimacy of adjustment programs, alleviating concerns of political stigma sometimes associated with requesting Fund financial assistance. The involvement of an RFA in a financial arrangement may also encourage its member countries to ask for assistance in the early stages of a crisis, when the intervention could be most effective.

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[29] Conversely, a member can also choose to enter into a financing arrangement with the Fund without RFA involvement. From the Fund's perspective, a member of an RFA has the right to approach the Fund independently. (IMF, 2012).

- Program experience and technical expertise have typically placed the Fund in the lead for designing the macroeconomic and policy frameworks which serve as the foundation for IMF-RFA supported-programs. The Fund's global reach and experience enable it to bring to bear cross-country experiences increasing the chance of program success.

- The sharing of information and expertise obtained through separate interactions of the RFA (and supporting institutions) and the IMF with the program country could improve the understanding of policy requirements and enhance the design of programs, by leveraging both regional and global/cross-regional perspectives. At the same time, information flows need to be carefully managed to ensure various institutions have access to necessary information.

- As mentioned, there is no uniform approach to co-financing by RFA and IMF arrangements. The limited history of collaboration to date demonstrates that, in the case of region-wide crises, where many countries in a region are simultaneously affected by a shock, a diversified safety net, built on global resources, is more effective. More generally, increased global interconnectedness calls for an effective global lender that internalizes the benefits of a stable international financial system.

22. **However, the need to coordinate program design and conditionality adds complexity**.

- Cooperation among the RFA, the Fund, and program country authorities is essential to successful program design and implementation. But the need to converge on a program design between the RFA and the Fund may require successive iterations and can result in delays in program discussions and reviews.

- Different financing terms between Fund and RFA lending windows may complicate program design and financing. Some RFA lending instruments have shorter duration than Fund credit, and this maturity mismatch could imply that, depending on the relative volume and duration of lending from the RFA and the Fund, the RFA may be repaid early, while the Fund is still disbursing. Conversely, longer-maturity RFA instruments may support longer-duration adjustment programs than would typically be allowed under the relatively short-term balance of payments support provided by the Fund.

- More broadly, different institutional mandates and policies may pose challenges to coordinating program design and monitoring. For instance, program design could be constrained by regional obligations and objectives. Also, as noted above, the relative flexibility of RFAs' lending policies may not coincide with the Fund's requirement that its financing should address temporary balance of payments problems where debt is sustainable and there are prospects for market re-access. These discrepancies could lead to situations where one layer of the GFSN may be in a position to lend while the other cannot, giving rise to protracted discussions and/or pressure for forbearance in application of lending or other policies from one side or the other.

23. **These challenges highlight the risk of coordination failures and the usefulness of reaching ex ante understandings between RFAs and the Fund**.

- Cooperation with RFAs has thus far been largely ad hoc, with modalities established in the midst of the global financial crisis. Such an ad hoc approach risks reducing the predictability of financial assistance and creates the risk of delayed assistance when this is most critical, potentially increasing the costs of resolving crises.

- Different financing terms and conditionality between Fund and RFA instruments might lead to institutional arbitrage and facility shopping, which defer necessary policy adjustment. This undermines the smooth functioning of the global financial safety net and can increase the risk of disorderly adjustments, and scaled up financial assistance. In a similar vein, the lack of IMF-RFA coordination in application of the similar qualification criteria for precautionary instruments could send conflicting signals and create pressures to lower the qualification bar, potentially undermining the credibility of the qualification frameworks.

- In the absence of formal requirements to safeguard loaned resources (¶¶19 and 22), some RFAs envisage co-financing with the Fund to borrow program credibility embedded in the Fund's lending framework. While this partly reflects the Fund's analytical strength, including in debt sustainability analysis, it also has the undesirable effect of pushing stigma down on the Fund or creating pressure on the Fund to use greater discretion in its application of lending policies.

24. **While the G-20 Principles suggest a broad direction toward enhanced cooperation, they stop short of providing specific guidance**. The Principles are not legally binding and do not go beyond broadly stating that enhanced cooperation would contribute to global financial stability. As noted earlier, some observers argue for more detailed guidelines on issues such as division of labor and institutional relations between RFAs and the Fund. At the same time, the lack of specificity on the modality of cooperation may reflect the limited experience with IMF-RFA co-financing, and/or the need for flexibility to overcome institutional constraints.

25. **Against this backdrop, and subject to the Fund's mandates, the following are some possible options for enhancing coordination and cooperation between RFAs and the Fund**. They represent broad options for moving forward with a view to soliciting views from the Fund and RFA memberships on how to enhance IMF-RFA cooperation. As such, these options do not represent any staff proposals or recommendations:

Fine-tuning the current flexible approach

26. **One option is to fine-tune the current modalities for coordination with a view to preserving flexibility, while respecting the mandates and policies of each institution**. Experience on IMF-RFA co-financing is recent and almost exclusively in Europe, which has well-established regional institutions that encompass a monetary union. Most RFAs in other regions are still in nascent stages and/or their operations do not yet present useful complementarities with the

Fund's lending operations. It might therefore be premature to consider detailed rules on coordination for such a diverse group of RFAs. However, "too much" flexibility might give rise to perceptions of differentiated treatment, and therefore it would be important to ensure that there is no perception of a lack of uniformity of treatment. Thus, if the current flexible practice of cooperation is to be maintained, it would be important to ensure that the differing mandates not only of RFAs, but also the Fund, are respected (as suggested by the G-20 Principles) and that uniformity of treatment is preserved.

27. **The Fund can provide independent monitoring of policies under RFA-led financial assistance without program involvement**. This form of cooperation entails the provision of technical assistance without committing Fund resources in a joint program. It has the potential to be useful in cases where institutional constraints of the Fund and RFAs cannot be bridged, preventing the Fund from entering into a formal financing relationship, or when Fund resources are not needed, but the country authorities and/or the RFA wish to maintain close Fund involvement in view of the Fund's expertise in specific areas. An example of the latter is the modality used in the context of ESM support to Spain's banking sector. These types of engagement would preserve the benefits of IMF-RFA coordination, although they might not always carry the same level of credibility as in co-financing cases—particularly if the absence of Fund lending were seen as stemming from the nonobservance of the Fund's lending policy requirements and safeguards (e.g., debt sustainability). Beyond this, the Fund could signal the quality of borrowers' policies via assessment letters, which provide Fund staff's clear and candid assessment of the member's economic developments and policies, including when an up-to-date staff report for the Article IV consultation is not available.

28. **There may be scope to improve the Fund's operating framework in joint IMF-RFA programs**. For example:

- Within the constraints of the Fund's and an individual RFA's respective legal and policy frameworks, the Fund and the RFA could reach ex ante understandings with a view to better aligning lending terms and the application of qualification criteria for Fund and RFA precautionary instruments. Establishing procedures for information sharing, identifying contact persons and counterparts beforehand, and conducting crisis scenario exercises together, would also be useful.

- There may also be scope to review how internal Fund processes (for example, Policy Notes, Policy Consultation Meetings, and Board briefings) could be adapted to coordination with RFAs, with a view to ensuring the integrity of the Fund's decision-making process in cases of coordination. This would help ensure that Fund engagement reflects the fact that some policies impacting program design are made at the regional, rather than the national, level.

- In terms of working arrangements, it may be useful to examine the experience with the "two-step" negotiating process, such as the "Troika" framework in Europe, where discussions are held with the RFA prior to discussions with the member country to agree on the program objectives and policies. While such a process helps ensure consistency in negotiating positions and external communication, it must leave room for adjustments in response to new developments and the priorities of the member requesting Fund financial assistance.

29. **Outside of co-financing engagement, there are gains from enhanced information sharing on economic developments and policy issues facing member countries**.[30] Such cooperation could take the form of more regular dialogue between Fund and RFA staffs, including in the context of economic monitoring of the regions as well as individual countries. In these cases, the RFA and the Fund could leverage each other's surveillance capabilities. For example, to regional surveillance or peer review mechanisms could benefit from the Fund's analyses from its global and cross-regional perspectives, such as Spillover- and External Sector Reports; conversely, there may be scope for the Fund to enrich its surveillance by utilizing the RFA's regional expertise. Strengthening the relationship with RFAs outside of crisis lending could contribute toward shared diagnosis of underlying imbalances and promote policy adjustment. In addition, building mutual trust in non-crisis times would be invaluable in the event of a need for a rapid joint response to a crisis.

Toward a more structured approach

30. **To further strengthen IMF-RFA coordination, a more structured approach could be taken, including by developing formal agreement on guiding principles and/or detailed procedural guidelines**. Such an approach might enhance the predictability of IMF-RFA coordination and contribute to avoiding coordination failures. In such an approach, shared understandings could be developed into a set of detailed guidelines. Any such understandings would be developed within the constraints of the applicable Fund policies and procedures and in a transparent manner to ensure evenhandedness in the Fund's engagement with RFAs across regions. For example:

- RFAs and the Fund could formalize the expectation that co-financing operations would be subject to certain overarching principles and safeguards, including debt sustainability, market access, and capacity to repay similar to those found in the Fund's lending framework. These overarching principles would also include that RFAs respect the preferred creditor status of the Fund. To achieve these principles, both sides could acknowledge their respective primary responsibilities and lead areas. The detailed guidelines could provide concrete guidance on how these principles could be achieved, particularly in procedures.

- After experience in co-financing operations is accumulated, the understandings in the detailed guidelines could evolve into a memorandum of understanding (MoU) or a voluntary

[30] Sharing of information or documents by Fund management or staff can only be done within the constraints of the applicable Fund policies and procedures. In particular, information or documents provided to Fund management or staff on a confidential basis may not be disclosed beyond management or staff without the consents of the provider of the information or documents. In addition, consistent with Article XII, Section 8, non-public views of the Fund (i.e., the Executive Board) regarding a member's economic policies may not be disclosed without the consent of that member.

"code of conduct" on IMF-RFA cooperation, which could be entered into by the Fund and RFAs bilaterally or collectively.[31] In this respect, certain aspects of the formal understanding on modalities for collaboration between the Fund and the World Bank could be seen as a model for coordination with RFAs (Box 4).

31. **Care would need to be taken to preserve a certain degree of flexibility if detailed guidelines, MoUs or codes of conduct are adopted**. A balance needs to be struck between the flexibility necessary in tailoring modalities for cooperation to different RFAs given their diverse institutional structures and comparative advantages, and the Fund's guiding principles of uniformity of treatment in applying its policies and practices. It would also be important to ensure that a more structured approach did not result in undue delays or inhibit rapid responses to crisis situations.

[31] These arrangements would require Board endorsement or approval.

Box 4: Bank-Fund Collaboration

The IMF and World Bank collaborate regularly to assist member countries in areas ranging from outreach to technical assistance to financial support. Formal guidelines on collaboration were established in the 1960s, when a broad agreement was reached on the primary responsibilities of each institution. The 1980s saw an increased need for careful coordination, which culminated in 1989 with a *Concordat on Bank-Fund Collaboration*.

The Concordat recognized the Fund's primary responsibility in the "aggregate aspects of macroeconomic policy and their related instruments" and the Bank's primary responsibilities in "development strategies, sector project investments and structural adjustment programs" among other areas. In 2007, an External Review Committee on Bank-Fund Collaboration confirmed the continued relevance of the Concordat, but also called for a flexible approach to promoting and enhancing Bank-Fund collaboration. The 2010 report on Implementation of the Joint Management Action Plan on Bank-Fund Collaboration (JMAP) called for promoting joint country-team consultations; enhancing clarity on information sharing; and improving awareness of each institution's organizational structure, among others.

The staffs of the Bank and the Fund typically collaborate closely on country assistance and policy issues that are relevant for both institutions. On occasion, the two institutions will conduct country missions in parallel, and staff may participate in each other's missions. Fund assessments of a country's general economic situation and policies provide input to the Bank's assessments of potential development projects or reforms. Similarly, Bank advice on structural and sectoral reforms is taken into account by the Fund in its policy advice. The staffs of the two institutions also jointly conduct debt sustainability analyses in low-income countries, and cooperate on the conditionality involved in their respective lending programs.

Regarding financial assistance, the Bank's lending operations are geared toward supporting members' development objectives through financing projects and structural reforms, while the Fund aims to help countries achieve and maintain macroeconomic and external stability through provision of temporary financing to smooth adjustment. Accordingly, the Bank generally maintains a sustained lending relationship with developing and emerging market countries, while Fund financing is episodic and varies significantly across countries and time.

It is worth noting that, despite the Bank and Fund's common history (both were born out of the Bretton Woods conference in 1944), physical proximity, and complementary mandates—with the Fund focused on macroeconomic stability and the Bank focused on development—it took roughly two decades before any formal agreement on Bank-Fund coordination was reached, suggesting a critical mass of practical experience working together may be needed before well-reasoned recommendations can be made and implemented. At the same time, certain aspects of Bank-Fund coordination may represent a model for IMF-RFA coordination. Common missions and coordination on conditionality are already in practice in some instances. Initiatives to promote better coordination—such as agreements on information sharing and staff mobility between institutions—may also be helpful in promoting a solid working relationship between RFAs and the Fund going forward.

APPENDIX I. MAIN FEATURES OF MAJOR REGIONAL FINANCING ARRANGEMENTS[1]

A. The Arab Monetary Fund (AMF)

Establishment. The AMF was established in 1976.

Members. Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, West Bank and Gaza, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

Purpose. Correct balance-of-payments disequilibria; support the implementation of structural reforms in the financial and banking sector as well as in public finance sector; promote exchange rate stability; eliminate trade restrictions; promote the development of capital markets; and develop policy coordination.

Resources. The paid-up capital of the AMF is US$2.8 billion as of December 2011. The AMF may borrow from member countries, Arab and foreign monetary and financial institutions and markets and can issue securities.

Lending instruments. (i) The Automatic Loan is an unconditional facility with access up to 75 percent of the member's paid-in capital in convertible currencies, with a maturity of three years which is not conditional on program implementation. (ii) The Ordinary Loan is extended if financing needs are over 75 percent and provided the member has already withdrawn its reserve tranche from similar regional or international organizations. It is generally offered up to 100 percent of paid-in capital, and could be supplemented with an Automatic Loan (total of 175 percent) and must be accompanied by a macroeconomic adjustment program of at least one year agreed with the AMF. (iii) The Extended Loan is provided to countries suffering chronic balance-of-payments deficits arising from structural imbalances (requires withdrawal of its reserve tranche from similar regional or international organizations, access up to 175 percent of paid-in capital and can be supplemented by an Automatic Loan to access a total of 250 percent of paid in capital). (iv) The Compensatory Loan is designed for unanticipated balance-of-payments needs resulting from a shortfall in exports or an increase in the value of agricultural imports (access up to 50 percent of paid-in capital). (v) The Structural Adjustment Facility is available for members that has achieved progress in macroeconomic stability and agree to implement a reform program at the sectoral level, particularly the financial or banking sector or in public finance (access up to 175 percent of paid-in capital for each sector, complementary to other loans). (vi) The Trade Reform Facility assists members in meeting the finance costs associated with the implementation of trade reforms (up to 175 percent

[1] Sources are RFA websites, unless otherwise stated.

of paid in capital)(vii) The Oil Facility is for net oil importing members affected by a rise in world oil and gas prices (access of up to 200 percent of paid in capital). The short-term liquidity facility aims at assisting developments in the international financial markets. Access to this facility is up to 100 percent of the member's quota.

Recent activity. The AMF extended two loans in 2011 amounting to US$536mn. Egypt received an Automatic Loan and a Structural Adjustment Loan, together amounting to US$470 million. Morocco received financing under the Oil Facility.

IMF role in lending operations. The AMF's institutional set up does not envisage an explicit role for the IMF. However, under a number of the loan facility the AMF requires its member to first withdraw its reserve tranche from the IMF and other similar regional or international organizations of which they are a member.

Governance. The AMF's management consists of a Board of Governors and Board of Executive Directors chaired by the Director General. Each member has 75 votes plus one vote for each share held. All matters are decided by absolute majority (more than 50 percent of the total voting power). The number of AMF staff is about 100.[2]

B. The Latin American Reserve Fund (FLAR)

Establishment. The Andean Reserve Fund was established in 1978, which was transformed into the Latin American Reserve Fund (FLAR) in 1991 to allow membership from all Latin American countries.

Purpose. Support member countries' balance of payments through credit and guarantees; improve the conditions of international reserve investments by members; contribute to the harmonization of members' exchange rate, monetary, and financial policies.

Members. Bolivia, Colombia, Ecuador, Costa Rica, Perú, Uruguay, and Venezuela.

Resources. The subscribed capital is US$2.3bn. As of December 2011, the paid-in capital is US$2.0 bn. Members can borrow up to 250 percent of their paid-in capital contribution, except for Bolivia and Ecuador that have a cap of 260 percent.

Lending instruments. The FLAR has five types of lending instruments: balance of payments credit (three-year maturity, one-year grace, access up to 2.5 times paid-in capital), foreign debt restructuring of central banks (three-year maturity, one-year grace, access up to 1.5 times paid-in capital), liquidity credit (up to one year and one time the paid-in capital), contingent credit (up to six months, renewable, and twice the paid-in capital), and treasury credit (up to 30 days and twice the

[2] McKay, Volz, and Wolfinger (2011). According to that paper, the number of technical staff is about 50.

paid-in capital).[3] The interest rate attached to these facilities is a spread of 150-400bps over the three-month LIBOR. A member applying for a loan shall present policy measures it intends to implement to correct balance of payments imbalances. As a general rule, the FLAR has always accepted the program without additional conditionality.

Other services provided by FLAR comprise asset management, term deposits, short-term notes, compliance and risk measurements of investment portfolios, training, and seminars.

Recent activity. US$480 million balance of payments loan to Ecuador in 2009. Historically, FLAR has been relevant for its member countries, especially those of smaller relative size.

IMF role in lending operations. FLAR's institutional set up does not envisage an explicit role for the IMF.

Governance. Representatives' Assembly consists of the finance ministers of members; lending decisions are made at the Board of Directors consisting of the central bank governors and the Executive President (no vote). Each member country has the same voting power (one vote) irrespective of their paid-in capital. Most decisions are made by a three-quarter qualified majority; lending decisions for Liquidity, Contingency, and Treasury credit are made by the Executive President. The number of FLAR's permanent staff is 52.

C. North American Framework Agreement (NAFA)

Establishment. The NAFA was established in April 1994, enlarging prior bilateral swap agreements among Canada, Mexico, and the United States. The NAFA serves as the rubric for the separate bilateral agreements.

Purpose. The NAFA was established as a financial agreement parallel to the North American Free Trade Agreement.

Members. Canada, Mexico, and the United States.

Resources. The swap agreements under the NAFA consist of those between: the Bank of Canada and the Bank of Mexico in the amount of C$1 billion equivalent; the Bank of Canada and the U.S. Federal Reserve, US$2 billion equivalent; the Bank of Mexico and the Federal Reserve, US$3 billion equivalent; and Mexico and the United States Exchange Stabilization Fund (ESF), US$3 billion equivalent.

[3] In the case of balance of payments, foreign debt restructuring of central banks, liquidity and contingent loans, the central banks of Bolivia and Ecuador can obtain 0.1 times more than other member countries.

Lending instruments. Bilateral swap arrangements. The ESF maintains a standing swap line, the Exchange Stabilization Agreement, with Mexico. The agreements between the central banks need to be renewed annually.

Recent activity. In January 1995, The U.S. and Canadian authorities activated the swap agreements with Mexico, followed by additional swap operations between the United States and Mexico in February 1995.

IMF role in lending operations. In drawing on the ESF, the US Secretary of the Treasury requires that the IMF Managing Director provide a letter stating his/her confidence in the economic policies of the borrower.

D. RFAs in the European Union

Balance-of-Payments (BoP) Assistance Facility

Establishment. The BoP assistance facility was introduced by Council Regulation (EC) No 332/2002 of 18 February 2002, replacing an earlier facility providing medium-term financial assistance for member states' balance of payments established in 1988.[4]

Purpose. Provide mutual assistance to a non-euro area EU member state in difficulties or seriously threatened with difficulties as regards its balance of payments; encourage member states to adopt economic policy measures likely to prevent the occurrence of an acute balance of payments crisis; support efforts towards convergence.

Members. Access under the facility is restricted to EU member states that have not adopted the euro: Bulgaria, Czech Republic, Denmark, Latvia, Lithuania, Hungary, Poland, Romania, Sweden, and the United Kingdom.

Resources. The total outstanding amount of loans is limited to €50 billion in principal. The funds are raised by the European Commission (EC) on behalf of the EU on international financial markets or from financial institutions.

Lending instruments. Amount, average duration (normally about five years), and disbursement terms of a loan or appropriate financing facility are decided by the Council, including based on funding conditions. The terms of the loan as well as the economic program, identifying the economic policy conditions aiming to re-establish a sustainable balance of payments situation, are

[4] Council Regulation (EEC) No. 1969/88, merging medium-term financial assistance (set up in 1972, Decision 71/143/EEC) and a Community loan mechanism (set up in 1981, Regulation (EEC) No. 682/81) into a single facility for medium-term financial support.

presented in the Memorandum of Understanding (MoU) and the Loan Agreement. The scope of the facility was expanded in 2011 to allow for precautionary arrangements.

Recent activity. Four joint EU/IMF-supported programs, in Hungary, Latvia, and Romania (twice), have been approved to date for a total financial assistance of €52.9 billion, of which €16.0 billion under the BoP Assistance Facility.

Country	Total Assistance / of which EU	Period Covered by EU Assistance	Status of the Program (as of end 2012)
Hungary	€20.0 bn / €6.5 bn	Until November 2010	Expired in November 2010 (€ 1 bn unclaimed) Post program surveillance
Latvia	€7.5 bn / €3.1 bn	Until January 2012	Completed (disbursements completed in October 2010; Part of bilateral funding was treated as credit lines) Post program surveillance
Romania	€ 20.0 bn / € 5.0 bn	Until June 2011	Completed (disbursements completed in June 2011)
Romania	€ 5.4 bn / € 1.4 bn	Until March 2013	Precautionary (not disbursed)

IMF role in lending operations. Although the BoP Assistance Facility framework allows providing loans solely by the EU, recent assistance has been extended in co-operation with the IMF and other international institutions or countries. In particular, the EU developed guidelines on its cooperation with the IMF (ECFIN/G/C ARES(2009) 365646 (REV)), to ensure consistent policy advice in the context of joint EU/IMF-supported programs, via extensive exchange of views and information as well as synchronization of program reviews and disbursements.

Governance. Financial assistance will be granted by a decision by the Council, acting by a qualified majority on a proposal from the EC. The EC is delegated the authority to monitor the program and approve disbursements.

European Financial Stabilization Mechanism (EFSM)

Establishment. The EFSM was introduced by Council Regulation (EC) No 407/2010 of 11 May 2010, essentially reproducing the BoP Assistance Facility for all EU member states.

Purpose. Provide external financial assistance to a member state experiencing, or seriously threatened with, a severe economic and financial disturbance caused by exceptional occurrences beyond such member states' control.

Members. All EU member states: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

Resources. The EC is authorized to borrow on the capital markets or from financial institutions on behalf of the EU. The maximum financing capacity of the EFSM is €60 billion and is backed by an implicit EU guarantee.

Lending instruments. Amount, average duration, and disbursement terms of a loan or credit line are decided by the Council, including based on funding conditions. The terms of the loan as well as the economic program, identifying the economic policy conditions attached to the financial assistance with a view to re-establishing a sound economic or financial situation in the beneficiary member state and to restoring its capacity to finance itself on financial markets, are presented in the Memorandum of Understanding (MoU) and the Loan Agreement.

Recent activity. Two joint EU/IMF-supported programs, in Ireland and Portugal, have been approved to date for a total financial assistance of €163 billion, of which €48.5 billion under the EFSM.

Country	Total Assistance / of which EFSM	Period Covered by EU Assistance	Status of the Program (as of end 2012)
Ireland	€85 bn / €22.5 bn	Until November 2013	Active (€21.7 bn disbursed from EFSM)
Portugal	€78 bn / €26 bn	Until May 2014	Active (€22.1 bn disbursed from EFSM)

IMF role in lending operations. The EFSM Regulation explicitly states that its activation will be in the context of a joint EU/IMF support.

Governance. Financial assistance will be granted by a decision by the Council, acting by a qualified majority on a proposal from the EC. Policy conditionality will be defined by the EC in consultation with the ECB and spelled out in a MoU. The EC is delegated the authority to monitor the program and approve disbursements.

European Financial Stability Facility (EFSF)

Establishment. The EFSF framework was established on June 7, 2010 and became fully operational on August 4, 2010. The EFSF is a temporary facility that may engage in new support programs until June 30, 2013, but will continue to exist until its last financial obligation has been fully repaid.

Purpose. The EFSF's objective is to preserve the financial stability of Europe's monetary union by providing temporary assistance to euro area member states in difficulties, i.e., unable to borrow on markets at acceptable rates, caused by exceptional circumstances beyond such member states' control.

Members. All euro area member states: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, and Spain.

Resources. Funding is obtained by issuing bonds and other debt instruments or by entering into other financing arrangements with financial and monetary institutions. Guarantees by euro area member states to the EFSF are on a pro rata basis, in accordance with their share in the paid-up capital of the ECB, and total €780 billion, providing a lending capacity of €440 billion. (Due to drop outs, some issuance of the EFSF was not backed by all 17 euro area members).

Lending instruments. The EFSF: (i) provides loans to member states in financial difficulties; (ii) purchases bonds of a euro area member state in primary and secondary markets; (iii) provides precautionary financial assistance; and (iv) provides loans to governments for the purpose of recapitalization of financial institutions. The EFSF is permitted to use a degree of funding flexibility as regards the currency, timing, interest rate base, and maturity of the funding instruments. No access limits are set for loans to individual members, with access based on the member's financing need. Access under the facilities is subject to agreement on a memorandum of understanding (MoU) between the member state and the EC containing policy conditionality.

Recent activity. Three joint EU/IMF-supported programs, in Ireland, Portugal, and Greece have been approved to date for a total financial assistance of €335.6 billion, of which €140.4 billion is under the EFSF.

Country	Total assistance / of which EFSF	Period covered by EU assistance	Status of the program (as of February 2013)
Ireland	€85 bn / €17.7 bn	Until November 2013	Active (€12.0 bn disbursed from EFSF)
Portugal	€78 bn / €26 bn	Until May 2014	Active (€18.2 bn disbursed from EFSF)
Greece	€172.6 bn / €144.6 bn	Until December 2014	Active (€110.2 bn disbursed from EFSF)

IMF role in lending operations. The EFSF Framework Agreement establishes that financial support by the EFSF is to be provided in conjunction with the Fund and subject to conditionality set out in a MoU negotiated in liaison with the Fund and the ECB.

Governance. The EFSF is a *société anonyme* set up under Luxembourgish law. Key decisions under the EFSF Framework Agreement are reserved to euro area member states and generally require unanimity, including the decision to approve loan facility agreements and disbursements under such agreements. The EFSF Board of Directors consists of representatives of all the shareholders with votes proportional to their contribution shares to the EFSF. The EC is delegated authority to negotiate MoUs with borrowers and to monitor implementation of policy programs.

European Stability Mechanism (ESM)

Establishment. The Treaty Establishing the European Stability Mechanism was signed on February 2, 2012. The ESM was inaugurated on October 8, 2012 upon completion of the ratification process.

Purpose. The ESM's objective is to safeguard the financial stability of the euro area by providing temporary stability support to euro area member states experiencing or threatened by financial difficulties. The ESM also complements the new EU framework for economic surveillance that focuses on debt sustainability and crisis prevention.

Members. All euro area member states: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, and Spain. The ESM is open to non-euro area EU member states for ad hoc participation in financial assistance operations for euro area member states.

Resources. The ESM's capital stock is €700 billion, of which €80 billion is paid-in capital with the remaining €620 billion as callable capital. The ESM has an effective lending capacity of €500 billion. Funding is obtained by issuing bonds or other debt instruments on the financial markets.

Lending instruments. The ESM: (i) provides loans to member states in financial difficulties; (ii) purchases bonds of a euro area member state in primary and secondary markets; (iii) provides precautionary financial assistance; and (iv) provides loans to governments for the purpose of recapitalization of financial institutions. All financial assistance is linked to appropriate conditionality specified in a Memorandum of Understanding (MoU) between the member state and the EC containing policy conditionality.

Recent activity. Financial assistance was granted on July 20, 2012, to recapitalize the banking sector and restore market confidence in Spain. The total committed amount is €100 billion, of which €39.5 billion was disbursed on December 11, 2012.

IMF role in lending operations. Wherever possible, Fund participation will be sought on a technical and financial level, e.g., MoUs will be negotiated by the EC in liaison with the ECB and the Fund, and debt sustainability analysis will be jointly conducted by the EC and the Fund. A euro area member state requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the Fund.

Governance. The ESM is an intergovernmental organization under public international law. Key decisions under the ESM Agreement are reserved to the Board of Governors consisting of the Finance Ministers of the euro area member states (with the European Commissioner for Economic and Monetary Affairs and the ECB President as observers), and generally require unanimity, including decisions to grant financial assistance and approve a MoU. The Board of Directors consists of representatives appointed by Governors. Voting rights will be proportional to the number of ESM shares allocated. The EC is delegated authority to conduct debt sustainability analyses, negotiate MoUs with borrowers, and monitor implementation of programs. The number of ESM staff is 75 as of 2012, while the EC's Directorate-General of Economic and Financial Affairs, to which negotiation of lending programs is delegated, has about 680 staff.

E. Eurasian Economic Community Anti-Crisis Fund (ACF)

Establishment. The ACF was established on June 9, 2009 upon the signing of the Treaty on the Establishment of the Anti-Crisis Fund.

Purpose. Assist its member states in overcoming the consequences of the global financial crisis; ensure their long-run economic stability; foster economic integration. To these ends, support stabilization programs by supporting budget, balance of payments, and currencies; and help implement large investment projects.

Members. Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russian Federation, and Tajikistan.

Resources. Budget contributions from member states total US$8.5 billion.

Lending instruments. (i) Financial Credits (maturity of up to 10 years including a grace period of up to five years; concessional credits available to low-income members) are extended only to central governments to support stabilization programs that aim to make the economies more resilient to external and domestic shocks.; (ii) Investment Loans are available to governments and/or companies implementing large investment projects that spur regional integration as well as large national investment projects. All ACF loans are extended in U.S. dollars or euro.

Recent activity. The ACF approved the Financial Credits of US$70 million to Tajikistan in August 2010 and US$3 billion to Belarus in June 2011.

IMF role in lending operations. The ACF's institutional set up does not envisage an explicit role for the Fund.

Governance. The ACF is not a legal entity or an organization. The ACF Council, top decision-making body, consists of the ministers of finance of the member states. Council decisions are drafted by the Council of Experts comprised of senior managers of the ministries of finance. The Eurasian Development Bank manages the resources of the ACF, and its ACF Manager conducts evaluation of programs of requesting members.

F. The Chiang Mai Initiative Multilateralization (CMIM)

Establishment. The ASEAN+3 Finance Ministers agreed to launch the Chiang Mai Initiative (CMI) in May 2000 as a regional "self-help and support mechanism" to provide "sufficient and timely financial support to ensure financial stability in the East Asian region" and to "supplement the existing international facilities."[5] The CMI initially consisted of the enhanced ASEAN Swap Arrangements and a network of bilateral swap arrangements subject to a common basic framework of terms and conditions. With a view to facilitating prompt transactions by establishing a common decision-making process, a single contract called the CMI Multilateralization Agreement took effect on March 24, 2010.

Purpose. Address short-term liquidity and balance of payments difficulties and supplement the existing multilateral financial arrangements.

Members. Brunei Darussalam, Cambodia, China, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Resources. The aggregate gross amount of contribution is US$120 billion. Members commit to provide financial support within the agreed amount of contribution. Funds are transferred from the central banks/monetary authorities only when a request for drawing is made.

Lending instruments. Members are entitled to swap their local currencies with U.S. dollars up to a multiple of their contributions to the scheme. The 90-day swaps can be renewed up to seven times (approximately two years).

Recent activity. No drawing has been made.

IMF role in lending operations. The first 20 percent of the amount disbursable ("IMF de-linked portion") to each member does not require an IMF-supported program. Disbursement of the amount in excess of the 20 percent ("IMF linked portion") is conditional on the existence of an IMF-supported program.

Governance. Decisions on drawings will be made by a two-third majority at the Executive Level Decision-Making Body consisting of deputy-level representatives of the ASEAN+3 Finance Ministries and Central Banks and the Monetary Authority of Hong Kong SAR. The voting power is distributed to members according to the amount of contribution, supplemented by basic votes allocated equally.[6] Two countries (one from the ASEAN countries and the other from China, Japan, and Korea)

[5] The Joint Statement of the ASEAN+3 Finance Ministers at their second meeting in Chiang Mai, Thailand, May 2000.

[6] Fundamental issues, such as the total size, the amount of contribution from each party, are decided by unanimity of the ASEAN+3 Finance Ministers.

will be appointed to coordinate the activation process when a request for drawing is made. In May 2011, the ASEAN+3 Ministers established a dedicated surveillance unit (ASEAN+3 Macroeconomic Research Office—AMRO), which is also supposed to contribute to effective decision-making of the CMIM. The number of AMRO staff is 11 as of 2011.

Planned enhancement. In May 2012, the ASEAN+3 reached the following agreement to amend the CMIM Agreement, which has yet to take effect:[7]

(i) Double the total size to US$240 billion;

(ii) Increase the IMF de-linked portion to 30 percent when the Agreement is amended, with a view to increasing it to 40 percent in 2014 subject to review should conditions warrant;

(iii) Establish a CMIM Precautionary Line (CMIM-PL) as an instrument to address members' potential liquidity or balance of payments need, supplementing the existing swap arrangements for actual need (CMIM Stability Facility (CMIM-SF)). Qualification for CMIM-PL is based on five criteria (external position and market access, fiscal policy, monetary policy, financial sector soundness and supervision, and data adequacy), supplemented by ex post conditionality as necessary;

(iv) Lengthen the maturity of swaps from 90 days to six months for the IMF de-linked portion and to one year for the IMF linked portion. For CMIM-SF, the swaps can be renewed up to three times for the IMF de-linked portion (totalling to a maximum of two years) and twice for the IMF linked portion (totalling to the maximum of three years). For CMIM-PL, the duration of access is granted for six months with renewal permitted up to three times (totalling to the maximum of two years); and

(v) Conduct monitoring on a semi-annual basis.

The ASEAN+3 also plan to transform AMRO, a company set up under Singaporean law, into an international organization based on an international agreement such as a treaty.

[7] The Joint Statement of the ASEAN+3 Finance Ministers and Central Bank Governors at their meeting in Manila, Philippines, May 2012.

APPENDIX II. COUNTRIES' MAXIMUM ACCESS TO RFA RELATIVE TO THEIR IMF QUOTA AND GDP (2011)

	Contribution	Maximum access		
	USD million	USD million	% IMF quota	% GDP
AMF 1/	**2,823**			
Algeria	369	1,107	56	0.6
Bahrain	44	131	61	0.5
Comoros	2	6	46	1.0
Djibouti	2	6	25	0.5
Egypt	278	835	56	0.4
Iraq	369	1,107	59	1.0
Jordan	47	141	52	0.5
Kuwait	278	835	38	0.5
Lebanon	44	131	31	0.3
Libya	117	351	20	1.0
Mauritania	44	131	129	3.1
Morocco	130	391	42	0.4
Oman	44	131	35	0.2
Qatar	87	261	55	0.2
Saudi Arabia	421	1,264	11	0.2
Somalia	35	104	150	...
Sudan	87	261	98	0.4
Syria	63	188	41	...
Tunisia	61	183	40	0.4
UAE	167	502	42	0.1
Yemen	134	402	105	1.2

1/ Capital contribution can be supplemented by borrowing. Maximum access assumes access at 3 times paid-in capital as stipulated by the Articles of Agreement of the AMF.

	Contribution	Maximum access		
	USD million	USD million	% IMF quota	% GDP
FLAR 2/	**2,344**			
Bolivia	234	509	188	2.1
Colombia	469	978	80	0.3
Costa Rica	234	461	178	1.1
Ecuador	234	509	93	0.8
Perú	469	978	97	0.6
Uruguay	234	586	121	1.3
Venezuela	469	978	23	0.3

2/ Capital contribution can be supplemented by borrowing. Maximum access assumes access at 2.5 times paid-in capital (2.6 times for Bolivia and Ecuador) under the balance of payments credit facility.

	Contribution	Maximum access		
	EUR million	EUR million	% IMF quota	% GDP
European Union 3/				
(ESM)	**700,000**	...	...	...
Austria	19,484	...	...	...
Belgium	24,340	...	...	...
Cyrpus	1,373	...	...	...
Estonia	1,302			
Finland	12,582	...	...	...
France	142,701	...	...	...
Germany	190,025	...	...	...
Greece	19,717	...	...	...
Ireland	11,145	...	...	...
Italy	125,396	...	...	...
Luxembourg	1,753	...	...	...
Malta	522	...	...	...
Netherlands	40,019	...	...	...
Portugal	17,564	...	...	...
Slovak Republic	5,768	...	...	...
Slovenia	2,993	...	...	...
Spain	83,326	...	...	...

3/ The overall lending capacity is €500bn. No access limits have been set under the ESM treaty.

	Contribution	Maximum access		
	USD million	USD million	% IMF quota	% GDP
ACF 4/	**8,513**			
Armenia	1	1,107	762	10.8
Belarus	10	1,788	293	3.2
Kazakhstan	1,000	2,043	354	1.1
Kyrgyz Republic	1	255	182	4.3
Russian Federation	7,500	3,150	34	0.2
Tajikistan	1	170	124	2.6

4/ Access limits are set by ACF Council in proportion to GNI per capita. If needed, an ACF member state may elect to reallocate part of its access limit to another member state. Following this rule, Belarus has received a US$3 billion loan in June 2011 despite its nominal maximum access being US$1,788 million, following partial reallocation of Russia's access limit.

	Contribution	Maximum access		
	USD million	USD million	% IMF quota	% GDP
CMIM 5/	**120,000**			
Brunei	30	150	44	0.9
Cambodia	120	600	434	4.7
Indonesia	4,552	11,380	347	1.3
Lao PDR	30	150	180	1.8
Malaysia	4,552	11,380	406	4.0
Myanmar	60	300	74	0.6
Philippines	4,552	11,380	707	5.1
Singapore	4,552	11,380	512	4.4
Thailand	4,552	11,380	500	3.3
Vietnam	1,000	5,000	687	4.1
China	34,200	17,100	114	0.2
Hong Kong SAR	4,200	2,100	...	0.9
Japan	38,400	19,200	78	0.3
Korea	19,200	19,200	361	1.7

5/ Contribution is based on members' commitment to set aside international reserves when request for drawing is made. Maximum access is determined by the product of contribution and multiplier.

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