



IMF–RFA collaboration: motives, state of play, and way forward

A joint RFA staff proposal

This joint staff paper sheds light on the existing cooperation between the IMF and RFAs and suggests further avenues to enhance their work together. It offers a collective RFA reply to the IMF’s recent policy paper on collaboration issues.

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Acronyms

ADB	Asian Development Bank
ADMDI	Arab Debt Market Development Initiative
AMF	Arab Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN+3	Association of Southeast Asian Nations + China, Japan and Korea
BoP	Balance of Payments
BRICS	Brazil, Russia, India, China and South Africa
BRICS CRA	BRICS Contingent Reserve Arrangement
BSA(s)	Bilateral Swap Arrangement(s)
CMIM	Chiang Mai Initiative Multilateralisation
EC	European Commission
ECB	European Central Bank
EFSF	Eurasian Fund for Stabilization and Development
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ESM	European Stability Mechanism
EU BoP	European Union Balance of Payments Facility
EU MFA	European Union Macro-Financial Assistance
FLAR	<i>Fondo Latinoamericano de Reservas</i> (Latin American Reserve Fund)
G20	Group of Twenty
G20 IFA Working Group	G20 International Financial Architecture Working Group
GFSN	Global Financial Safety Net
IMS	International Monetary System
IMF	International Monetary Fund
MDB(s)	Multilateral Development Bank(s)
MoU	Memorandum of Understanding
NAFA	North American Financial Agreement
PCI	Policy Coordination Instrument
RFA(s)	Regional Financing Arrangement(s)
SAARC	South Asian Association for Regional Cooperation
SDR	Special Drawing Rights

Introduction

The last global financial crisis made clear that the International Monetary System (IMS) needs strong financial backstops to provide crisis-time liquidity to countries hit directly by large economic shocks or affected by crisis contagion. In this context, the Group of Twenty (G20) most-developed economies urged at the height of the crisis that the so-called Global Financial Safety Net (GFSN) be strengthened. The GFSN refers to the different layers of resources for crisis prevention and resolution, which come mainly from (i) international reserves held by national central banks, (ii) bilateral swap arrangements between central banks (BSAs), (iii) Regional Financing Arrangements (RFAs), and (iv) the International Monetary Fund (IMF). Policymakers tried not only to increase the overall resources in the safety nets but also to enhance the coordination among different layers, thereby facilitating the effective use of resources and mitigating moral hazard risks.¹

Among the four layers of the GFSN, foreign reserves and bilateral swap arrangements are policy tools at the discretion of national authorities, while tapping resources from RFAs, where available, or the IMF requires multilateral decision-making. Therefore, the coordination and collaboration issues concern mostly the two latter layers of the safety net. In 2010, the G20 governments agreed to find “ways to improve collaboration between RFAs and the IMF” as one important component of the overall priorities to reform the International Financial Architecture (IFA) under the Korean G20 presidency. To provide overall guidance on this topic, G20 finance ministers and central bank governors established and endorsed a set of high-level principles for cooperation between the IMF and RFAs in October 2011 (see Annex 1).

The GFSN has evolved considerably since the publication of these principles. We would like to highlight three salient features in the scope of this paper.

First, RFAs have emerged as an important line of defence in the safety net to safeguard financial and macroeconomic stability in the regions they cover. For instance, we see the creation of a few new RFAs with large lending capacity as well as the strengthening of existing institutions. Inaugurated on 8 October 2012, the European Stability Mechanism (ESM) replaced the European Financial Stability Facility (EFSF), becoming the permanent crisis resolution mechanism for the euro area with a lending capacity of €500 billion. The BRICS Contingent Reserve Arrangement (BRICS CRA) was set up as a pool of swap lines of US\$100 billion among the five big emerging market economies in June 2014. At the same time, some existing RFAs were further strengthened institutionally and financially. For instance, the Arab Monetary Fund (AMF) doubled its authorised and subscribed capital in 2013 to 1.2 billion Arab Accounting Dinars, the equivalent of US\$5.4 billion. In Asia, the overall lending resources available in the Chiang Mai Initiative Multilateralisation (CMIM) were doubled to US\$240 billion in 2014 from US\$120 billion and in the same year a crisis prevention facility was introduced. Moreover, the ASEAN+3 Macroeconomic Research Office (AMRO) was established in April 2011 as an independent regional surveillance unit to monitor and analyse regional economies and support the decision-making of CMIM; it became an international organisation in February 2016. The Anti-Crisis Fund of the Eurasian Economic Community, established in June 2009, was transformed into the Eurasian Fund for Stabilization and Development (EFSD) with a dual mandate of providing crisis-time liquidity and supporting long-term

¹ See Cheng (2016) for an account of the evolution of policy discussions on strengthening the GFSN in the G20 framework.

growth projects. Finally, the Latin American Reserve Fund (*Fondo Latinoamericano de Reservas*, FLAR) increased its subscribed capital by 40% in 2012. It also welcomed a new member state, Paraguay, in March 2015, which contributed to the capital growth of the institution. Overall, FLAR's paid-in capital has increased by roughly 60% since 2010. The evolution of these regional crisis resolution mechanisms also accentuated the diversity in the group, given their distinct mandates, histories, and operational frameworks.

Second, the resolution of the euro area debt crisis provided a new field to test the collaboration between the regional institutions in Europe and the IMF. Generally speaking, most of the IMF–RFA co-financed cases in recent years took place in Europe (IMF, 2017c). With the creation of the ESM, close technical and financial cooperation with the IMF was envisaged institutionally and enshrined in the ESM Treaty. For instance, the European institutions and the IMF worked hand-in-hand on programme design and negotiations with the beneficiary member states when making their own programmes. They also joined forces for onsite country programme reviews and post-programme monitoring. Overall, this in-crisis collaboration worked well. However, it also shed light on the areas that would require future improvement, as highlighted by various programme evaluations.²

Finally, both the IMF and RFAs have increasingly searched for ways to enhance cooperation. RFAs, as a group, have launched a series of initiatives to better cooperate amongst themselves and created a regular dialogue framework with the IMF. In October 2016, AMRO, the ESM, and FLAR jointly organised the first high-level policy dialogue and invited the heads of all existing RFAs to discuss collaboration and crisis management issues with the IMF. This policy dialogue has since become an institutionalised framework that promotes the exchange of views between RFAs and the IMF at the highest level.³ An annual research seminar, where expert staff from the various institutions and academics discuss issues of common interest, was also launched in Singapore in September 2017, and held again in Cartagena in May 2018. The research seminar aims at discussing technical-level issues relevant for the mandates and daily operations of the different institutions. The IMF has also invested significant effort into understanding the adequacy of the GFSN, by proposing new instruments which could potentially be combined with some RFAs' toolkits (IMF, 2017a and 2017b) and by further elaborating collaboration principles and modalities between the IMF and RFAs (IMF, 2017c). The IMF also published for the first time a Transmittal Policy to guide document exchange between the Fund and RFAs in January 2017.

In this context, a group of RFAs agreed to jointly consider how to improve collaboration with the IMF in the future, building on current working relations and cooperation experience. In particular, we wish to reflect collectively on a number of issues relevant to all RFAs, such as information sharing, capacity building, and our common quest for best practice in crisis prevention and management. This is the collective or multilateral approach we particularly value in this joint exercise. To further explore the synergies between the IMF and RFAs, it is necessary to factor in the heterogeneity of RFAs and their respective mandates and expertise. This can best be achieved through bilateral exchanges of views between the IMF and individual RFAs. While this approach has merit, RFAs also share similarities and aim to improve their core functions over time by learning from each other and from the IMF, which is at the centre of the GFSN and has long-standing experience in crisis detection and resolution. We aim to promote this multilateral framework, using it to discuss with the IMF the issues with a common denominator. Both the bilateral and multilateral approaches to the collaboration issue are illustrated in Figure 1.

² Please refer to IEO (2016), ECA (2015), ECA (2017), and Tumpel-Gugerell (2017), to name only a few.

³ For more information on the High-level RFA Dialogue, please refer to the joint statements: AMRO, ESM, FLAR and AMF (2016) and (2017).

Figure 1
Approaches to RFA-IMF collaboration



Source: Depicted by the authors

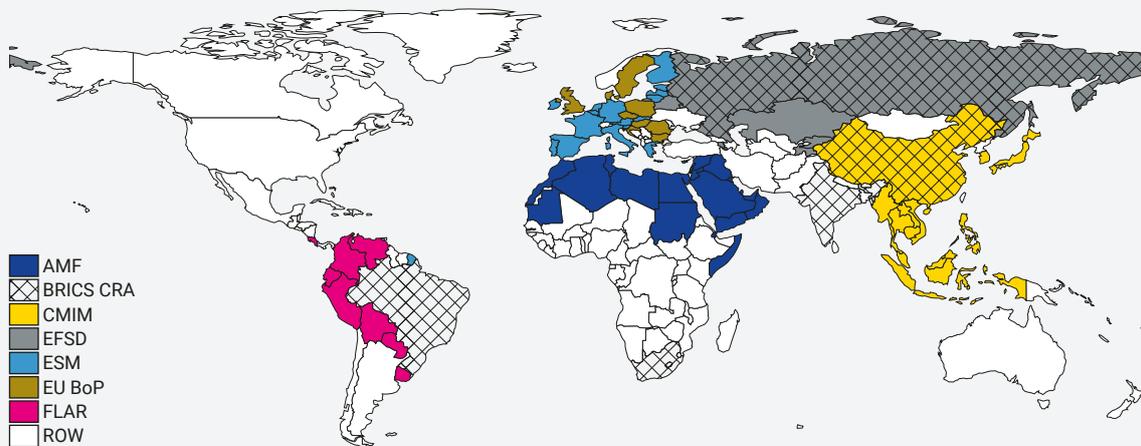
This joint paper will first explain the motives for cooperation drawn both from academic research and the lessons learned from concrete RFA practices (Section 1). It will then take stock of different forms of RFA-IMF collaboration that have taken place but have often gone either unnoticed by the general public or largely unremarked (Section 2). As a collective reply to IMF (2017c), the paper will subsequently provide food for thought on how to make the IMF 2017 cooperation principles operational, and identify key areas for immediate improvement and long-term strategic issues for collective reflection (Section 3). Overall, the paper aims to formulate some concrete proposals to further develop the cooperation between RFAs and the IMF and contribute to future deliberations on strengthening the GFSN in the G20 International Financial Architecture (IFA) Working Group. Notwithstanding its importance, the cooperation among RFAs will be broadly discussed but will not be the main focus of this paper.

Box 1. What is a Regional Financing Arrangement?

We define a Regional Financing Arrangement as a crisis prevention or resolution mechanism for a defined region or a group of countries sharing similar economic characteristics (e.g., BRICS) and mandated to provide emergency liquidity to its member countries. The financial resources with which RFAs provide liquidity can come from member countries' contributions – in the form of paid-in recourses or financial commitments – or are borrowed from financial markets based on a capital structure (Cheng and Lennkh, 2018a). Some RFAs may also have a surveillance function which aims to detect emerging risks that would affect a member country's financing needs. We also note that a few RFAs have a clear mandate for economic development and integration in their region. In general, despite the heterogeneity in their mandates, histories and operational modalities, crisis prevention and financing are the common denominator of these regional crisis mechanisms.

The paper will talk about eight of the existing RFAs: Arab Monetary Fund (AMF), BRICS Contingent Reserve Arrangement (BRICS CRA), Chiang Mai Initiative Multilateralisation (CMIM) together with its surveillance unit ASEAN+3 Macroeconomic Research Office (AMRO), Eurasian Fund for Stabilization and Development (EFSD), the European Stability Mechanism (ESM), European Union Balance of Payments Facility (EU BoP) and Macro-Financial Assistance (MFA) which are both administered by the European Commission (EC), and the Latin American Reserve Fund (*Fondo Latinoamericano de Reservas*, FLAR). The geographical coverage of these RFAs is illustrated in Figure 2.

Figure 2
Geographical coverage and membership of RFAs
 (as of August 2018)



Source: Depicted by the authors

For the European RFAs, the European Financial Stabilisation Mechanism (EFSM) has to be mentioned but will not be discussed at length. Based on the EU Council Regulation 470/2010 and its 2015 amendment, the EFSM is expected to be used only in extreme cases, especially for the euro area members after the creation of the ESM. Figure 2 also does not graphically represent the EU MFA as the coverage of this facility is determined on a case-by-case basis and subject to ex ante qualification criteria (see Annex 2).

We also exclude from our analysis the North American Financial Agreement (NAFA) and the South Asian Association for Regional Cooperation (SAARC), which both the IMF (2013) and IMF (2016) referred to as RFAs. The NAFA is an auxiliary agreement under the North American Free Trade Agreement, which will be soon replaced by another trade agreement between the US, Mexico and Canada. As to the SAARC, we share the view of the Reserve Bank of India (RBI) that the credit lines available under the SAARC should be qualified as bilateral swap arrangements instead of as an RFA, given that these swap lines are provided solely by the Reserve Bank of India to the other members of SAARC in a one-way direction and are subject to a pluriennial approval by the RBI only.

Finally, Multilateral Development Banks (MDBs) can also provide budget or Balance of Payments (BoP) support to their crisis-hit member countries, and have done so in the past. The Asian Development Bank (ADB) and the World Bank provided such financing during the Asian financial crisis and the global financial crisis. But the primary goal of MDBs is to provide project financing for growth and poverty reduction and they therefore have a different core mandate from that of the IMF and RFAs. We group the IMF and RFAs together as “GFSN institutions” – as coined by Ocampo (2017) – to highlight the crisis resolution focus of these institutions in contrast to the MDBs.

1. Motives for enhancing cooperation between the IMF and RFAs

1.1 Academic support

An increasing number of papers in the policy world and academia are focusing on the effectiveness of global crisis management and the interplay between the various layers of the safety net. This section presents selected academic contributions on the topic and aims at providing academic inspiration on how to shape the relationship between the global and regional firewalls.

First, economic literature advocates enhanced RFA–IMF cooperation in order to mitigate negative externality in the form of moral hazard and to form a holistic macroeconomic diagnosis facilitated by constructive competition. As regards combating moral hazard risks, Scheubel and Stracca (2016) provide an excellent literature review of the externalities applied in the international context when insurance against future crises is provided collectively. What we want to emphasise here is that effective partnership and cooperation is one way to reduce moral hazard risks, i.e., to avoid programme shopping and delayed requests for financial assistance. Cheng et al. (2018c) provide evidence that even if some RFAs have no legally defined or *de jure* collaboration framework with the IMF, RFAs may provide financial assistance in a narrow time window around an IMF programme to a common member state. Under this form of *de facto* cooperation, RFAs, e.g., FLAR, may provide bridge financing to allow its members sufficient time to request an IMF arrangement, which is on average bigger and associated with conditionality and thereby helps RFAs reduce the risk of moral hazard. In the same vein, Weder di Mauro and Zettelmeyer (2017) encourage RFAs to develop their own “internal commitment devices” that would commit liquidity resources only to the countries that keep their house in order in non-crisis times. The IMF’s design and revision of its exceptional access policy provides an example of how to develop such a commitment device. In addition, healthy competition between different crisis resolution and prevention frameworks could also bring comparative advantages, according to some academics. Henning (2016), for instance, elucidates that the sheer variety of economic intelligence, analysis, diagnosis, and forecast can itself be beneficial. Medhora (2017) argues that RFAs ‘make the IMF “modify, change, or reform” itself’, especially as regards the IMF’s policy views and analytical approaches (for instance, the Debt Sustainability Analysis), thanks to the competition of ideas and resources. Ocampo (2017) attributes the successful story of the MDB network to the promotion of constructive competition among the institutions to support the holistic diagnosis of macroeconomic issues. He presents the MDBs as an example of a well-functioning, dense institutional architecture. As the World Bank co-exists with regional development banks, so the future IMF could, in Ocampo’s view, be designed as “an apex of a network of regional reserve funds” to encourage better macroeconomic policy dialogue and foster an increasingly dense international monetary architecture.

Second, the evolving international relations literature also underpins the need for greater cooperation between the regional and global layers of the GFSN. Different from traditional political realism, which places the preferences of states at the centre of international economic policymaking, the development of constructivism and institutionalism⁴ since the late 1980s focuses increasingly on the contribution of institutions as non-state actors. This perspective grants institutions the role of agents in the IMS, capable of providing supplementary ideas, norms, and modalities for crisis management and platforms for deliberations. Through continued dialogue and institutional frameworks for the exchange of views, the IMF and RFAs can themselves become agenda setters, influencing to some extent the preferences of their principals – member states – in the process of communicative action and persuasion (Habermas, 1981). Sjursen (2004) argues in the same vein that in an institutional discourse dialogical actors can, using the power of good arguments, help to reshape

⁴Please refer to rational institutionalism (Keohane, 1984, and Martin, 2008) and constructivism and sociological institutionalism (Wendt, 1987, Hall and Taylor, 1996, and March and Olsen, 1998).

preferences and redefine interests. When applied to the current GFSN, the theory makes clear that exchanges, dialogue, and concrete cooperation activities will help all institutions to converge on some best practices and prevent unnecessary competition, ultimately protecting and strengthening the IMS. In addition, effective collaboration between the IMF and RFAs is also seen as a way to provide the global safety net with consistency and forestall conflicts, which are highlighted by the literature on institutional bypasses.⁵

1.2 Comparative advantages from a practical perspective

In addition to the insight offered by academics, the operational history of the IMF and RFAs also provides useful evidence that enhanced collaboration can be mutually beneficial. Both the IMF and RFAs have comparative advantages to offer. And the comparative advantages of one institution may well offset the shortcomings of the other. Therefore, collaboration not only contributes to alleviating the risk of moral hazard when providing official sector assistance, it also addresses some inherent constraints of each type of organisation.

The IMF, which is at the centre of the GFSN as all RFAs recognise, has the longest and most well-established experience in economic surveillance, advising sovereign governments, and on the design of adjustment programmes, which RFAs aim to learn from and leverage. In addition, the IMF's role is well respected in the IMS, allowing it to act as a catalyst in unlocking other sources of financing, such as debt relief from Paris Club sovereign creditors (Cheng et al., 2018b) or private creditors (Erce and Riera-Crichton, 2015). Furthermore, the IMF is often deemed to provide the technical view of a non-partisan third party, independent of a given region's politics, adding a valuable external technical assessment of what is most needed to tackle a regional shock.

At the same time, RFAs are closer to the regional reality and have access to timely economic updates. They have an in-depth understanding of regional economic development, and are aware of potential political and institutional constraints. This characteristic also applies to the RFA covering a group of countries sharing similar economic features, i.e., the BRICS CRA. Moreover, the surveillance capacity of selected RFAs can also complement the IMF's analysis and help form a holistic picture of the risks facing a particular region given the increasingly complex picture of economic and financial interlinkages between economies. Furthermore, collaboration with RFAs could help to mitigate the stigma effects for which the IMF has been criticised (Denbee et al., 2016). Based on a global interconnectedness model, IMF (2017d) shows that co-financing with RFAs lessens IMF stigma, thus reducing the risk of delay in requesting IMF assistance and mitigating contagion risks. Finally, due to different financing modalities and governance structures, some RFAs can provide liquidity in crisis times more quickly than the IMF due to their size, institutional structure, and proximity to regional members. As pointed out earlier, however, this case could even further underline the need for cooperation, as some RFAs, in particular when they do not have the possibility or capacity to set programme conditionality, may need to rely on the IMF to alleviate moral hazard risks given that IMF lending tends to come with policy adjustment.

In addition, the potential complementarity between RFA and IMF toolkits could be further developed. This complementarity manifests in two ways.

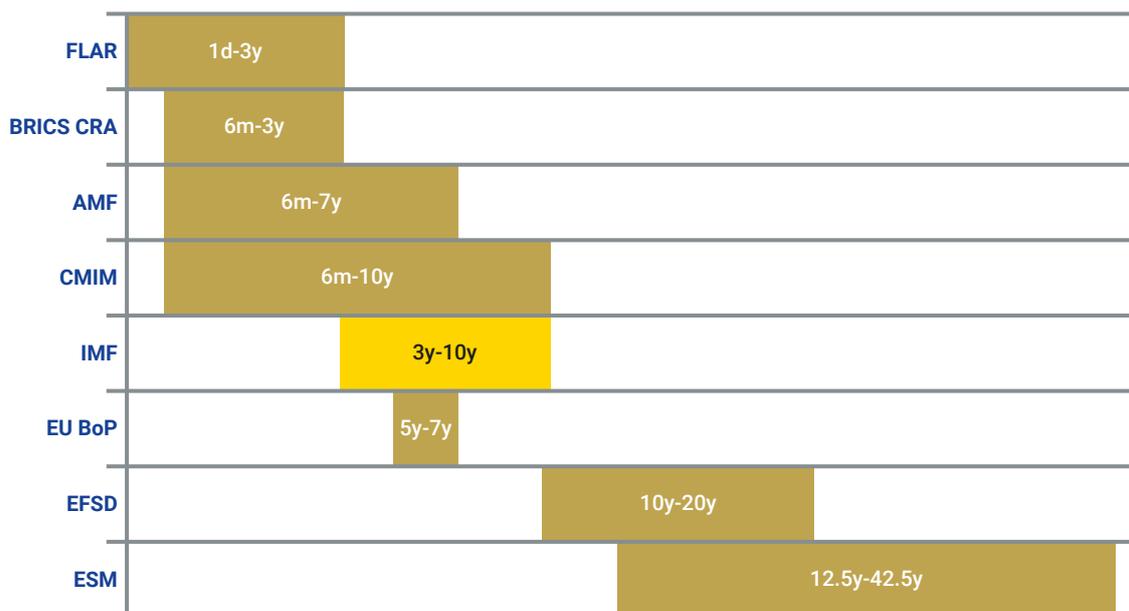
First, RFAs can better tailor their toolkits to specific regional needs, even though the workhorse instruments are often similar across RFAs and the IMF. The tailored toolkit of RFAs can be useful especially when the IMF cannot provide financing due

⁵Please refer to Prado and Hoffman (2017) and Medhora (2017).

to different constraints, e.g., lack of a specific instrument or stigma. Some RFAs have sector-specific instruments, for instance, the AMF's oil facility or the ESM's market purchase and bank recapitalisation tools. The EFSD, apart from its financial credits for balance-of-payments and budget support, also has investment loans and grants for development projects in its region. To be sure, the IMF also has concessional lending facilities for low-income countries besides its instruments under the General Resource Account. In addition, in 2017, the IMF reviewed its toolkit as part of its assessment of the adequacy of the GFSN (IMF, 2017b). It introduced a new signalling tool without financing, the Policy Coordination Instrument (PCI) (IMF, 2017a).

Second, RFAs can complement IMF financing not only by containing stigma, but also by increasing the overall firepower and offering complementary financing terms (costs and maturities). This would of course require that the institutions' legal and policy frameworks allow for an exploration of this complementarity. Figure 3 illustrates the maturity band of the available RFA and IMF instruments using publicly available information. We observe that the maturities of IMF financing are well situated in the middle zone; RFAs could complement IMF lending from both the shorter and the longer end of liquidity provision.

Figure 3

Potential complementarity of the IMF and RFA toolboxes

Note: Financing instruments alone are taken into account; precautionary instruments are excluded. The maturities presented are the range of weighted average maturities in existing financial assistance arrangements of RFAs whose instruments have *ad hoc* maturities determined on a case-by-case basis (e.g. European RFAs). For other RFAs, the maturities are those associated with the available lending instruments and defined in RFAs' legal documents.

Source: Depicted by the authors

2. Stocktaking: current collaboration between RFAs and the IMF

Before considering how to take IMF–RFA collaboration to the next level, this section illustrates how RFAs are currently working with the IMF. Based on concrete RFA examples, we observe that these current working relations cover a wide range of activities, such as capacity building, crisis prevention, and in-crisis collaboration.

2.1 Training and capacity building

Training and capacity building encompass all the activities designed to either strengthen an RFA's institutional capacity in crisis prevention and management or to develop specific state capacities in a common RFA and IMF member state. Looking at the RFAs presented in this paper, we see that many of them work with the IMF in this area, with varying formats and degrees of engagement.

The AMF has a long history of formal engagement with the IMF in training and capacity building activities. The AMF works with the IMF and other international organisations to provide training opportunities to Arab officials in various fields. The two organisations also offer joint technical assistance missions to their common member states, for instance, to develop domestic capital markets or strengthen statistical systems.

Box 2 illustrates a concrete example of AMF–IMF collaboration in this field, known as the Arab Debt Market Development Initiative (ADMDI). The two institutions formalised their cooperation to respond to the needs of their common membership in a Memorandum of Understanding (MoU) in April 2015. Beyond capacity building, the collaboration between the two also aims to safeguard macroeconomic and financial stability and to accelerate inclusive economic growth and job creation in the Arab region.

AMRO, the surveillance and research unit of the CMIM, has also developed joint capacity building activities with the IMF. For instance, AMRO and the IMF leverage the IMF–Singapore Regional Training Institute to deepen the collaboration on technical assistance and capacity building activities in the region. Moreover, AMRO and the IMF signed an MoU in October 2017, which allows for the exchange of views and information sharing on their common membership, staff exchange, and capacity building through joint activities.

In Europe, staff members of the EC and the ESM may participate in training courses at the IMF Joint Vienna Institute. In addition, as regards technical assistance to common member states or in third-party countries, the EU has become a key partner in, and the second largest financial contributor to, IMF capacity development. The EC and the IMF have provided an increasing number of technical assistance projects and training courses to their common member states or in third-party partner countries. This assistance touches upon a number of key topics, such as public finance management, debt sustainability analysis, and sovereign vulnerability assessment. The EC signed a new Framework Administrative Agreement for Capacity Development Cooperation on behalf of the European Union with the IMF in May 2015 to update the initial 2009 agreement.

EFSD and FLAR do not have a formal cooperation with the IMF in this field. But staff members from both institutions attend seminars and training courses offered at IMF training centres. The topics include, among others, public finance management, debt sustainability analysis, capital flows, and financial programming.

Box 2. The Arab Debt Markets Development Initiative: an example of joint IMF and AMF technical assistance

The ADMDI is a joint project of AMF and the IMF. It aims to improve the efficiency and enhance the functioning of the public and corporate debt markets in Arab countries that are AMF members. To do so, the initiative assesses, under a common methodology, issues and challenges related to the framework for public debt management and the development of debt capital markets. Through its findings, the initiative intends to promote policies and actions for the Arab region that are consistent with international best practices.

The main benefits that are expected from the ADMDI include: (i) the identification of a regionally endorsed set of supply side policies that will develop and enhance a liquid bond market; (ii) the strengthening of the framework for the effective management of the associated debt; (iii) an improvement in the cost of financing of the public and private sector and/or a reduction in risk in their debt portfolio; (iv) an improvement in the regulatory environment and the infrastructure of the securities markets; (v) an overall strengthening of the domestic financial system, with enhanced access to capital markets for the public and private sector.

The joint needs assessment aims to provide a holistic overview of the current state of the local currency capital market in each country, identify key market development issues, and outline sequenced reforms for the policy makers as well as other stakeholders, including the market participants. Given the banking sector will play a dominant role in many emerging markets in the near- to medium-term future, the scope of the assessment covers not only the securities markets, but also a broader spectrum of capital markets, including the banking sector and foreign exchange, derivatives, and money markets. Because broader macroeconomic stability and a reliable legal and regulatory environment are typically prerequisites of capital market development, the assessment will also evaluate, among other matters, macroeconomic policy, financial sector regulation, market structure, market infrastructure, and the legal and regulatory framework.

2.2 Surveillance and consultation

Surveillance, one key function of a number of RFAs and the IMF, aims to detect latent or emerging risks early and advise member states to adopt relevant reforms to reduce the probability of occurrence and the impact of future crises.

AMF uses the conferences it organises jointly with the IMF to understand the IMF's view on economic surveillance in the region. One example is the Arab fiscal forum, a joint annual high-level meeting, which gathers policymakers and senior officials from the executive bodies in Arab countries, including Arab finance ministers and central bank governors as well as the IMF's managing director and AMF's director general chairman of the Board, to share ideas and expertise related to fiscal policies and reforms. The Forum provides an opportunity for ministers, governors, and senior officials to discuss the challenges that policymakers in the region are facing and exchange experiences on public finance management. It emphasises fiscal policy reforms that are essential to promoting inclusive and sustainable growth. It also addresses the regional and international economic developments and outlook, and the prospective implications on public finance in Arab countries.

AMRO is mandated to carry out regional economic surveillance in CMIM member economies and cross-country surveillance in the ASEAN+3 region. To this end, AMRO regularly exchanges views with the IMF on common members' economic and financial situations. Some of the channels of communication with the IMF include the annual AMRO-IMF joint seminar (see Box 3), informal participation in

selected meetings during IMF Article IV missions in the region, if available, and informal consultations with IMF staff during the Annual Meetings. The MoU signed between AMRO and the IMF will also enhance information sharing and leverage each institution's expertise in economic surveillance.

In Europe, economic surveillance and policy coordination in EU member states are enshrined in Union law and conducted by the EC, leaving limited scope for formal cooperation between European RFAs and the IMF in these areas. Although there is currently no formal framework for cooperation with the IMF, EU institutions have developed close informal contacts with the IMF for mutual consultation on economic developments via meetings with European Executive Directors at the IMF Executive Board and/or staff during their Spring and Annual Meetings, and the IMF's euro area Article IV consultation mission in the region.

FLAR does not have a regular framework for surveillance and consultation. However, FLAR has an informal and non-regular exchange of views and consultations with the IMF regarding topics of common interest such as regional economic risks and challenges, among other issues.

Box 3. AMRO–IMF joint seminar: an annual framework for capacity building and macroeconomic consultation

As part of the effort to strengthen AMRO–IMF cooperation, the two organisations held the fifth annual edition of the AMRO–IMF joint seminar in January 2018. Since 2014, the seminar has covered a wide range of topics, such as promoting the use of local currencies in the ASEAN+3 region; the experience of macroprudential policies in ASEAN countries; macroprudential principles and policies; banking supervision priorities and capacities in ASEAN+3 economies; non-financial corporate bond financing in foreign currencies in ASEAN+3 emerging economies; and ASEAN+3 region economies 20 years after the Asian financial crisis.

This seminar serves as a channel for AMRO to collaborate with the IMF and share information on regional economic surveillance, build capacity, gain credibility, and provide a platform for policy dialogue with ASEAN+3 members. AMRO has been able to leverage the IMF's experience in surveillance to build up its capabilities as the joint seminar facilitated a regular exchange of views on key issues in the region.

Over time, as AMRO's professional and technical capacity grew, this cooperation has become mutually beneficial. The organisations now have complementary roles in promoting informed policy dialogue, as well as information and knowledge exchange in areas of common interest. For instance, AMRO is proficient in macroeconomic and financial surveillance as well as risks and vulnerabilities in the ASEAN+3 region. On the other hand, the IMF, with its wider mandate, can offer expertise in lending, capacity development, and surveillance of other regions.

Through these annual seminars, AMRO–IMF collaboration has strengthened with each year. The seminars have also served as a stepping stone towards deepening engagement between the two institutions, and contributed to cooperation between regional frameworks and the GFSN as a whole.

2.3 In-crisis collaboration

Provision of emergency lending is one of the primary mandates of both the IMF and RFAs. This is also the defining feature of RFAs, as liquidity provision, together with the policy reforms attached in some cases, help to restore macroeconomic and financial stability in the beneficiary member country and in a given region. The in-crisis collaboration between RFAs and the IMF covers co-financing, programme design and negotiation, review and monitoring missions both during a programme as well as afterwards when a beneficiary member needs to make repayments to the financing institution.

As mentioned earlier, most of the adjustment programmes supported by both the IMF and RFAs between 2000 and 2016 took place in Europe. These began with the programmes supported by the EU Balance of Payments facility (in Latvia, Hungary, and Romania) and were followed by the euro area programmes provided by the European Union, the ESM and its predecessor, the EFSF. In addition to providing funds alongside the European institutions, the IMF also shared its long-standing experience in programme design and served as a technical advisor for the conception of the ESM programme in Spain, which focused exclusively on banking sector recapitalisation. The IMF could not provide co-financing because it cannot do sectoral lending. In addition, a number of countries (Ukraine, Tunisia, Moldova, Jordan and Georgia), which had already requested an IMF programme, have benefited from the EU MFA in recent years. Each of these MFA programmes was subject to a set of ex ante eligibility criteria and disbursements are conditional on successful reviews. Once a programme started, the EC took into account the IMF macro-framework and programme reviews and coordinated closely with IMF mission chiefs when implementing the MFA assistance. For all European assistance programmes, the European institutions and the IMF provided financial support with separate programmes in parallel – i.e., not a single joint programme – which are, however, based on consistent conditionality design.

Box 4. In-crisis collaboration between the European institutions and the IMF

For EU BoP, EU MFA and EFSF/ESM programmes, the European institutions worked closely among themselves and together with the IMF for programme design, review, co-financing, and post-programme monitoring. During the euro area crisis, the term “Troika” – EC, ECB, and the IMF – was often used to designate the institutions that were involved in designing and negotiating conditionality with a beneficiary member in exchange for official sector lending.

The Troika was formed before the EFSF and the ESM were established. It crystallised when the IMF and EC provided financial assistance under EU BoP. The ECB joined in 2010 when the first assistance to Greece – bilateral in nature – was provided. In practice, the Troika’s work focused on three areas: (i) formulation and regular update of the MoU containing specific policy conditionality and prior actions, ii) quarterly joint missions to the country, iii) formal surveillance reports.

When the ESM was established, the cooperation between the ESM, the other European institutions, and the IMF was codified in the ESM Treaty. The EC is officially entrusted by the ESM Board of Governors, in liaison with the ECB, with a number of tasks, including the assessment of the existence of a risk to financial stability and the debt sustainability of the country requesting ESM assistance. Under the Treaty, the EC also signs the MoU on behalf of the ESM. The ESM Managing Director is mandated to propose the financial terms of the stability support, including choice of instrument, financing maturity, and costs. After a programme is approved, the ESM Managing Director makes a proposal to the ESM Board of Directors on loan dis-

bursements. Moreover, the ESM Treaty also foresees “[an] active participation of the IMF [...] both at technical and financial level.” (Recital 8 of the ESM Treaty). A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF. In practice, the IMF co-financed with the ESM almost all euro area programmes, except the ESM programmes for Spain and Greece where the Fund provided valuable technical assistance in financial programming.

The role of the ESM in euro area programmes has evolved over time. At the beginning, the EFSF, the ESM’s predecessor, functioned as a cash machine, raising money and disbursing loans. Over the years, the ESM has taken on additional tasks and has been more closely involved in the design and monitoring of the programmes. What was first a troika, has become a quartet.

Both CMIM and BRICS CRA retain the so-called IMF-linked portion. Only where there is an IMF-supported programme, or where an IMF-supported programme will be established in the very near future, can the requesting country request up to 100% of the total swap quota or the maximum arrangement amount. If not, 30% of each member’s total swap quota is available. CMIM/AMRO have conducted joint test-runs with the IMF to make this cooperation framework fully operational. Since 2016, CMIM/AMRO have completed two test-runs jointly with the IMF. The third joint test-run is ongoing and will be completed in October 2018. The joint test-runs highlighted the importance of synchronisation of lending terms, including financing assurance, and early information-sharing, that will promote smooth coordination when co-financing is provided. Based on these joint tests, CMIM/AMRO have identified and reinforced some key terms of the CMIM Arrangement. They now allow, for example, a longer period of financing that is synchronised with the relevant IMF-supported programme through multiple renewals. An early information sharing scheme will also be established to promote a common view on economic and financial situations, financing needs, and policy recommendations, while maintaining the independence of the two institutions in their respective financing decisions.⁶ BRICS CRA has also expressed willingness to test the readiness of its instruments, in particular for the IMF-linked portions.

As Cheng et al. (2018c) demonstrate, in-crisis collaboration can take not only an “institutionalised” form, as in Europe where the troika (EC, ECB, and IMF) worked together on programme design, negotiation, and monitoring, but it can also happen in a *de facto* fashion: an RFA can factor in a potential IMF programme – both its likelihood and size – when making a decision whether and how to provide its own assistance. FLAR provided such bridge loans to its member states to satisfy their liquidity needs while they awaited a full-fledged IMF programme. In 1999, for instance, FLAR provided US\$500 million in financial assistance to Colombia’s central bank, in an environment of speculative attacks. Access to FLAR’s resources allowed Colombia’s economic authorities to gain time to formalise an agreement with the IMF on a larger balance of payments support loan (US\$2.7 billion). Empirically speaking, Cheng et al. (2018c) also show that similar *de facto* cooperation also exists between AMF and IMF programmes.

Finally, EFSD’s collaboration with the IMF mostly takes place in member countries receiving EFSD’s budget support. At the moment, this collaboration takes the form of periodic consultations on a country’s current socio-economic situation and its longer-term challenges. The ongoing dialogue between the IMF and EFSD teams contributes to a greater consistency of the macroeconomic frameworks and policy matrixes of lending programmes supported by both institutions. Box 5 provides some examples on how EFSD has worked with the IMF in two programme countries.

⁶ See Joint Statement of the 21st ASEAN+3 Finance Ministers and Central Bank Governors’ Meeting, May 2018, http://www.amro-asia.org/wp-content/uploads/2018/05/Final-Draft-Joint-Statement-of-the-21st-AFMGM3_FINAL.pdf

Box 5. Collaboration with the IMF in countries receiving EFSD's budget support

EFSD consultations with the IMF focus on the policies and reforms supported by the EFSD programmes, in the context of macroeconomic developments and major macroeconomic and structural challenges. Methodologies for calculating specific indicators in some instances are discussed to ensure consistent interpretation of their coverage and values. For instance, the IMF and EFSD had differing views on how to calculate the overall budget balance for Belarus.

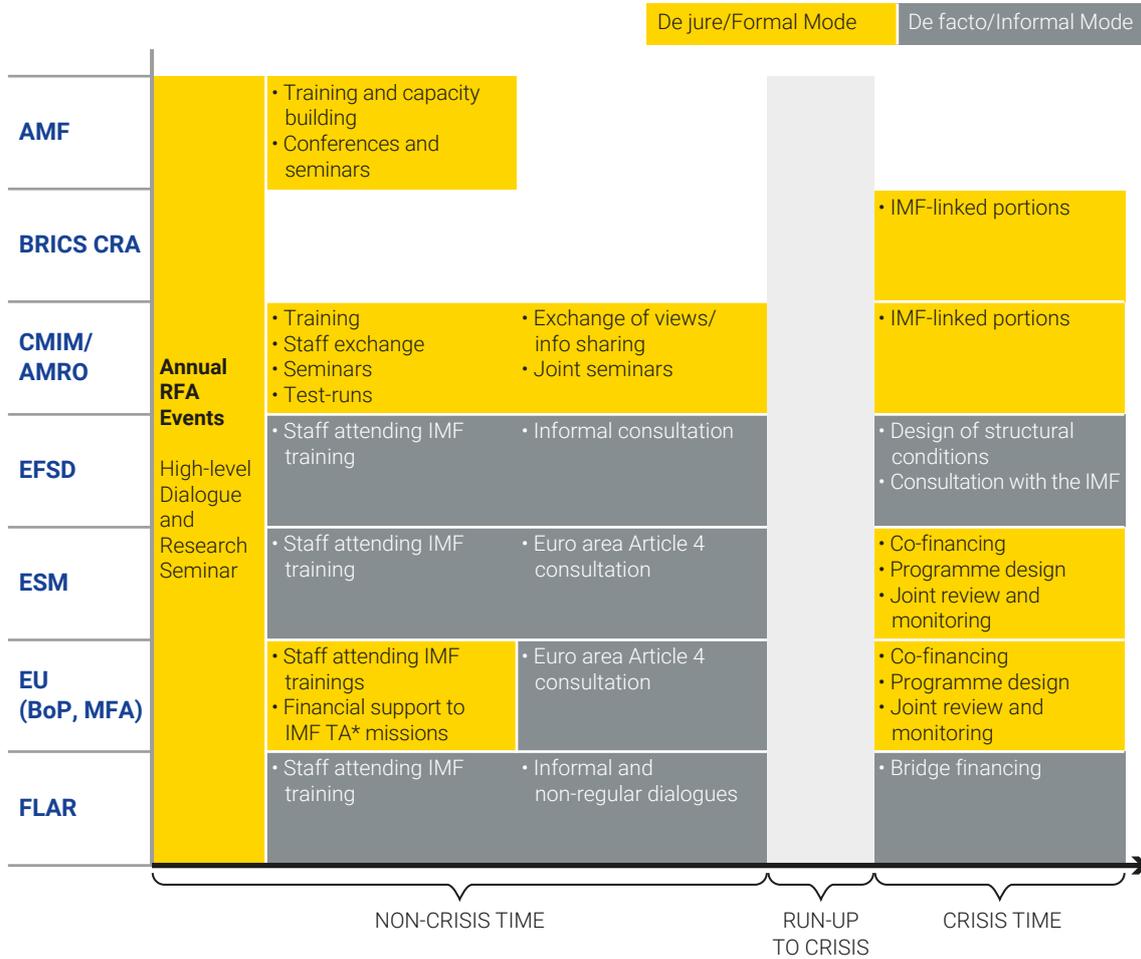
If the IMF has an active programme in a country, the EFSD's programme concentrates as a rule on structural reforms to avoid duplication or contradiction in macroeconomic policy advice (e.g. in Tajikistan in 2010 and in Armenia in 2015–2017). Given the IMF's increased involvement in structural issues, the consultations on the direction and pace of structural reforms played an important role in designing the EFSD's programme in Belarus, which has been running since 2016.

The increase of utility tariffs in Belarus and the exchange rate regime in Tajikistan are among the examples of the consultations between EFSD and IMF country teams. Despite broad convergence of positions on these issues, there were some differing views. Thus, at the design stage of the EFSD programme in Belarus, the IMF's position on tariff increases was stricter, requiring full cost recovery of all utilities tariffs by end-2018, while the EFSD programme did not target full cost recovery within its programme timeframe. On the exchange rate regime, besides monitoring the *de facto* market situation, EFSD continues negotiations with authorities in Tajikistan to introduce legal mechanisms that would minimise the risk that multiple exchange rate practices re-emerge.

Finally, while EFSD is still in the process of establishing its post-programme monitoring system, the IMF's programme reviews and the Article IV reports for countries with completed EFSD programmes serve as an important source of information to assess ongoing programmes and formulate future programme agendas, while also underscoring the need to open up mutual data access.

In conclusion, the RFA-IMF cooperation already takes different forms, as summarised in Figure 4. The current collaboration between RFAs and the IMF depends very much on the mandates of the respective institutions, and how the shareholders of the institutions have designed this collaboration. Figure 4 also shows that cooperation can take place in a *de jure* – defined in RFAs' legal documents – or a *de facto* fashion, motivated by the practical needs of working together. Finally, there seems to be evidence that collaboration has occurred on an ongoing and continuous basis, covering both peace and crisis times. Concrete cooperation between RFAs and the IMF, however, must be developed to handle the period “running up” to the crisis.

Figure 4
Mapping existing RFA–IMF collaboration modalities



Note: * Technical assistance

Source: Depicted by the authors

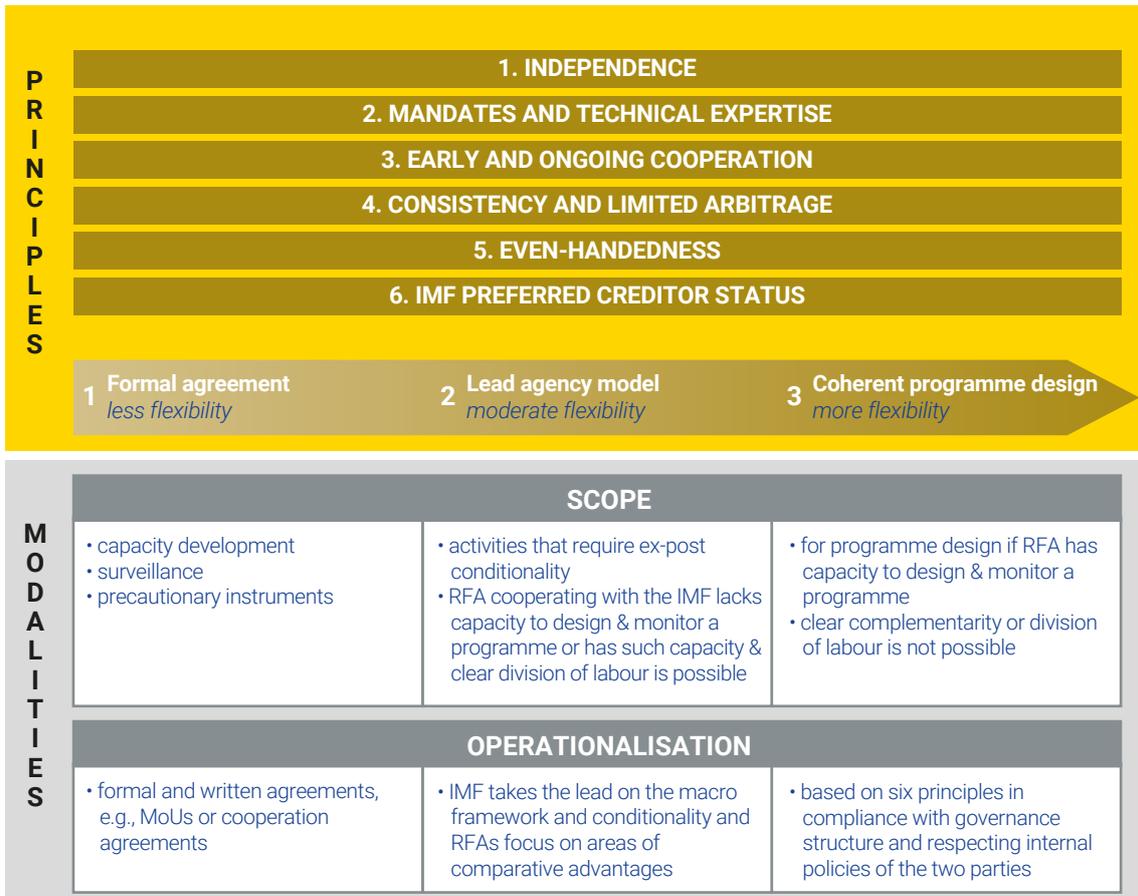
3. Shaping future collaboration: a proposal from RFAs

This section provides food for thought on further enhancing IMF–RFA collaboration, thus contributing to the coherence and effectiveness of the GFSN. We first present RFAs’ feedback on the cooperation principles and modalities proposed by IMF (2017c). We then identify options for RFAs and the IMF to consolidate their current collaborative activities and explore new areas for the future. We distinguish between potential “quick wins” and longer-term strategic thinking.

3.1 RFAs’ feedback on the IMF proposed cooperation principles and modalities

In 2017, the IMF published a series of policy papers with the objective of bolstering GFSN adequacy. This included the review of IMF precautionary instruments, the creation of the PCI, as well as the elaboration of six operational cooperation principles and three operational modalities for guiding IMF–RFA interactions. The proposed principles derive from lessons learned from past IMF–RFA collaboration, a test run with the CMIM, and the high-level IMF–RFA cooperation principles endorsed by the G20 in 2011. Figure 5 summarises the principles and modalities as proposed by the IMF based on RFAs’ understanding.

Figure 5
Summary of the IMF proposed operational principles and modalities of cooperation
 (IMF, 2017c)



Source: Depicted by the authors

First, we would like to emphasise that RFAs welcome the IMF's timely effort to update and operationalise the G20 high-level principles, elaborated several years ago, as the GFSN and IMF-RFA collaboration have evolved considerably.

Second, RFAs see the principles as an outcome of the shared willingness of the IMF and RFAs to engage in regular dialogue and consultation. To work out the principles and modalities for collaboration, the IMF reached out to all RFAs to inquire about RFAs' views on the particular issues to be addressed. RFAs provided their perspectives on a number of issues, e.g., surveillance, co-financing, capacity building, and information sharing. The IMF's outreach was announced at the 1st High-level RFA Dialogue co-organised by AMRO, the ESM, and FLAR in October 2016. Although RFAs were not formally invited to provide comments when the draft paper was ready, their views were represented by RFAs' shareholders at the IMF Executive Board.

In substance, RFAs concur with the IMF's proposal of a flexible approach to future collaboration, which should be based on comparative advantage of each regional arrangement given the great heterogeneity across RFAs' activities and missions in their respective regions. At the same time, we advocate some degree of formalisation of the IMF-RFA relationship in selected areas, such as training, capacity building, and information sharing. RFAs generally support the six high-level principles the IMF presents in its paper. These create a normative base for the cooperation framework activities of capacity building, surveillance, and instruments with both ex ante and ex post conditionality. The three operational modalities the IMF proposes in its paper – formal agreement, lead-agency model, and coherent programme design – offer a wide range of options with different degrees of flexibility for RFAs to consider based on their institutional needs and level of development.

In this paper, the authors would like to suggest areas for further clarification both to make the principles and modalities truly operational and to guide future IMF-RFA activities. First, there are still uncertainties around the three cooperation modalities. It is unclear, for instance, how the lead agency model could work in practice. Can an RFA take the leading role when it provides the largest financial contribution or the bulk of technical assistance? Another recurrent question is related to the division of labour when the IMF and an RFA co-finance. Shall RFAs and the IMF develop relevant guidelines to ensure tasks are assigned according to comparative advantages? The division of labour also matters for conditionality design, in those cases where RFAs have or will have their own conditionality design framework. In some cases (e.g. EFSD), RFAs are mostly involved in providing inputs on structural reforms given their expertise and knowledge of the regional economies. Given the time pressure to work out consistent and appropriate programmes in crisis times, mapping well-defined comparative advantages should be facilitated to the largest extent possible in non-crisis times.

Moreover, it would be important to know to what extent the proposed collaboration principles and modalities fully cover the run-up to the crisis period, which may be the most uncertain and difficult period for a country considering official sector assistance. This period also justifies the most collaboration and consultation among the institutions in charge of providing emergency liquidity and advice for policy reforms. The next section will provide some ideas for improvement in this area.

Finally, the IMF and RFAs must work together to further clarify the possibility of combined use of their respective instruments. So far, IMF policy papers explore this possibility purely from the perspective of its own legal and policy frameworks (e.g., for the new PCI). Whether the option of combined use is realistic and compatible with RFAs' legal and policy set-up remains unaddressed. For instance, some RFAs are not designed to link their financing arrangements with the PCI due to their existing legal framework. To extract instrument synergies, the IMF and RFAs need to examine jointly what is feasible given the legal and policy constraints.

In the next section, we would like to suggest some concrete options for further development of RFA working relations with the IMF in the near future and longer term.

3.2 Actions for fostering RFA–IMF collaboration in the short run

During the working session of the 2nd RFA Research Seminar on 18 May 2018, technical experts from different RFAs identified three broad avenues for future cooperation with the IMF – capacity building, information sharing and communication, and crisis prevention and resolution. RFAs share the view that capacity building and information sharing are two priority areas where relations could be strengthened in a timely fashion. Both areas have attracted the collective interest and agreement of RFAs. In addition, a few ideas for future collaboration in crisis prevention and resolution are elaborated below.

Before we present the content of our initiatives, a practical recommendation to carry forward our work on collaboration would be to form small discussion groups with staff members from RFAs and the IMF, which will aim to produce concrete deliverables within a pre-defined timeline. Each RFA can choose to lead the discussion on a selected topic, e.g., capacity building, information sharing, crisis prevention, in-crisis lending, etc. The results can then be reported and discussed at the annual High-level RFA dialogue.

Capacity building

Capacity building is a primary priority for additional formalised engagement between RFAs and the IMF. RFAs would like to promote joint technical assistance missions with the IMF in their common member states. For instance, the IMF could consider including RFA staff members in its human resources pool for technical assistance based on the expertise needed. As per Section 2, the AMF provides concrete examples on how these joint technical assistance missions could work and benefit the relevant member states. RFAs could also survey, together with the IMF, the training needs of their common membership. Financial surveillance, statistical capacity, risk detection, financial programming, and debt sustainability analysis could be potential topics of interest.

Concerning institutional capacity, we underscore the benefits of joint research activities, like analytical work and seminars. The joint RFA research seminar, first organised in 2017, gathered academics, practitioners, and policymakers to discuss and update knowledge in key areas of daily operations of the different financial backstops. The first and second editions of the joint RFA research seminar explored risks and vulnerability detection models, regional spillover control, and conditionality design and implementation, among other topics. In the future, RFAs and the IMF could explore additional topics for research projects and seminars.

Joint training programmes can also help align key methodologies and best practices for economic surveillance and official-sector lending. The IMF has a number of regional training centres in the geographical regions where RFAs are located. RFAs could formalise the working relations with the IMF through staff training at these centres. The IMF could also invite RFAs to present their own analytical frameworks there. This could help compare approaches, and highlight the particular economic and political constraints of various regions. Some topics of training that might attract common interest among RFAs include macroeconomic forecasting, debt sustainability analysis, risk/vulnerability detection frameworks, banking sector surveillance, legal aspects related to programme design, IMF lending policies and frameworks, and liquidity forecasting. The two parties could organise one or two joint courses per year to discuss the technical issues of interest to all crisis resolution mechanisms.

Finally, staff exchange and secondment programmes can also improve mutual understanding of key working methods and analytical frameworks in different institutions. The AMRO–IMF MoU commits both institutions to staff exchange possibilities, and can act as an inspiration for collaboration with other RFAs.

Information sharing and communication

RFAs have also identified information sharing and communication as another area that could benefit from enhanced cooperation. The RFAs welcome the IMF's new policy for the exchange of documents between it and RFAs published in January 2018, following the update on its transmittal policy with other organisations. The IMF transmittal policy provides a formal framework, which was not previously available for RFAs, to access defined IMF documents. RFAs agree with the IMF on the criteria for document exchange: (1) commonality of operational interest, i.e., crisis resolution, (2) confidentiality and (3) reciprocity.

According to the IMF transmittal policy, routine access (after IMF Executive Board consideration), identified as a systematic document-sharing process, may have limited value at the current stage. Most of the listed documents (Article IV reports, selected issues, etc.) are accessible directly on the IMF website after publication. At best, this routine access only shortens the time for an RFA to receive the indicated documents. In comparison, non-routine access (after IMF paper issuance to the Board but before Board consideration) is a very useful proposal, which fully recognises the complementary role of RFAs in crisis prevention and resolution and facilitates early engagement. However, this access is programme-dependent (both the access right and the duration) rather than a general transmission channel. Enhancement of non-routine document sharing could thus be a potential future topic of discussion between the IMF and RFAs.

Additionally, more informal exchanges between RFAs and the IMF could be facilitated when co-financing in a common member state or when the IMF works on policies with implications for RFAs. The IMF's consultations with RFAs during its review of the Debt Sustainability Analysis and the Conditionality Guideline constitute a welcome step forward. RFAs could encourage such information exchange and invite the IMF when they undertake similar policy reviews. For instance, European partners invited the IMF to present its lending and policy frameworks with respect to debt sustainability management and restructuring. In sum, it seems important to us that RFAs and the IMF ensure a two-way information flow and learning process.

The IMF and RFAs could also benefit from granting access to one another's databases, which can be precisely defined in technical memoranda. Data sharing can not only facilitate cooperation in daily analytical work in different institutions but also reduce a burden on national authorities, which often have to provide the same information to a number of institutional partners.

Finally, another topic of interest is the communication of crisis resolution funds' activities to the general public for the purpose of raising public awareness and trust, and improving the transparency and accountability of public institutions. Some academics, such as Henning (2002), have advocated improving the transparency of RFAs. This topic was also discussed by RFAs together with the IMF in the High-level RFA Dialogue on 11 October 2017. The IMF has significant experience and established procedures for liaising with the general public, including civil society, and explaining its core operations. RFAs could learn from this experience to further develop their own communication strategies. In fact, in recent years, many RFAs have designed or revamped their websites, providing ample information in English on their operations. To further raise awareness about RFAs' work, one could also consider designing dedicated websites⁷ to publish information about RFAs' joint activities, in particular the annual policy dialogue among themselves and with the IMF. As regards public accountability of financial backstops, RFAs can consider conducting surveys to assess how the general public understands and supports their work. In

⁷ Some inspiring websites include the annual G20 or BRICS presidency websites, as well as the website on the reforms of the International Monetary System that was created during the French G20 presidency: <http://www.imsreform.org/>

Europe, some institutions have done such an exercise (e.g., the Eurobarometer survey conducted by the EC) to assess public opinion and trust towards their work. Finally, the conduct of independent programme evaluation is another way to assess the effectiveness of programmes and to enhance accountability of crisis resolution funds vis-à-vis the general public. The ESM, for example, commissioned a first independent evaluation in 2017 (Tumpel-Gugerell, 2017), with inputs from the IMF and other partner institutions. In the future, the RFAs willing to conduct programme evaluations could work together with the IMF to define best practices to ensure a more effective experience and to ease access to each other's staff to collect inputs.

Crisis prevention and resolution

As per Section 2, there are strong incentives to encourage cooperation in crisis prevention and resolution. However, given the heterogeneity of RFAs, especially in terms of their respective mandates, and the diverse nature of shocks they are created to deal with, it is more difficult to form uniform proposals. The elements below aim to provide some food for thought for general consideration.

First, for some RFAs that are mandated to provide economic surveillance in their respective regions, there is a strong willingness to pursue the IMF's proposal to strengthen collaboration in surveillance with the sharing of information through, among other channels, "participation of RFA staff in selected Fund Article IV meetings (in cases where capacity development of the RFA is needed) conditional on the consent of the member and Fund mission chief [...]" (IMF, 2017c, p. 23). AMRO staff, for instance, has already participated on a partial basis in the IMF Article IV mission in one of the CMIM member countries and found the experience useful in perceiving the difference of the two institutions' understanding of the macroeconomic and financial situation of a target country. EFSD and FLAR also share the view that the quality of macroeconomic consultation on surveillance matters could be substantially improved if RFA staff members could join selected meetings during IMF missions and its Spring and Annual Meetings.

Second, the period between the detection of imminent risks and the formal request from a member state for financial assistance poses acute risks and heightened uncertainties. In response, many RFAs indicated the need to examine the possibilities for collaboration in the period "running up" to the crisis. The institution which a member country approaches first for potential assistance could advise the country to consider additional financing sources and keep peer institutions updated should confidentiality policy allow. The IMF's approach to official sector lending encompasses this idea, for instance, in its financial assurances policy. Institutions can also consider further strengthening the information-sharing framework to help detect and share rising risks early at events like the annual RFA-IMF Dialogue framework.

Regarding in-crisis lending, RFAs have deepened and will further maintain a comprehensive understanding of the evolving IMF policies and instruments (including lending and precautionary instruments under the General Resources Account, but also non-financing instruments, and the toolkit for low-income countries). These efforts aim to help RFAs explore the complementarity of their toolkits with the IMF's and, in some cases, align their internal procedures to facilitate more effective collaboration. One exercise that RFAs and the IMF can consider is for their staff to co-author a working paper serving as a joint instrument manual. Such a manual or instruction book could provide practical information on the instruments available at different institutions, especially regarding the access policy, conditionality design, financial features, and decision-making structure. This manual could also help enhance the predictability of RFAs' and the IMF toolkits, an area for improvement identified by IMF (2016).

Another way to evaluate the effectiveness of combined IMF and RFA instruments in times of crisis is through test-runs of instruments for potential collaboration. CMIM-IMF test runs have provided useful lessons on the need to reconcile different lending frameworks in terms of legal and policy constraints, e.g., the IMF's financing assurances policy and preferred creditor status. Euro area programmes where the IMF co-financed have also provided similar lessons. In particular, test-runs could be organised between the IMF and RFAs that have not had formal links to the IMF. The IMF and the RFA organising the test run could, for instance, consider inviting other RFAs to participate as observers, without prejudice to each institution's confidentiality policy.

Finally, the experiences of the euro area highlight that technical interaction between European institutions and the IMF can get complicated on a country-by-country basis because of differences in the assumptions used, independent procedures, and shareholders' views. The resolution of differing views over programme design and conditions remains an issue in certain situations. Comparing key assumptions, models, and data sources to better understand each institution's frameworks for macroeconomic analysis will ease the identification of differences. When the IMF Executive Directors were discussing the policy paper on IMF-RFA collaboration, they agreed that formal mechanisms for resolving difficulties may be counterintuitive. We share this view. Nevertheless, exchanges of views on programme collaboration should be encouraged to the greatest extent possible. The benefits would also carry over to external stakeholders when the IMF and RFAs co-finance a programme but reach different technical assessments or propose different solutions. Consistent and coherent communication during IMF and RFA co-financing is in line with the principle of consistency. How to implement such collaboration still needs more collective reflection.

3.3 Strategic reflection on long-term collaboration goals

Certain topics, in particular, require long-term collective reflection and discussion. Such topics can benefit from short-term activities focused on building a common understanding and strategic vision. The issues presented below aim to set a basis for such joint work and cooperation initiatives.

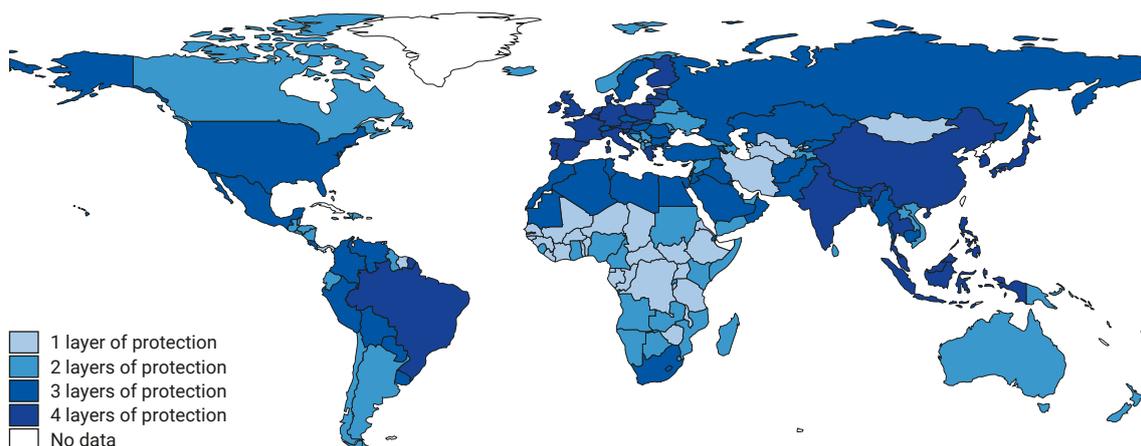
First, it is necessary to place the resources available in RFAs and the IMF into the broader context of the multi-layered GFSN. A recurring theme in academic work and policy debates is whether there is an optimal sequencing for a sovereign state to have recourse to the different layers. This sequencing depends on the types of crises and the countries requesting assistance, and ultimately remains a national decision. From an academic perspective, Denbee et al. (2016) present a stylised decision tree for the order in which different resources in the GFSN could be used, based on the type and size of the shocks. From a policy perspective, some former finance ministers from Asian and Latin American countries, who attended our joint RFA research seminars, indicated that resource choice for crisis resolution is affected by several factors: the financial and political cost of the available resources, the incumbent government's political capital and appetite to support reforms, and the stigma attached to the resources based on past experience. In Indonesia, for instance, the government adopted a strategy of reserve accumulation as a means of self-insurance after the Asian financial crisis. During the global financial crisis, the country privileged resources from BSA and the ADB instead of turning to CMIM or the IMF. These country experiences call for joint thinking about strategic complementarities within the GFSN, especially between RFAs and the IMF, which should ideally surpass the current approach of "parallel" processes. For instance, the sequencing issue could be understood as horizontal diversification of GFSN resources to cover different periods or needs (from precautionary to actual financing needs).

Second, the international community has long advocated greater cooperation on capacity development and crisis prevention in low-income countries. Given that the IMF has a global representation while some RFAs also cover less-developed member countries, how to improve assistance to countries that remain most vulnerable to shocks is another long-term issue. The IMF and RFAs could help their less-developed common member states familiarise themselves with the resources and procedures for crisis management.

Third, the uneven coverage of the GFSN is a fact and needs to be thought through carefully. Members of the G20 IFA Working Group have often raised concerns about the persistence of gaps in the GFSN, noting that many countries remain uncovered by any RFA, notably in Sub-Saharan Africa. The G20 Eminent Persons Group also pointed to a number of gateway economies, especially in Latin America, e.g., Argentina and Mexico, which are not covered by a regional arrangement.

Figure 6 illustrates the lack of full options of the GFSN in Africa and in Central Asia. Most countries in these regions are solely covered by the IMF.

Figure 6
Uneven coverage of the GFSN
(as of end 2016)



Note: We use categorical variables to proxy the coverage of the GFSN. The value 1 is assigned to a given layer of protection for a country in 2016 if (i) for international reserves, the stock of foreign reserves can cover at least three-month imports or the country issues a reserve currency (i.e., Canada, euro area, Japan, Switzerland, UK and US); (ii) for the bilateral swap lines, the country concerned has a bilateral arrangement with a major central bank (e.g., US, ECB, China, India, Japan, etc.); (iii) the country is a member of an RFA; (iii) it is a member of the IMF. Data source: IMF International Financial Statistics, IMF (2016), Aizenman et al. (2011), and ESM staff calculations.

Source: Depicted by the authors

Finally, some RFAs together with the IMF might face the challenge of securing sufficient and financially favourable resources for crisis lending in the future. As Cheng and Lennkh (2018a) illustrate, RFAs and the IMF have different funding strategies and financial structures. In the future, it seems advisable to reflect on how a differentiated treatment of foreign reserves, the use of SDRs and the related financing modalities can help RFAs secure sufficient lending resources while alleviating member states' burdens. Box 6 presents the FLAR case as regards the treatment of FLAR membership in external liquidity statistics.

Box 6. FLAR membership in external liquidity statistics

Capital contributions to FLAR come from the international reserves of the member countries' central banks. Between 2001 and 2015, the IMF and FLAR as well as the member countries discussed how to classify these contributions in the central banks' balance sheets. This is an important issue, as FLAR members need to use their reserves in US dollars to make their paid-in contributions to FLAR.

Since capital contributions to the multilateral body are not categorised as part of the international reserves, membership costs, particularly for countries of smaller economic size, are high.

In May 2015, FLAR and the IMF agreed on a mechanism to account for a portion of the paid-in capital in FLAR as part of a member country's international reserves. This mechanism could be applied to new members of the institution. Despite this step forward, there may still be an important space for cooperation with the IMF Statistics Department, which could enhance the visibility of the benefits of membership in an RFA through its treatment of the countries' external liquidity registration statistics, and thereby strengthen a component of the GFSN.

For the wider use of Special Drawing Rights (SDR), we acknowledge that this is a far-reaching topic. This topic could, however, be relevant for both the IMF and some RFAs in the long-run. IMF (2018) has looked at this issue recently as one possible way to address the limitations of official liquidity provisions through the GFSN but concludes that there are too many challenges for a wider use of the SDR. Future academic research and policy discussions may provide clearer directions on the role of the SDR in supporting a well-resourced GFSN and potential interlinkages between RFAs' and IMF's financing.

Conclusion

This paper, which results from a joint effort of RFAs, sheds light on the existing cooperation between RFAs and the IMF across a number of activities and offers some “quick wins” and long-term strategic reflections to further develop the working relations between RFAs and the IMF. It also forms a collective reply to the IMF’s recent policy paper on collaboration issues.

As the paper has highlighted, we have witnessed significant progress towards enhancing the coordination and cooperation within the GFSN in recent years, especially between the two layers of protection requiring multilateral decision-making. The RFAs and the IMF have strengthened cooperation through concrete activities, such as joint seminars, technical assistance missions, high-level dialogues, and test-runs. This practical approach to improving cooperation was also highly appreciated by the members of the G20 IFA Working Group.

In addition to taking stock of what has been achieved, we have also made a few proposals to further improve RFA-IMF collaboration in the future, which we submit for the consideration of the heads of RFAs and of the IMF. Broadly speaking, our proposals identify options to improve cooperation in three areas: capacity building and training, information sharing and communication, as well as crisis prevention and management. We acknowledge the complexity of implementing different options given the varying mandates and institutional constraints in RFAs and the IMF. Therefore, we invite our leaders to provide guidance on how to prioritise key short-, medium-, and long-term objectives. Some options can thus be quick wins, such as joint research projects, training programmes, and the development of a manual detailing the procedures and conditions to use the IMF’s and RFAs’ toolkits. Some other topics require longer-term reflection, such as the sequenced use of GFSN resources and its uneven coverage. One practical recommendation to carry forward our work on collaboration would be to form small discussion groups with staff members from RFAs and the IMF tasked with concrete assignments. The institutions can meet at the annual research seminar to evaluate progress in the respective areas. The information can then be reported back to the heads of RFAs at the High-level RFA dialogue every year.

Last but not least, we believe that enhanced RFA–RFA collaboration, though not the main focus of this paper, can benefit future discussions on enhancing RFA–IMF working relations. As the paper clarified in the introduction, both a bilateral and a multilateral approach to RFA–IMF collaboration are useful. The bilateral consultations between the IMF and an RFA can address many institution-specific issues, whereas the multilateral approach can provide a more systemic way to address important issues of RFAs’ common concern. In the past years, a group of RFAs have also worked very closely together to build the basis of this multilateral framework among RFAs, for instance by organising the annual High-level RFA dialogue since 2016 and the joint RFA research seminar since 2017. MoUs between some RFAs were also signed to better codify the existing working relations. This current joint paper also epitomises the strong commitment of RFAs to working together and to finding solutions to the questions that have a common denominator. In drafting this paper, colleagues from different institutions also put forward a variety of ideas to further consolidate RFAs’ working relations in the future, which could be an excellent topic to explore jointly in our next paper.

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Annex

1. G20 principles for cooperation between the IMF and Regional Financing Arrangements as endorsed by G20 Finance Ministers and Central Bank Governors on October 15, 2011

In November 2010, G20 Leaders also tasked G20 Finance Ministers and Central Bank Governors to explore “ways to improve collaboration between RFAs and the IMF across all possible areas”. Based on contributions by the EU and by ASEAN+3 countries members of the G20, the following non-binding broad principles for cooperation have been agreed. Also, 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.

2. Basic information on major RFAs

Arab Monetary Fund (AMF)	
Establishment history	Established in 1976 under the Articles of Agreement of the Arab Monetary Fund
Membership	22 countries of the Arab League: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE, Yemen
Resources and maximum lending capacity	771 million Arab Accounting Dinar (about US\$3.3 billion) at end April 2018
Instruments	Automatic loan, Compensatory loan, Ordinary loan, Extended loan; Oil facility, Structural adjustment facility, Trade reform facility, SME's conducive environment support facility, Short-term liquidity facility
Surveillance and monitoring	AMF conducts regular surveys
Conditionality	Policy reform programmes
Current working relationship with the IMF	Joint work covers technical assistances, high-level policy dialogue, and capacity-building activities
Recent activities	<ul style="list-style-type: none"> • 2017: Compensatory loan (13.4 million AAD) to Tunisia, Structural adjustment facility (69 million AAD) to Morocco. • 2018 (as of end of June): Compensatory loan (18.5 million AAD) to Tunisia, SME facility (18.5 million AAD) to Tunisia, SME facility (22.8 million AAD) to Sudan, SME facility (87.7 million AAD) to Egypt (loan approved but contract not yet signed)
BRICS Contingent Reserve Arrangement (CRA)	
Establishment history	Established in July 2014 with the Treaty establishing the Contingent Reserve Arrangement and operationalised with the Inter-Central Bank Agreement in July 2015
Membership	Brazil, Russia, India, China, South Africa
Resources and maximum lending capacity	Foreign exchange reserves from the five members for a total amount of US\$100 billion
Instruments	<ul style="list-style-type: none"> • A precautionary facility and a liquidity facility • For each of the two facilities, a portion is stand-alone (de-linked portion) and another portion is linked to an IMF programme (IMF-linked portion)
Surveillance and monitoring	No formal surveillance function but there is research capacity provided by each of the central banks that collaborate
Conditionality	Yes, for the IMF-linked portion
Current working relationship with the IMF	<ul style="list-style-type: none"> • Members can access up to 30% of their total allocation without an IMF programme. The maximum access limit per country is conditional on an IMF programme. • No test runs
Recent activities	None

Chiang Mai Initiative Multilateralisation (CMIM)

Establishment history	Established in 2010 and upgraded in 2014 with doubling of the total resources (to US\$240 billion from US\$120 billion)
Membership	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, China, Hong Kong SAR, Japan, Korea
Resources and maximum lending capacity	Foreign exchange reserves from the members for a total amount of US\$240 billion
Instruments	<ul style="list-style-type: none"> • CMIM Precautionary Line (CMIM-PL) for crisis prevention and CMIM Stability Facility (CMIM-SF) for crisis resolution • For each of the two facilities, a portion is stand-alone (de-linked portion) and another portion is linked to an IMF programme (IMF-linked portion)
Surveillance and monitoring	CMIM is supported by a regional surveillance organisation, the ASEAN+3 Macroeconomic Research Office or AMRO
Conditionality	Conditionality framework under development for CMIM-SF (with or without the IMF linkage)
Current working relationship with the IMF	30% of each member's swap quota is usable without the IMF programme. The maximum access limit per country is conditional on an IMF programme
Recent activities	The first periodic review is underway to review all terms and conditions of the CMIM Agreement

Eurasian Fund for Stabilization and Development (EFSD)

Establishment history	Established in 2009 as the Eurasian Economic Community (EURASEC) Anti-Crisis Fund. Renamed in 2015 due to abolishment of the EURASEC. Apart from name change the amendments brought grant financing facility on board in addition to financial credits and investment loans
Membership	Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia, and Tajikistan
Resources and maximum lending capacity	US\$8.5 billion
Instruments	Financial credits, Investment loans, Grants
Surveillance and monitoring	Ongoing informal dialogue in the form of working meetings during the IMF and the EFSD field missions on programme countries which contribute to greater consistency of macroeconomic frameworks and policy matrixes of lending programmes, supported by both institutions
Conditionality	Reform programme
Current working relationship with the IMF	Collaboration takes the form of periodic consultations on current socio-economic situation in a country under a programme and its longer-term challenges
Recent activities	<ul style="list-style-type: none"> • December 2017. Final 3rd tranche in the amount of US\$100 million of the US\$300 million financial credit to Armenia disbursed • October 2017. 5th tranche in the amount of US\$200 million of the US\$2 billion financial credit to Belarus disbursed • June 2017. 4th tranche in the amount of US\$300 million of the US\$2 billion financial credit to Belarus disbursed • April 2017. 3rd tranche in the amount of US\$300 million of the US\$2 billion financial credit to Belarus disbursed

European Stability Mechanism (ESM)	
Establishment history	Established by the ESM Treaty signed in February 2012. The ESM replaces the EFSF, ⁸ and becomes the permanent crisis resolution mechanism in the euro area
Membership	19 euro area countries: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain
Resources and maximum lending capacity	<ul style="list-style-type: none"> • Authorised capital of €704.8 billion composed of €80.55 billion paid-in capital and €624.25 billion committed callable capital • Legally defined maximum lending capacity of €500 billion
Instruments	<ul style="list-style-type: none"> • Loans within a macroeconomic adjustment programme • Primary market purchases • Secondary market purchases • Precautionary instruments • Loans for indirect bank recapitalisation • Direct recapitalisation of institutions
Surveillance and monitoring	Early Warning System to detect repayment risks and allow for corrective actions for countries having received EFSF/ESM financial assistance
Conditionality	ESM provides support subject to strict conditionality, appropriate to the financial assistance instrument chosen. Such conditionality may range from a macro-economic adjustment programme to continuous respect for pre-established eligibility conditions
Current working relationship with the IMF	Cooperation between the ESM and the IMF takes different forms: involvement of the IMF in the design of euro area programmes, co-financing, joint programme reviews and post-programme monitoring activities, and consultations in the framework of euro area Article IV. In the case where the IMF did not provide financial support (e.g. Spain), it played a crucial role as a technical advisor
Recent activities	<ul style="list-style-type: none"> • Ireland (2011-2013): €17.7 billion from EFSF • Portugal (2011-2014): €26 billion from EFSF • Greece (2012-2015): €130.9 billion from EFSF • Spain (2012-2013): €41.3 billion from ESM • Cyprus (2013-2016): €6.3 billion from ESM • Greece (2015-2018): €61.9 billion from ESM

⁸The European Financial Stability Facility (EFSF) was created as a temporary crisis resolution fund by the euro area member states in June 2010. The EFSF ceased to provide new financial assistance as of 30 June 2013 with the creation of the ESM. It will continue to exist until "all Funding Instruments issued by EFSF and any reimbursement amounts due to Guarantors have been repaid in full (EFSF Framework Agreement, Article 11)."

European Union Balance of Payments Facility	
Establishment history	<ul style="list-style-type: none"> Established as a single facility providing medium-term financial assistance for Member States' balances of payments in 1988 by Council Regulation (EEC) No 1969/88 of 24 June 1988 Updated in 2002 by Treaty on the Functioning of the European Union and Council Regulation (EC) No 332/2002
Membership	<ul style="list-style-type: none"> Designated for EU countries outside the euro area Currently Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, UK
Resources and maximum lending capacity	<ul style="list-style-type: none"> Maximum lending capacity of €50 billion Funds are borrowed on the financial markets, backed by EU-own resources
Instruments	Loan (can be used as a precautionary credit line)
Surveillance and monitoring	Compliance with the conditions of the Memorandum of Understanding (MoU) is verified to disburse loan tranches
Conditionality	<ul style="list-style-type: none"> Conditionality is set in the MoU Content: measures to ensure the strength of public finances and the stability of the financial sector, structural reforms to improve economic competitiveness and growth, achieve price stability and safeguard against fraud
Current working relationship with the IMF	Coordinated effort to meet financing needs and to align programmes of each institution in a particular country
Recent activities	<ul style="list-style-type: none"> Hungary (2008-2010): €5.5 billion disbursed; post-programme surveillance ended in 2015 Latvia (2008-2012): €2.9 billion disbursed; post-programme surveillance ended in 2015 Romania: one financial assistance programme (2009-2011) with €5 billion disbursed and two precautionary arrangements (2011-2013 and 2013-2015); post-programme surveillance ended in 2018

European Union Macro Financial Assistance Facility	
Establishment history	<p>The first Macro-Financial Assistance (MFA) operations were undertaken in 1990. Governed by:</p> <ul style="list-style-type: none"> • the Treaty on the Functioning of the European Union, and in particular Article 212(2); • Joint Declaration by the European Parliament and the Council of August 2013
Membership	<p>Non EU countries that are geographically, economically, and politically close to the EU, and that fulfil the eligibility criteria linked to the assistance</p>
Resources and maximum lending capacity	<ul style="list-style-type: none"> • €2.0 billion per year in loan disbursements (as agreed in the Multiannual Financial Framework (MFF) Mid-Term Review projections) • Plus an element of grants financed by the EU budget (€42 million for 2018)
Instruments	<p>Loan and/or grant</p>
Surveillance and monitoring	<ul style="list-style-type: none"> • MFA disbursements are dependent on successful reviews, and tied to the fulfilment of conditionality (see below) • The implementation of conditions is closely monitored by the EC, in close coordination with the EU Delegations. The IMF and World Bank are also consulted on areas of their work (e.g. IMF on conditions concerning reforms in the financial sector). Furthermore, the Commission undertakes review missions on the ground to verify the implementation
Conditionality	<ul style="list-style-type: none"> • Ex ante eligibility and ex post conditionality. • Content: Political pre-conditions; economic policy reforms; IMF programme on-track
Current working relationship with the IMF	<p>MFA complements and is conditional on the existence of an adjustment and reform programme agreed between the beneficiary country and the IMF. However, while the other EU RFAs (ESM, Balance of Payments) and the IMF jointly negotiate programme design, conditionality, and programme monitoring, MFA procedures are separate and more independent from IMF programme governance. The existence of an IMF programme is a necessary but not a sufficient condition for an MFA operation to be launched, as the EU may consider that, after assessment of political, economic and financial situation, the necessary conditions for an MFA programme are not met. Once an MFA operation is launched however, the EC takes into account the IMF macro-framework and programme reviews and coordinates closely with IMF mission chiefs when designing and implementing the assistance, albeit short, of joint missions</p>
Recent activities	<ul style="list-style-type: none"> • 2018: Ukraine – Fourth MFA of up to €1 billion in loans • 2018: Georgia – MFA of €45 million (€10 million in the form of grants and up to €35 million in loans) • 2017: Moldova – MFA of €100 million (€40 million in grants and up to €60 million in loans) • 2016: Jordan – additional MFA of €200 million in loans • 2016: Tunisia – additional MFA of €500 million in loans

Latin American Reserve Fund (FLAR)	
Establishment history	The Andean Reserve Fund was established in 1978, which became the FLAR in 1991 to allow membership from all Latin American countries.
Membership	Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela
Resources and maximum lending capacity	<ul style="list-style-type: none"> • In 2017, paid-in capital of US\$3.0 billion • Maximum FLAR's capacity of loan disbursement 2017 (US\$4.9 billion) = 75% of the paid-in capital (US\$2.2 billion) + Notes up to 65% of the paid-in capital (US\$1.9 billion) + Deposit book funds (US\$800 million)
Instruments	<ul style="list-style-type: none"> • <i>Balance of payments support</i>: This facility has a three-year maturity and one-year grace period for the amortisation of the loan principal. The access limit is 2.5 times paid-in capital for Colombia, Costa Rica, Paraguay, Peru, Uruguay, and Venezuela, and 2.6 times paid-in capital for Bolivia and Ecuador. The interest rates on loans are set at 3-month Libor + spread • <i>Liquidity credit</i>: This instrument has a maturity up to one year. The access limit is one time paid-in capital for Colombia, Costa Rica, Paraguay, Peru, Uruguay and Venezuela, and 1.1 times paid-in capital for Bolivia and Ecuador. Interest rates are set equal to 3-month Libor + spread • <i>Contingency credit</i>: This instrument has a six-month maturity. The access limit is two times paid-in capital for Colombia, Costa Rica, Paraguay, Peru, Uruguay and Venezuela, and 2.1 times paid-in capital for Bolivia and Ecuador. Interest rates are set at 3-month Libor + spread
Surveillance and monitoring	FLAR has a surveillance function and monitors lending operations
Conditionality	No conditionality. The central bank of the country requesting the loan must provide a report on the monetary, credit, exchange, fiscal, and trade policies to be implemented to correct the disequilibria. FLAR's Board examines the country's report. FLAR's staff presents a report on the economic programme to the Board of Directors
Current working relationship with the IMF	Some FLAR staff attends IMF training centre programmes
Recent activities	<ul style="list-style-type: none"> • 2018: Balance of payments support (US\$1 billion) to Costa Rica • 2017: Liquidity credit (US\$485 million) to Venezuela



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