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COLLABORATION BETWEEN REGIONAL FINANCING ARRANGEMENTS AND THE IMF

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- A **Press Release** summarizing the views of the Executive Board as expressed during its July 26, 2017 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on June 29, 2017 for the Executive Board's consideration on July 26, 2017.

The document listed below will be separately released.

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COLLABORATION BETWEEN REGIONAL FINANCING ARRANGEMENTS AND THE IMF

EXECUTIVE SUMMARY

Context

The Global Financial Safety Net (GFSN) has expanded considerably since 2008, including in the non-traditional elements of the safety net such as Regional Financing Arrangements (RFAs). The resulting multi-layered structure of the GFSN makes collaboration between its various elements more important than in the past. Specifically, stronger collaboration between the Fund and RFAs would help increase the effective firepower of the GFSN and ensure a timely deployment of resources. The Fund's experience in macroeconomic adjustment and its universal risk pooling would combine with the greater regional knowledge and country ownership brought the RFA. In this way, improved collaboration between the Fund and RFAs, including in co-financing, would significantly reduce the risk of contagion by encouraging countries to seek early assistance from the Fund.

This paper is part of a broader set of proposals to fortify the GFSN (IMF, 2017b, c, d). It proposes both modalities for collaboration—across capacity development, surveillance, and lending—and some operational principles to help guide future co-lending between the Fund and the various RFAs. To date, the only operational guidance to facilitate collaboration has been limited to the high-level 2011 *G20 Principles for Cooperation between the IMF and RFAs*. Building on several case studies and the principles derived from them, this paper proposes an operational framework for future engagement. It aims to start a more structured dialogue between the Fund and individual RFAs on the modalities of how best to work together.

Proposal for stronger IMF-RFA collaboration

The paper bases its proposed operational principles on lessons derived from past co-lending and the 2016 test run with the Chiang Mai Initiative Multilateralization (CMIM), as well as productive bilateral discussions with several major RFAs. Recent experiences with IMF-RFA co-financing highlight: the importance of early and evolving engagement between the RFA and the Fund; the benefits of exploiting complementarities; the criticality of a single program framework; and the need for mutual respect of institutional independence and capacity. An activity-based approach should facilitate similar forms of collaboration across RFAs that undertake similar activities.

The main elements of the proposed collaboration framework are as follows:

- ***Capacity development***: Potential for agreement on regular training courses; possible temporary staff exchanges; and joint seminars.
- ***Surveillance***: Possible participation of RFA staff in selected Fund Article IV meetings, with the consent of the corresponding member country; and a regular exchange of views on common members.
- ***Instruments with ex-ante conditionality (qualification criteria***): Collaboration in the use of these instruments could be facilitated by aligning the qualification standards for corresponding RFA and Fund instruments, as well as the sharing of data and methods, but not the assessment. In addition, the qualification standards for Fund instruments would be established independently by the Board.
- For ***arrangements including ex-post conditionality***, collaboration should depend on the mandates and technical expertise of RFAs and the Fund:
  - When some ***division of labor between the Fund and the RFA is possible,*** it can be based on a "lead agency" model, while still preserving the close involvement of the RFA in the program. For example, in this model the Fund would take the lead on the macroeconomic framework and policies, while the RFA would focuses on areas within its comparative advantage.
  - When the ***division of labor is not possible*** due to overlapping mandates and technical expertise, early engagement and collaboration based on one coherent program would be called for.

The paper also highlights several other issues to facilitate collaboration:

- ***Addressing differences***: Formulating rigid rules could be counterproductive. The main guiding principle must be one that allows for a coherent program design while respecting independence and different lending practices.
- ***Information-sharing***: Two-way information-sharing within each institution's sharing policies is critical. It is also important to ensure reciprocity. The timing and granularity of information-sharing depend on the specific nature of the IMF-RFA engagement, confidentiality of the information being shared, and the consent of the corresponding member country.
- ***Financing assurances***: In some cases, RFAs may need to adjust the maturity of their financing so that it is at least as long as that of Fund instruments to ensure that the overall program is properly financed.
- ***RFAs need a clearly defined legal identity and governance structure*** to facilitate information sharing and provide financing assurances.

Next steps

The paper proposes actions in the near term to enhance the dialogue at the operational level and conduct joint test runs with some RFAs. There should also be an ongoing dialogue between RFAs and the Fund, both individually and collectively.

Approved By
Hugh Bredenkamp

Prepared by a staff team from Strategy, Policy, and Review Department (SPR) in collaboration with Legal Department and other departments. The team was led by Nathan Porter and Kenji Moriyama, and comprised of Pragyan Deb, Johannes Eugster, Chengyu Huang, Jeta Menkulasi, Tania Mohd Nor, and Camilo E. Tovar, with inputs provided by Clifford Blair, Katharine Christopherson Puh, and Gabriela Rosenberg (LEG). Consultation between departments was facilitated through an interdepartmental contact group comprising:

APD: Luis Breuer and Jongsoon Shin.
EUR: Rishi Goyal and Ben Kelmanson.
FIN: Donal McGettigan and Ceyda Oner.
MCD: Jean-Francois Dauphin and Paul Ross.
SEC: Gilles Bauche.
WHD: Jorge Roldos and Jose Daniel Rodriguez Delgado.
Overall guidance was provided by Petya Koeva Brooks (SPR).

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Glossary

AMF	Arab Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
BoP	Balance of Payments
BRICS	Brazil, Russia, India, China, and South Africa
BSAs	Bilateral Swap Agreements
CMIM	Chiang Mai Initiative Multilateralization
CRA	BRICS' Contingent Reserve Arrangement
EC	European Commission
ECB	European Central Bank
EFSD	Eurasian Fund for Stabilization and Development
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EMDEs	Emerging Market and Developing Economies
ESM	European Stability Mechanism
EU	European Union
EU-BoP	European Union, Balance of Payments Facility
FCL	Flexible Credit Line
FLAR	Latin American Reserve Fund
G20	Group of Twenty
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
IMF	International Monetary Fund
MDB	Multilateral Developments Bank
MEFP	Memorandum of Economic and Financial Policies
MoU	Memorandum of Understanding
PCI	Policy Coordination Instrument
PLL	Precautionary Liquidity Line
RFA	Regional Financing Arrangements

INTRODUCTION

1. Regional Financing Arrangements (RFAs) form an important layer of the global financial safety net (GFSN).[1] An RFA is defined as a financing mechanism backed by pooled resources through which a group of countries pledge common financial support to a fellow member in the event of external liquidity needs or balance of payments (BoP) difficulties (Table 1 and Chapter I in Background Paper). RFAs complement other forms of external buffers within the GFSN, such as international reserves, central bank bilateral swap arrangements (BSAs), and Fund resources.[2]

2. The past decade witnessed an expansion of RFAs and the creation of new ones. In the wake of the Global Financial Crisis (GFC), the GFSN evolved in size and coverage, in order to put in place additional buffers against liquidity shocks, support external adjustment, and limit contagion across economies. However, the expansion also resulted in a more decentralized and complex safety net—with a larger number of independent potential financiers. In addition, the GFC prompted more requests for contemporaneous support from both the Fund as well as its regional partners for a different set of members: advanced economies.

3. All RFAs provide assistance to their members, but each does so in its own way. As noted in the Fund previous work on RFAs ("*Stocktaking the Fund's Engagement with Regional Financing Arrangements*," IMF 2013b), RFAs differ in their capacity to conduct program design and monitoring, surveillance, and capacity development. Furthermore, RFAs differ in their governance structures. While there are various views on the appropriate relationship between the Fund and RFAs, there are practical limits to what such a normative approach can accomplish. Sustainable collaboration that strengthens the GFSN is not about what the ideal structure should be—in practice, the architects of the various RFAs have answered this question in different ways—but how to make the current configuration of GFSN elements work smoothly together.[3] Consequently, the present structures of the GFSN and RFAs are taken as a starting point for the recommendations made in this paper.

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[1] The GFSN comprises international reserves, BSAs, RFAs, Fund resources, and market-based instruments. The main objectives of the GFSN are to provide *insurance* against idiosyncratic and systemic crises, supply *financing* to smooth adjustment to major external shocks, and incentivize sound *policies.* For details, see IMF (2016a).

[2] RFAs differ from multilateral development banks (MDBs), which are largely concerned with the provision of development financing and thus usually not considered as part of the GFSN (for example, IMF 2016a).

[3] This framing should not limit or date our recommendations, which are based on the core activities of RFAs. The current constellation of RFAs is so heterogeneous that modalities covering these activities will likely prove robust to further changes in the GFSN.

4. Enhanced collaboration between the Fund and RFAs could be mutually beneficial for several reasons. First, it would increase the effective firepower of both parties to tackle large-scale crises. Second, such collaboration would allow the deeper regional knowledge of RFAs to be combined with the global experience and perspective of the Fund. Third, it could enhance country ownership (a strength of RFAs) while boosting the credibility of adjustment programs and limiting moral hazard (a strength of the Fund). And, last but not least, while smooth collaboration in *lending activities* can help crisis fighting, collaboration in *surveillance*, and *capacity development* can improve crisis prevention.

5. Against this backdrop, Executive Directors have called for closer IMF-RFA collaboration, including through the creation of operational guidelines.[4] Both the IMF Board (IMF, 2015b) and the IEO (IMF, 2016b) have highlighted the importance of such collaboration in program design and monitoring between RFA partners and the Fund. The G20 has also called for strengthening the GFSN, placing a *"strong quota-based and adequately resourced IMF at its center […] and with more effective cooperation between the IMF and RFAs"* (G20, 2011). To date, there has been only limited guidance to facilitate IMF-RFA collaboration, with the *G20 Principles on IMF-RFAs Cooperation* (Annex III) providing only a general direction.

6. This paper proposes a conceptual framework and operational modalities for future Fund engagement with RFAs, both individually and collectively.[5] The starting point is that the Fund has the responsibility to respond—on its own or in collaboration with other (including regional) partners—to members' requests to address their BoP difficulties. After establishing the benefits of close IMF-RFA collaboration for promoting global financial stability (Section II), the paper draws seven lessons from experience with IMF-RFA collaboration and a Fund's participation in a CMIM test-run (Section III). Informed by these lessons, the next step is to put forward six operational principles for IMF-RFA interactions and illustrate that they are not inconsistent with the high-level G20 principles (Section IV). Considering these operational principles and the current landscape of RFA activities and characteristics, the paper then proposes operational guidelines/modalities for collaboration across different types of IMF-RFA engagement, such as capacity building, surveillance, and lending (Section V).[6] Potential impediments, information-sharing, and other issues are discussed in Section VI. Possible steps are outlined in Section VII.

7. The paper is part of a broader set of proposals to fortify the GFSN. Apart from strengthening the cooperation between the Fund and the RFAs, these proposals include improving Fund facilities and instruments by: establishing a new (non-financing) Policy Coordination Instrument (PCI) to help signal commitment to reforms and catalyze financing (IMF 2017b); and introducing a new liquidity backstop (Short-term Liquidity Swap (SLS)) to complement other elements of the GFSN (IMF

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[4] See Summing up of IMF (2015b) and Fund IEO Report (IMF, 2016b), and IMF (2017a, EB/EVC/17/2).

[5] The paper has also benefited from an open and productive dialogue with several major RFA institutions. Informal bilateral discussions were held with the Arab Monetary Fund (AMF), CMIM co-chairs and ASEAN+3 Macroeconomic Research Office (AMRO), European Stability Mechanism (ESM), European Commission (EC), Eurasian Fund for Stabilization and Development (EFSD), and the Latin American Reserve Fund (FLAR).

[6] While the focus of this paper is on the Fund's financing using the General Resources Account, the collaboration principles developed here are broadly general and would apply in the context of Fund's concessional financing.

2017c). Separately, issues specific to program design for members of currency unions, including possible policy actions by union-level institutions to fulfill program objectives, will be covered in the forthcoming paper *Program Design in Currency Unions* (IMF 2017d).

Table 1. Regional Financing Arrangements

RFA	Established	Size [1/] (SDR Billions)	Members
Arab Monetary Fund (AMF)	1976	3.6	Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, West Bank and Gaza, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.
BRICS Contingent Reserve Arrangement (CRA)	2014	74.4	Brazil, China, India, Russian Federation, and South Africa.
Chiang Mai Initiative Multilateralization (CMIM)	2000 (2010)	178.5	Brunei Darussalam, Cambodia, China, Indonesia, Japan, Korea, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, and Hong Kong Monetary Authority of Hong Kong SAR, China.
Eurasian Fund for Stabilization and Development (EFSD)	2009	6.3	Armenia, Belarus, Kazakhstan, Kyrgyz Rep., Russian Federation, and Tajikistan.
European Union- Balance of Payments (EU-BoP) Facility	2002	39	(EU non-Eurozone countries) Bulgaria, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, and United Kingdom.
European Stability Mechanism (ESM) [2/]	2012	392	(Eurozone countries) Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.
Latin American Reserve Fund (FLAR)	1978	3.5	Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela.

Source: Regional Financing Arrangements. See also the Background Paper for further details.

[1/] Calculated using 2016 end-year exchange rates.

[2/] As outlined in the ESM treaty, the ESM is an intergovernmental organization under public international law and the EC is delegated authority to conduct debt sustainability analyses, discuss MoUs with borrowers, and monitor implementation of programs.

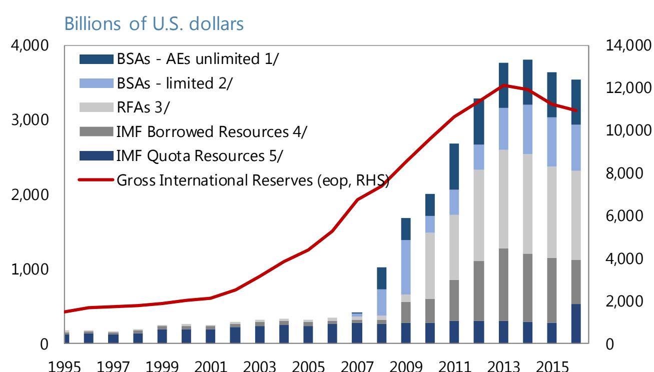
WHY IS IMF-RFA COLLABORATION IMPORTANT?

A. The Evolving Nature of the GFSN

8. The size of the GFSN has increased significantly since the GFC, with a notable expansion of its RFA component. Since the GFC, new RFA arrangements and facilities have been established and resources under the existing RFAs increased (IMF 2016a). For instance, new facilities introduced in Europe included: the European Financial Stabilization Mechanism (EFSM); the temporary European Financial Stability Facility (EFSF) and its successor, the permanent European Stability Mechanism (ESM), with a lending capacity of €500 billion for crisis prevention in the euro area. The CMIM was reformed in 2010 and its resources doubled to US$240 billion, effective from 2014. The BRICs established their own multilateral Contingent Reserve Arrangement (CRA), with total committed resources of US$100 billion. The Eurasian Fund for Stabilization and Development (EFSD) was established in 2009 with budgetary contributions of US$8.5 billion. And members' contributions to the Arab Monetary Fund (AMF) and the Latin American Reserve Fund (FLAR) almost doubled.

9. While increases in reserves, BSAs, and Fund resources have been sizeable, the rising share of RFA resources has been striking (Figure 1). The Fund, the second largest component (after own reserves) before the crisis, has increased its share marginally and fallen behind the RFAs (and BSAs). If the various GFSN components do not work well together, this decentralization of the GFSN—with available resources increasingly spread across global, regional and bilateral layers —may hamper its effectiveness. Specifically, it may lead to difficulties in tapping multiple resources as well as "facility shopping"—whereby inadequate incentives for sound policies may delay the necessary macroeconomic adjustment (IMF 2016a).

Figure 1. Evolution of the Global Financial Safety Net, 1995–2016



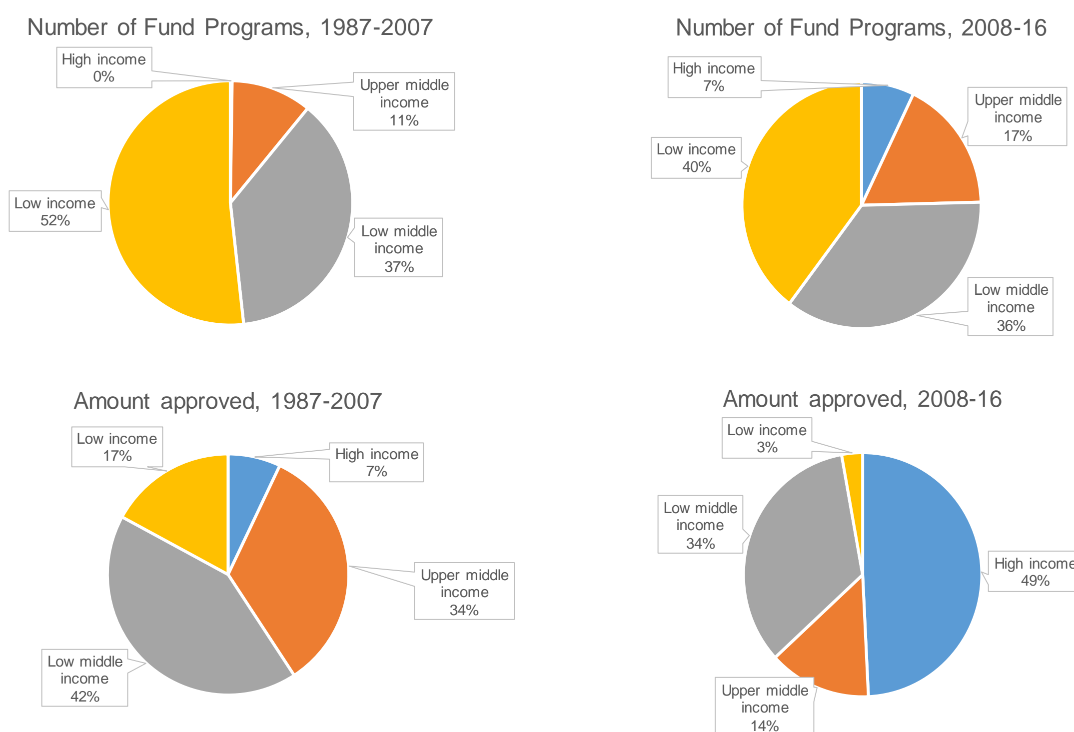
Sources: Bank of England; central bank websites; RFA annual reports; and IMF staff estimates.
1/ Estimated based on known past usage or, if undrawn, on average past maximum drawings of remaining central bank members in the network. Two-way arrangements are only counted once.
2/ Includes all arrangements with an explicit value limit and excludes CMIM arrangements, which are included under RFAs. Two-way arrangements are only counted once.
3/ Based on explicit lending capacity/limit where available, committed resources, or estimated lending capacity based on country access limits and paid-in capital.
4/ After prudential balances.
5/ For countries in the Financial Transaction Plan (FTP) after deducting prudential balance.

10. Furthermore, the nature of Fund and RFA support—and the interaction of the two—has evolved since the global crisis. For several decades before the GFC, the Fund's borrowers were predominantly EMDEs (Figure 2). In that context, the Fund's main financing counterparts were MDBs and bilateral donors. This made the division of labor—in terms of the responsibility for program design and monitoring—relatively straightforward. MDBs provided support for countries' development agendas, while the Fund supported macroeconomic adjustment with short-term BoP financing. Since the GFC, however, the

members requesting Fund-supported programs—and the regional partners with which the Fund works—have broadened to include upper middle-income and high-income countries and the RFAs covering them. This suggests the need to reassess how the Fund interacts with its members and RFAs to ensure that its engagement remains effective and incorporates the new experience.

11. Nonetheless, the Fund remains the cornerstone of the GFSN, and its experience in dealing with crises continues to frame the approach taken across the GFSN. Enshrined in current policies, the Fund's approach to lending is based on the premise that Fund financing should only be provided in situations where the financing-policy adjustment package can plausibly lead to the resolution of a country's BoP problems within the medium term. Moreover, the Fund's "Upper Credit Tranche conditionality" (UCT) standard for a successful program—one that helps the member implement policies that resolve its BoP needs and ensure capacity to repay—is the same regardless of the Fund's share in the financing provided to the country. To leverage the Fund's policy framework and limit moral hazard, some RFAs (CMIM, BRICS CRA) have introduced an explicit link between high access to RFA resources and a Fund-supported program.

Figure 2. Fund-supported Program by Income Levels [1/]



Sources: Fund staff calculations.

[1/] Includes GRA and PRGT.

B. The Hurdles and Dividends from IMF-RFA Collaboration

12. The literature points to several hurdles to effective IMF-RFA cooperation.[7] First, there may be stigma associated with Fund-supported programs based on perceptions of overly rigorous program conditionality (Kawai, 2009). In fact, some RFAs were created as an alternative to Fund lending (Volz, 2012). Nonetheless, the reforms to the Fund's conditionality framework and its lending toolkit since the GFC have ameliorated stigma (IMF 2016a). Second, RFAs may be concerned about a potential loss of independence in joint lending operations (Henning, 2011). Third, there may be an inherent tension stemming from the difficulty for an RFA to demand strong adjustment from its members (because of its closeness to borrowers), while having a strong interest in influencing conditionality terms (Eichengreen, 2012). Moreover, there may be concerns that closer collaboration with the RFAs may undermine the Fund's program conditionality and monitoring, and ultimately, its credibility. (For example, Ghate et al., 2008).

13. Nevertheless, the dividends from stronger Fund-RFA collaboration could be substantial for both RFAs and the Fund. Specifically, both the existing literature and model simulations point to several mutually-reinforcing benefits of collaboration, including by reducing stigma and encouraging countries to seek assistance early:

- First, countries may be more willing to approach RFAs at an earlier stage than the Fund (because of lower stigma—e.g., Henning 2011 and Kawai 2009). In turn, early engagement with both would help countries better withstand liquidity shocks and prevent these from turning into solvency problems. Moreover, avoiding delays in adjustment (no facility shopping) would contain the size of the problem.

- Second, collaboration can mitigate contagion. The results from a highly stylized contagion model (Box 1) suggest that when both the Fund and the RFAs are involved, the number of countries affected by contagion is reduced—relative to scenarios in which they act independently or when Fund assistance is delayed, possibly due to stigma.[8]

[7] Extensive literature review is provided in Annex I.

[8] While the quantitative results depend on the size of the calibrated shocks and parameters, the qualitative results—the delay of the Fund engagement would matter; and better collaboration could do a better job to contain contagion—are quite robust.

Box 1. International Contagion and the International Financial Safety Net

This box analyzes the benefits of collaboration between the Fund and RFAs, based on a highly stylized contagion model that allows an initial shock to propagate to the global economy (see Chapter III in the Background Paper for details). The results show that: (i) delayed initiation of a Fund-supported program create substantial costs (and increased contagion); (ii) early engagement of RFAs helps reduce contagion; and (iii) combining RFAs with Fund involvement increases the power to contain contagion relative to the cases (i) and (ii), where financing from RFAs and the Fund is disbursed in an isolated way (without coordination).

Model

- **The model incorporates trade and financial channels to examine how a negative shock can lead to contagion, depending on different configurations of the GFSN**. For example, if a country facing a shock stops paying interest on external liabilities, this will weigh on the reserves of its creditors. If the non-payment of interest by the initial shock leads to a depletion of reserves, the creditor country experiences payment difficulties as well, which would increase the BoP receipts shortfall for the remaining countries. Elements of the GFSN can supplement the reserve position of the affected countries and thus limit contagion.
- **In this exercise, "stigma" is equated with the member that suffers the shock delaying its engagement with the Fund.** It is assumed that there are no delays in countries approaching their RFA for support.

Results

This highly stylized model is calibrated using a sample of 62 advanced and emerging economies to illustrate the impact of large external shocks. (China is not included due to the lack of external balance sheet data.) For each shock, the size of contagion is measured by the number of countries ultimately affected.

Simulation results reported below show the number of countries affected by globally or regionally systemic shocks depending on the structure of the safety net:

- In the case of a globally systemic shock, even immediate support by the Fund, interpreted as "no stigma," would affect 9 countries. The number of countries increases with the delay in support (i.e., stronger stigma).
- RFA support without Fund involvement, even if reacting immediately, is unable to deter contagion effectively. If acting in isolation, RFA effectiveness is comparable to a belated response by the Fund ("Fund with 2-quarter lag").
- Joint financial support from RFAs and the Fund could reduce contagion significantly, compared with either the Fund or the RFA working in isolation.

Effectiveness of the GFSN

Number of countries affected by the initial shock

Systemic shocks	Fund with no lag	Fund with 2 quarter lag	RFA only	Fund (no lag) + RFA	Fund (2 quarter lag) + RFA
Global	9	19	13	5	12
Regional	0	5	7	0	2

Source: Fund staff calculations.

- Third, the comparative advantage of both sides can be utilized. The Fund provides universal risk pooling and lower susceptibility to political factors, given its broader membership and greater distance from the borrowing country (Henning, 2011; Eichengreen, 2012; and Hodson, 2014). The RFAs bring in region-specific knowledge and experience, as well as possibly greater country ownership.[9, 10]

EXPERIENCE WITH IMF-RFA COLLABORATION

14. The recent history of IMF-RFA collaboration can provide useful lessons for the future. After documenting all Fund-RFA co-financing cases since 2000, this section presents the takeaways from case studies and a test run.[11]

A. Past Cases of RFA Financing

15. The use of RFA financing has been relatively limited so far. Since 2000, there have been 28 cases of RFA financing in Europe, the Middle East, and Latin America. Moreover, only 11 cases have been jointly financed with the Fund, almost all in Europe (Figure 3). In 2016, the Fund was invited to participate in a CMIM test run. Given the large financing needs in Europe, RFAs accounted for most of the program financing.[12]

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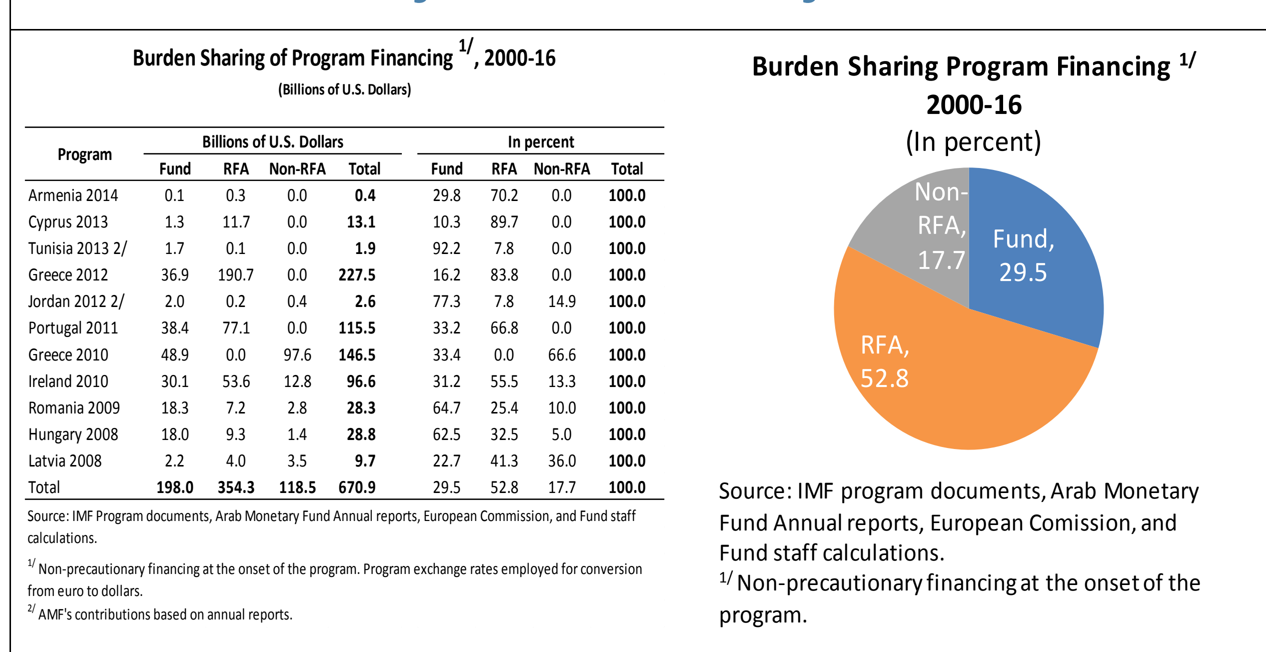
[10] A series of Fund studies reported that the joint use of the RFA and Fund allowed the RFA's greater regional knowledge to be leveraged, enhancing ownership of the programs; and expanding the financing envelope (IMF 2011; 2013a; and 2015b).

[11] Details of the case studies are presented in Chapter II of the Background Paper. Cases that involved ongoing programs or potential program discussions (Greece) are not included. The selected cases cover the main issues seen in other countries. For instance, the EPEs of the Greece and Portugal programs, and the recent IEO evaluation (IMF 2016b) did not raise additional issues.

[12] The share is close to 58 percent if the Greece 2010 program is considered as co-financing between the Fund and an RFA. In this episode, euro area member states provided financing through bilateral loans. This was governed by a single loan agreement between Greece and the euro-area countries and signed by the European Commission on their behalf in May 2010, just before the creation of the EFSF in June 2010 (European Commission, 2010)

Figure 3. Fund-RFA Co-financing Cases



Burden Sharing of Program Financing 1/, 2000-16

(Billions of U.S. Dollars)

Program	Billions of U.S. Dollars				In percent			
	Fund	RFA	Non-RFA	Total	Fund	RFA	Non-RFA	Total
Armenia 2014	0.1	0.3	0.0	**0.4**	29.8	70.2	0.0	**100.0**
Cyprus 2013	1.3	11.7	0.0	**13.1**	10.3	89.7	0.0	**100.0**
Tunisia 2013 2/	1.7	0.1	0.0	**1.9**	92.2	7.8	0.0	**100.0**
Greece 2012	36.9	190.7	0.0	**227.5**	16.2	83.8	0.0	**100.0**
Jordan 2012 2/	2.0	0.2	0.4	**2.6**	77.3	7.8	14.9	**100.0**
Portugal 2011	38.4	77.1	0.0	**115.5**	33.2	66.8	0.0	**100.0**
Greece 2010	48.9	0.0	97.6	**146.5**	33.4	0.0	66.6	**100.0**
Ireland 2010	30.1	53.6	12.8	**96.6**	31.2	55.5	13.3	**100.0**
Romania 2009	18.3	7.2	2.8	**28.3**	64.7	25.4	10.0	**100.0**
Hungary 2008	18.0	9.3	1.4	**28.8**	62.5	32.5	5.0	**100.0**
Latvia 2008	2.2	4.0	3.5	**9.7**	22.7	41.3	36.0	**100.0**
Total	**198.0**	**354.3**	**118.5**	**670.9**	29.5	52.8	17.7	**100.0**

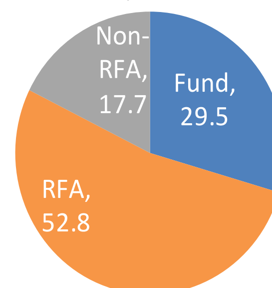
Source: IMF Program documents, Arab Monetary Fund Annual reports, European Commission, and Fund staff calculations.

1/ Non-precautionary financing at the onset of the program. Program exchange rates employed for conversion from euro to dollars.

2/ AMF's contributions based on annual reports.

Burden Sharing Program Financing 1/ 2000-16

(In percent)



Source: IMF program documents, Arab Monetary Fund Annual reports, European Comission, and Fund staff calculations.

1/ Non-precautionary financing at the onset of the program.

16. The limited use of RFA co-financing outside Europe may reflect several factors. In addition to the hurdles to effective cooperation highlighted in ¶12, emerging market countries have become more resilient, thanks to improved policy frameworks and larger external buffers (IMF 2012). Moreover, countries have relied more on other components of the GFSN, including their own reserves and, to some extent, BSAs.

B. Lessons from Past IMF-RFA Collaboration

17. A careful examination of past episodes reveals universal lessons for IMF-RFA collaboration. These lessons are distilled from five case studies in Europe (Latvia, 2008 SBA; Hungary, 2008 SBA; Cyprus, 2013 EFF; Ireland, 2010 EFF; Romania 2009, 2011, 2013 SBAs), the co-financing experience between the Fund and RFAs in the MENA and the Former Soviet Union regions, as well as the experience gained through the Fund's participation in a CMIM test run (Box 2).

Lesson 1: *Importance of program ownership*. In the case of *Ireland*, strong ownership by the authorities in the form of their own National Recovery Program served as an anchor around which the Fund-EU collaboration was made easier.[13] The unwavering commitment of the *Latvian* authorities to euro adoption—and hence the exchange rate peg, with its large implied adjustment—also helped collaboration. In the case of *Cyprus*, the full ownership by the authorities of the structural agenda facilitated program implementation.

[13] In this light, the Fund-EU program can be seen as providing the adequate financing to underpin the effectiveness of fiscal reforms and allow for a more tolerable fiscal adjustment.

Lesson 2: *Need for early and evolving engagement.* Early engagement with RFAs fostered program success (*Ireland, Hungary*) (IMF 2015a). While each institution can be engaged independently with their member states, a close cooperation during the phase when risks emerge allows for a faster (and more efficient) policy design during the program stage. The nature of this engagement may evolve as an RFA gains experience with adjustment programs, as was seen with European institutions during the post GFC programs.

Lesson 3: *Need to respect independence and recognize differences in lending practices and governance structures*. While its mandate is to lend with the objective of resolving a member's BoP needs, the Fund can only lend if the prospects are sufficiently strong that, by the end of the program, debt will be sustainable and, where relevant, market access will be regained. These considerations are generally aligned with RFA lending principles, though differences can emerge. For instance, in some European programs (e.g., *Latvia*, *Ireland* and *Cyprus*), different views over program strategy emerged because of differential emphasis on potential spillovers within the euro area. Recognizing differences in objectives and lending practices upfront is likely to facilitate agreement over a program strategy with the authorities and hence co-financing.

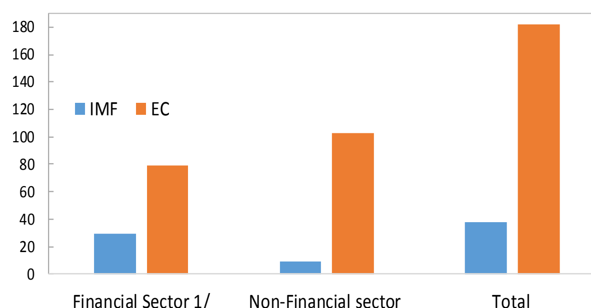
Lesson 4: *Need to foster complementarity along the comparative advantage of each institution, whenever possible.* A clear division of tasks increased the operational efficiency of co-financed programs (*Hungary, Romania*), while maintaining independence of both the Fund and the RFA in compliance with their policies and governance structures. The case of *Hungary* saw the Fund and the EU employing an implicit "lead agency" model (Box 3), where the Fund led the emergency response and fast program design for *Hungary*. The other co-financing cases outside of Europe (*Armenia*, *Jordan* and *Tunisia*) also saw the RFA relying on the macroeconomic framework and associated program conditionality designed by the Fund. A similar situation occurred with the use of the EU's Macro-Financial Assistance (MFA) facility with non-EU programs (e.g., *Ukraine, Moldova, Tunisia, and Jordan*. For details, see Annex II).

Lesson 5: *Need for coherent program design*. Past episodes point to several important elements:

- *Avoiding excessive conditionality.* Parsimonious and focused conditionality for the program as a whole increases the probability of its success. This requires a carefully thought-out understanding between the Fund and the RFA over what is critical for program success. In the case of *Cyprus*, given a large overlap of competencies and no formal demarcation of responsibilities, a significant structural conditionality load was placed on the authorities. The gap reveals a difference in views about what was critical for the program to

Cyprus: Structural Conditionality

Number of SB (IMF) and MoU conditions (EC)



Source: Staff reports, MEFP, MoU

1/ Includes private sector debt restructing legal framework

achieve—minimizing such differences should reduce the burden on the authorities and raise the prospect of program success. By contrast, conditionality in *Ireland* program was better aligned.

- *Avoiding a lack of coordination.* Uncoordinated program reviews and poorly unified analytical frameworks can result in conflicting messages and erosion of credibility. In the case of *Latvia*, different views on the pace of fiscal consolidation remained unresolved at the time of the first review. As a result, the EU disbursed ahead of the Fund on the commitment of tighter fiscal measures. The Fund eventually completed the review but with a different (more gradual) fiscal conditionality. This created uncertainty for the program. In the case of *Belarus*, the eventual decision by the EFSD to disburse while the Fund was still negotiating may have delayed necessary adjustment.

- *Anchoring inter-institutional discussions around a conditionality document.* Discussions can be expedited through the Fund taking the initial draft of the core goals, policies, and explicit actions underpinning the arrangement supporting the member's program—this process was successfully adopted in the cases of the MFA (Annex II).

Lesson 6: *Need to resolve differences rapidly to avoid undue delays, though not at any cost*. Substantial disagreements between the Fund and an RFA can arise due to differences in underlying objectives and mandates. In some cases, these conflicts—*Ireland* (against the bail-in of senior unsecured bondholders favored by Fund staff) and *Latvia* (in favor of maintaining the exchange rate peg)—were settled relatively quickly. In other cases, they were not. In the case of *Cyprus*, the inability to reach an agreement between the Fund and the EC/ECB/ESM over program strategy—augmented by the authorities' opposition to some proposed aspects of program conditionality and impending elections—caused a nearly year-long delay in reaching a staff-level agreement (IMF 2014). In the meantime, the crisis intensified and the recession deepened, resulting in a larger bail-in of remaining depositors than would have been necessary if agreement on the ultimate strategy had been reached earlier. While the difference in views was resolved quickly in the case of *Ireland*, the costs of the resulting strategy came in the form of a greater risk to debt sustainability and damage to public support for the program (IMF 2015a).

Lesson 7: *Need for effective, consistent, and coordinated public communication*. Such communication with the public can reduce program uncertainty, which is particularly important in the context of financial market turmoil. In the case of *Hungary*, much of the collaboration was achieved on the ground, including through an alignment of press releases. In the case of *Cyprus*, while the Fund took the lead in public communications after program approval, a more coordinated communication strategy with the public could have made collaboration smoother. In the case of *Latvia*, disagreements during the first review also had a negative effect on the program partners' communication with the public.

Box 2. Deriving Lessons from Crisis Drills: Fund's Participation in a CMIM Test-run

The Fund's role in CMIM lending operations and a test-run of co-financing. Facilities under the CMIM include a crisis prevention facility (Precautionary Line) and a crisis resolution facility (Stability Facility). Under both facilities, tapping more than 30 percent of the maximum drawable amount by any member (the so-called IMF-linked portion) is permissible only if a Fund-supported program exists or is expected to be approved in the very near future. A first test-run on the IMF-linked portion of the CMIM Stability Facility was conducted in 2016, with a view to test the effectiveness and operational readiness of the CMIM in the event of co-financing. The test-run was based on a hypothetical setting where a member country experienced a shock that is sufficiently large to require financing from both the Fund and CMIM. In this scenario, the member would be facing both financing and policy adjustment needs.

The test-run highlighted a set of issues regarding policies and procedures that need to be addressed to ensure the smooth operation of co-financing.

Compatibility between financing terms and Fund's financing assurances policy. These include differences between the Fund and CMIM with respect to length of an arrangement, phasing, and repayment periods. Specifically, shorter repayment periods and program length for CMIM instruments would pose some challenges for the Fund's financing assurances.

Establishing a framework for coordinating program design, monitoring, and information sharing. This implies the need to establish a mechanism via which the Fund and CMIM come to a shared view of the policy adjustment path, financing needs, and the associating conditionality. Synchronization of program reviews would also be essential to avoid sending mixed signals and to ensure consistency with the Fund's financing assurances. The modalities of information sharing would by implication be tuned to this coordination mechanism.

Box 3. Lead Agency Model of Collaboration

The "lead agency" concept aims to build on the institutional strengths and comparative advantage of both institutions to achieve an effective division of labor in designing and monitoring conditionality.[1] While each institution is fully responsible for the establishment and monitoring of their respective conditions, for policies that are not within the "core areas of responsibility" and hence, expertise of a particular institution, the one will seek advice on the design and monitoring of these conditions from the other. This would provide clarity to the member on primary responsibilities of each institution and improve the quality of the policies underpinning the program. With each institution maintaining the overall responsibility for monitoring its conditionality, it would safeguard the resources of both parties.

The application of the "lead agency" framework should be flexible enough to accommodate areas of overlap as well as ensure overall coherence of the reform agenda. While in some areas, the comparative advantage and depth of expertise lie with one institution, in many instances areas of responsibility and expertise can overlap. In addition, while one institution might have the lead in designing and monitoring a particular reform, externalities to other areas might endanger the overall program coherence. Therefore, the concept of the lead agency should be flexible to accommodate overlap and at all points ensure that overall conditionality imposed by all institutions preserves coherence.

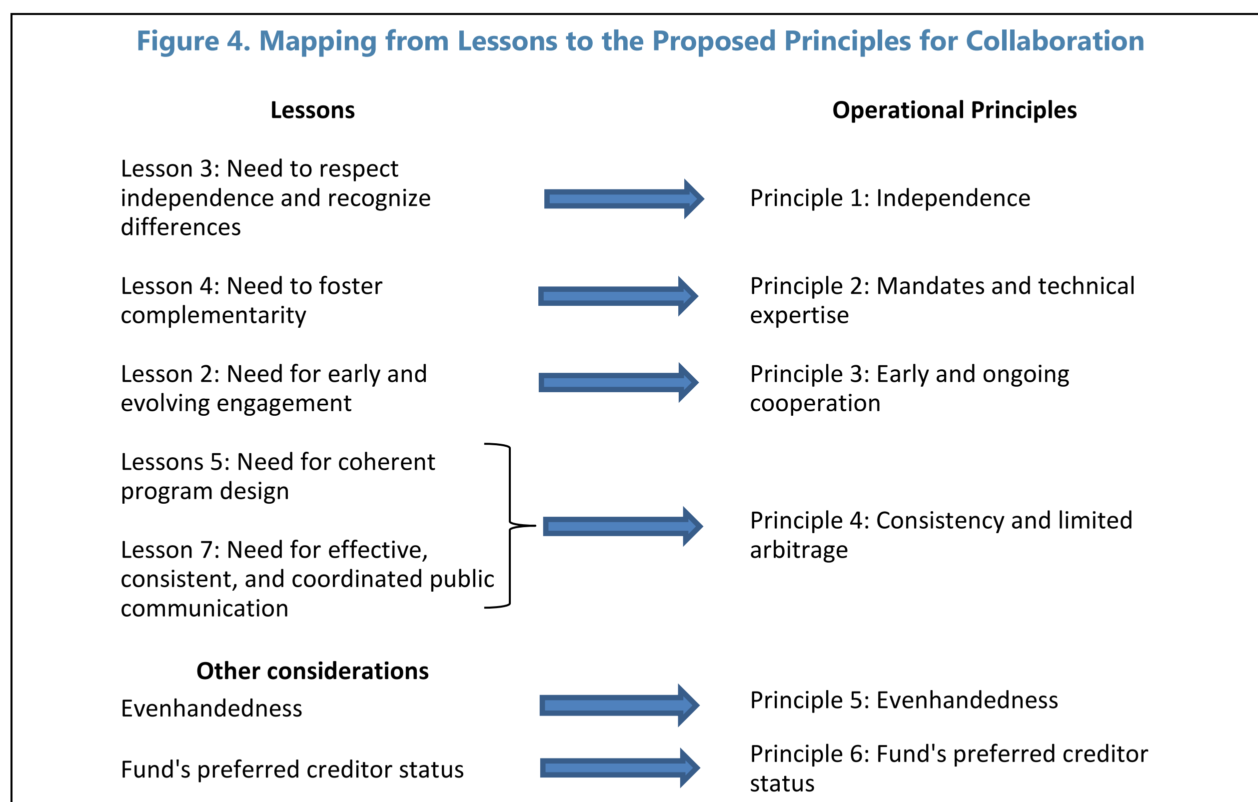
1/ "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality," 2001.

STRENGTHENING IMF-RFA COLLABORATION: FROM LESSONS TO PRINCIPLES

18. Drawing on the lessons discussed in Section III, the paper proposes six operational principles to guide future IMF-RFA collaboration.[14] In addition to the takeaways from the case studies and the test-run with the CMIM, these principles also incorporate two other considerations related to evenhandedness and the Fund's preferred creditor status (see below). The mapping is illustrated by Figure 4.

Principle 1*: Independence*. The modalities of engagement should respect the independence of the Fund and the RFA. Decisions by the Fund and the RFA must comply with their own policies and governance structures.

Figure 4. Mapping from Lessons to the Proposed Principles for Collaboration



[14] Lesson 1, which is related to the role of program ownership by the authorities in facilitating IMF-RFA collaboration, is not included as a principle since this is not directly related to the interaction between the Fund and the RFA.

Principle 2*: Mandates and technical expertise*. The roles played by each institution in any particular form of engagement (e.g., surveillance, lending) should reflect their respective mandates and purpose (e.g., in a Use of Fund Resources context, the Fund's focus is on resolving short- to medium-term BoP needs), technical expertise, comparative advantage, legal and governance structures, and constraints imposed by any regional legal frameworks (e.g., treaty obligations in the EU).

Principle 3*: Early and ongoing cooperation*. The Fund and RFAs should strive to collaborate on an ongoing basis—to strengthen the capacity for crisis prevention—and work together efficiently and quickly when a financing need arises.

Principle 4: *Consistency and limited arbitrage*. Collaboration in lending for the Fund requires consistency—in the sense of a single program, belonging to the member country, which may be supported by multiple creditors. To reduce incentives for facility shopping, the modalities and policies relating to program conditionality and monitoring should be transparent and predictable, and explicit links to Fund support should be considered for high levels of RFA financing. Finally, public communications by the Fund and the RFA should be coordinated and consistent.

Principle 5*: Evenhandedness*. The Fund's engagement with RFAs should be evenhanded across RFAs and between RFA members and other Fund members. This principle of evenhandedness would in practice apply by "activity" and hence (since the scope of activities differs across RFAs) it does not necessarily imply identical treatment for each RFA (¶¶ 20 and 21).

Principle 6*: Fund's preferred creditor status*. Preferred creditor status reflects an international consensus (originating in the Paris Club) that the Fund is excluded from debt restructuring processes. This must be maintained, as it is derived from the IMF's unique role within the GFSN. Moreover, even if the Fund is invited to contribute to a program, the Fund's participation is ultimately an issue for the Fund to decide.

19. The above operational principles, which were founded on the lessons from past co-financing, should be applicable to all RFAs. They are also consistent with the existing high-level G20 principles but apply to all RFA members. While the proposed operational principles can be easily mapped to the existing G20 principles (see Annex III for a mapping), they have been developed based on the Fund's own experience and are applicable to all RFA members, regardless of whether these countries are G20 members.[15]

[15] The G20 Principles are not universal, as they were not discussed with all RFA. FLAR, for example, has no members in the G20 and was never able to comment or provide input to the G20 principles for Fund and RFA cooperation.

PROPOSALS FOR STRONGER COLLABORATION: FROM PRINCIPLES TO MODALITIES

20. This section proposes operational modalities for collaboration across different types of RFA activity that take into consideration of the principles discussed in Section IV as well as the current RFA landscape (see below). Taking a differentiated approach to each area of IMF-RFA engagement—such as capacity building, surveillance, lending—will facilitate collaboration with each RFA in a way that respects its own circumstances. Such an approach will also help ensure that different RFAs are treated comparably in similar circumstances.

A. The Current RFA Landscape: An Analytical Classification

21. The diversity of RFAs suggests the need for an analytical classification that distills their activities and characteristics, upon which to organize operational modalities. Specifically, RFAs differ substantially in size, mandate, and maturity; capacity for surveillance, program design and monitoring; and financing terms. Their operations can be classified along several dimensions (Figure 5):

- ***Lending size (capacity)***. Larger RFAs have, in general, more fire power to contain contagion. Also, lending capacity could affect the financial burden-sharing between the RFA and the Fund.
- ***Surveillance***. Regular and transparent surveillance—along the lines of that conducted by the Fund in Article IVs —is critical to sound policies, crisis prevention, and a rapid crisis response.
- ***Shocks/adjustments (objectives/mandate of RFAs)***. Given that several instruments across RFAs focus only on temporary liquidity needs, it is relevant to distinguish RFA instruments based on whether the financing is to facilitate macroeconomic adjustment or to complement existing buffers only.
- ***Conditionality/program monitoring***. This is critical to safeguard resources in the event of co-financing. Conditionality is further divided into: *ex-ante conditionality*, based on qualification criteria, as in the Fund's FCL and PLL; and *ex-post conditionality/program monitoring,* as in arrangements with more traditional GRA instruments (SBA and EFF).[16]
- ***Maturity of programs and financial transactions***. Differences in program length and repayment period may impact program design and thus could potentially affect how financial resources are safeguarded and financing assurances obtained. For example, if the maturity of RFA financing is shorter than that of Fund financing, there is a potential issue with financing assurances required under Fund policies.

[16] The PLL also has some ex-post conditionality, but the design of the instrument envisages focused conditionality (http://www.imf.org/external/np/exr/facts/pll.htm).

Figure 5. Summary of Fund and RFA Instruments

Size 1/ (% of IMF quota): Less than 145 percent; More than 145 percent
Surveillance (Article IV type): Regular surveillance; No regular surveillance
Shocks: Liquidity; Need adjustment
Conditionality/ Monitoring: Ex-post conditionality; Ex-ante conditionality; No conditionality
Maturity 2/ (Program, Repayments): Aligned with Fund program period; Concerns on financing assurances to IMF

RFA	Instruments	IMF Linked?
IMF	FCL/PLL	
	SBA	
	EFF	
AMF	Automatic	No
	Ordinary	No
	Extended	No
BRICS	Precautionary	No
		Yes
	Liquidity	No
		Yes
CMIM	Precautionary line	No
		Yes
	Stability facility	No
		Yes
ESM	Precautionary	Presumed
	Loans	Presumed
EU	Precautionary	No
	BoP	No
EFSD	Financial credits	
FLAR	Liquidity	No
	BoP	No

ESM Maturity (Program): 3/ (Precautionary), 3/ (Loans)

Sources: Websites of each RFA.
1/ Median.
2/ Without taking additional decisions.
3/ In practice, their programs have the same maturity as the Fund.

B. Types of RFA Activities and Collaboration Modalities

22. The above analytical classification illustrates the main types of RFA activity. These include: capacity development; surveillance; precautionary instruments (with ex-ante conditionality); non-financial support; and adjustment lending (with ex-post conditionality).

23. The answers to several questions can help map each RFA activity into a spectrum of modalities for collaboration:

- ***Is a tailored approach needed for the specific RFA interaction?*** For instance, designing program conditionality requires far more granular and tailored analysis and discussion than communicating high-level surveillance findings.

- ***Is there a need for flexibility?*** For some activities, modalities may need to change quickly and respond appropriately to rapidly evolving external and political circumstances. This is particularly important for discussions on program lending.

- ***What is the RFA capacity to design and monitor a program?*** This will affect the nature of engagement between the Fund and RFAs (in line with the principles).

- ***Is there scope for complementarity or division of labor?*** Greater complementarity (less overlap) likely fosters easier collaboration, as each institution can focus on areas within their own expertise.

24. The resulting spectrum of modalities can range from collaboration based on general operational principles to that based on formal written understandings. This is illustrated in the flow chart below (Figure 6).

- For activities such as capacity development, surveillance, and precautionary arrangements, the collaboration could be based on ***formal and written agreements*** to enhance transparency and predictability of the operations, while respecting independence.[17]

- For operations that require ex-post conditionality (such as SBAs and EFFs with the Fund), and where the cooperating RFAs either lacks sufficient capacity to design and monitor a member's program or has such capacity but is open to a complementarity/division of labor, the collaboration can be based around a ***"lead agency" model.*** For example, in this model the Fund would take the lead on the macroeconomic framework and core macroeconomic policies (and associated conditionality), while the RFA focuses on areas within its comparative advantage. The working relationship could resemble Bank-Fund co-lending. Even in such a setup, each institution would take an independent view on their own lending decisions.

- Where an RFA has sufficient capacity to design and monitor a program, and is unable or unwilling to pursue a complementarity/division of labor with the Fund, the collaboration could be based on a ***"coherent program design and independence" model***. This model should be subject to the six operational principles established previously, as well as compliance with the governance structures and policies of the respective institution (see ¶¶ 30 and 31 below).

C. Proposed Operational Modalities Across Types of Activities

25. The remainder of this section outlines the proposed modalities across various RFA activities. The specific modalities are indicated in *italics*. The relevant principles underpinning the proposed treatment are indicated in ***bolded italics***.

[17] However, it is possible that the contents of formal written understandings/MoUs vary across RFAs.

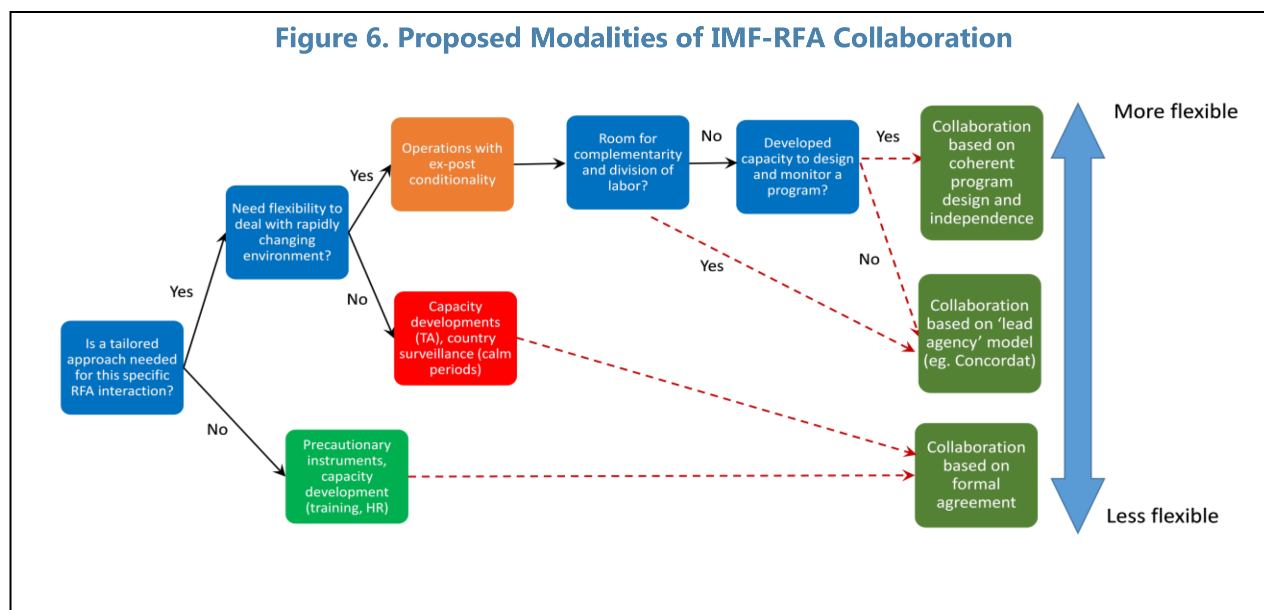


Figure 6. Proposed Modalities of IMF-RFA Collaboration

Capacity development

26. The Fund and RFAs can strengthen collaboration in capacity development. Specific modalities include: *regular participation of RFA staff in training courses held online, at IMF headquarters, as well as at regional TA centers;*[18] *possible temporary staff exchanges*; and *regular joint seminars.*

Surveillance

27. Surveillance is critical for both preventing and resolving crises. Greater IMF-RFA collaboration in surveillance needs to balance its benefits (through the exchange of views, knowledge and analysis on regional countries) with the necessary ***independence*** of the surveillance messages of the separate institutions. Collaboration in surveillance could be strengthened through sharing of information on countries in the region: *participation of RFA staff in selected Fund Article IV mission meetings (in cases where capacity development of the RFA is needed), conditional on the consent of the member and Fund mission chief*; and a *regular exchange of views on common members* (e.g., through regular discussion, during the Spring/Annual meetings or around Article IV missions). Benefits to collaboration are likely to be greatest during surveillance missions, on countries with high vulnerabilities, and around the time of the publication of the staff report (see Annex IV).

Precautionary arrangements (ex-ante conditionality, co-financing)

28. This type of arrangements—such as the Fund's FCL and PLL—is based on pre-announced qualification criteria that apply to all members and are in the public domain. Collaboration in the use of such instruments could be facilitated by *RFAs adopting the qualification standards and*

[18] Executive Board approval is required for TA to international organizations, per Rule N-16(d). The Board has adopted a list of such organizations with standing authorization to receive training (but not TA generally). RFAs could be proposed for addition to the standing list; otherwise, TA to RFAs could be approved by the Board on a lapse-of-time (LOT) basis.

requirements that mirror those of Fund instruments. The Fund's years of experience with the FCL and PLL (previously PCL) in different regions (***expertise***) ensures these criteria are well understood and can be implemented. The criteria established for the instruments of this type adopted by the ESM and CMIM already mirror those used by the Fund. However, under the ***independence*** principle, RFAs and the Fund could come to separate views on whether a given country meets the given qualification standard. ***Early and ongoing cooperation*** through the sharing of (publicly available) data for the qualification assessment—as well as ongoing collaboration on surveillance—could facilitate the technical part of the assessment process. This could foster better understanding regarding any differences over technical matters, and may help resolve them.

Non-financial support

29. There is a case for the Fund to engage with RFAs on their lending for sector-specific programs or where the Fund's technical capacity is more important than its resources (*expertise*). *This could be supported by technical assistance (TA) from the Fund or the creation of a new policy monitoring and cooperation instrument*, such as the proposed Policy Coordination Instrument (PCI) (IMF 2017b). Such forms of cooperation could be established in a standing agreement between the Fund and the RFA to facilitate quick collaboration when such needs arise (***early cooperation***), while maintaining ***consistency*** and ***evenhandedness*** across RFAs. Programs supported by non-financial instruments would need to meet the Fund's UCT conditionality standard. An example of where the Fund contributed its expertise rather than financial resources was in support of Spain's 2012 Financial Sector Program.[19]

Lending arrangements (ex-post conditionality, co-financing)

30. When adjustment is necessary, several issues complicate collaboration in coordinated lending and program engagement.[20] While successful collaboration in this context requires there be only one program belonging to the member supported by a single macroeconomic framework (***consistency***), this is not straightforward to accomplish. The Fund, the RFA, and the authorities must all "own" the same macroeconomic framework and policy adjustment package, with each financing partner establishing consistent conditionality and monitoring (***independence***).[21]

[19] For further information see *Terms of Reference for Fund Staff Monitoring in the Context of European Financial Assistance for Bank Recapitalization*. The reports are available on the Spanish country page on the Fund website (http://www.imf.org/external/country/ESP/index.htm).

[20] This includes precautionary SBA.

[21] From the Fund's point of view, the standard for a successful program—one that helps the member resolve its BoP needs and ensures capacity to repay (the UCT conditionality standard)—is the same regardless of the Fund's relative share in the financing provided to the country.

31. Modalities for designing and monitoring programs with ex-post conditionality should critically depend on the mandates and capacity of the RFA. Specifically, the roles of the Fund and the RFA in program design and monitoring (establishing the macroeconomic framework, BoP need, phasing, policy adjustment, and conditionality) need to reflect the respective mandates and policies of the Fund and the RFA, as well as the analytical capacity of the RFA *(**mandates and expertise**)*.

- For RFAs without sufficient capacity for program design and monitoring, engagement will be mainly through information-sharing to ensure timely agreement on the financing need and sustainability of the policy adjustment package. In this context, the Fund would likely play a leading role in establishing the macroeconomic framework, conditionality and policies ("Lead agency" model). As noted in Section III, it is *desirable to delegate to the Fund the initial draft of the statement of core aspects—economic and financial policies—of the program*. This reflects the Fund's extensive global experience in program design (***expertise***) and need to ensure ***evenhandedness*** in programs across regions, and the membership more generally.

- For RFAs with developed capacity and experience with the design and monitoring of programs supported by a consistent macroeconomic framework and policies, more flexibility will be necessary. The Fund's policies require it to have ownership of the macroeconomic framework and the Debt Sustainability Analysis (***independence***). Nevertheless, engagement at an early stage of the design should facilitate smooth collaboration and help address differences *(**early cooperation**)*. Seeking a common view on key parameters and policies before the MEFP is discussed in the field (stages I and II in Annex IV) would be useful in this regard.

32. Discussions over burden-sharing should be case-by-case, based on general principles. The wide diversity across past cases (Section III-B) suggests that burden-sharing depends on: the available resources of the RFA as well as other financing sources that could be catalyzed by a Fund-supported program; the objectives of the program; and the quality of policies proposed in the program (especially important in the context of the Fund's exceptional access policy), given the size of financing gaps (***mandate* and *expertise*)**. These factors are very case-specific. Hence, it is difficult to use a one-size-fits-all approach and comply with policies of both the Fund and the RFA (***independence***). However, since the available financing envelope can have a bearing on the overall program design, the discussion on burden-sharing should start early (***early cooperation*)**.

REMAINING ISSUES

A. Addressing Differences

33. Resolving significant differences in views—while balancing the trade-off between rigid rules and flexibility—is critical to ensuring smooth IMF-RFA collaboration. This is most pertinent in the context of lending, especially the "coherent program design and independence" model discussed in Section V.

- ***Formulating rigid rules for resolving differences could be counterproductive***. In the past, differences of views emerged over: banking sector strategy (*Cyprus*); the pace of fiscal consolidation (*Ireland*, *Latvia*); the exchange rate setting (*Latvia*); the pace of private sector deleveraging (*Ireland*), debt re-profiling (*Cyprus*); and capital controls (*Cyprus*). In all these cases, a mutually acceptable solution consistent with a feasible program was found—quickly in most cases. As such, creating rigid rules or specifying a method for resolving differences—thereby undercutting the independence or professional judgement of the financing partners—is unlikely to result in a better solution and could be counterproductive.

- ***The guiding principle for reaching an agreement must be one that allows for a coherent program design while respecting independence and different lending practices***. Fundamental disputes have arisen when underlying objectives and lending practices are not well aligned, as discussed in Section III. The *de facto* resolution in several of these cases was that the parties continued discussing potential program options until the program framework, design, and policies could be made consistent with both of their lending policies.

- **The independence principle ensures the Fund and the RFA maintain their ability to act alone if needed**. In cases where agreement is not possible or delayed, the member retains the right (subject to its other international obligations) to move forward with one of the financing partners alone.

34. More generally, better collaboration in this area can be developed with practice and experience. The Fund has extensive experience collaborating with the World Bank, regional development banks, and bilateral donors. While there is the Bank-Fund Concordat (and the associated Joint Management Action Plan) between the World Bank and the Fund (Annex V), it would be difficult to use it as a starting point for a broad-based formal assignment of responsibilities and coordination agreement.[22] Moreover, roughly two decades were needed before any formal agreement on Bank-Fund coordination was reached. These findings suggest a critical mass of practical experience working together may be needed before well-reasoned recommendations can be made and implemented.

B. Transparency and Information-sharing

35. Transparency can also contribute to better collaboration and cooperation. Understanding the decision-making processes of the Fund and RFAs helps build public support, increases the credibility of policies, and contributes to building trust among the co-financing parties. The Fund has well-grounded transparency policies that ensure the disclosure of documents and information on a

[22] In addition to the concordat, there is a recent initiative by G20 on "the Principles for Effective Coordination between the IMF and MDBs in case of Countries requesting Financing while facing Macroeconomic Vulnerabilities" (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/G20-2016/g20-principles-for-effective-coordination-between-the-imf-mdbs.pdf?__blob=publicationFile&v=2)

(continued)

timely basis unless strong and specific reasons argue against such disclosure, while respecting the voluntary nature of publishing documents pertaining to member countries.[23] RFAs' transparency practices are heterogenous. While some RFAs publish the individual requests for financing or their assessment of implemented conditionality (e.g. EFSD, EC) promptly, others disclose limited information (e.g., FLAR, CMIM) on their members, or do so with a lag.

36. The ability to share information cuts across surveillance and coordinated lending by the Fund and the RFA. Two-way information-sharing is critical for collaboration in co-financing operations (including in relation to conditionality and financing assurances). Informational asymmetries—such as detailed or otherwise confidential statistical data available to the RFA counterparts but not to Fund staff—can complicate collaboration. An important principle would be that information is shared within each institution's information-sharing policy and with the consent of the corresponding member country.

37. The current Fund policy on information-sharing permits staff to share preliminary program information at the technical level with an RFA, subject to Management approval. which is considered a co-financier or creditor for program design purposes. When a member country shares confidential information with the Fund, it cannot be shared further without that member's consent. The RFA recipients of this information (which could include the secretariat or, depending on the governance structure, individual members of the RFA) need to provide confidentiality assurances. At present, there is no general provision for the routine sharing of country Board documents with RFAs prior to Board consideration under the Fund's existing policies (currently, country Board papers can generally only be transmitted after Board consideration with organizations meeting the established criteria under the Transmittal Policy). However, surveillance or program staff reports can be shared with RFAs shortly after they are submitted to the Board, subject to specific ad hoc approval by the Board and the consent of the members concerned.[24]

38. Before discussing the specific modalities of enhanced information-sharing for better collaboration, a few overarching issues arise:

- Changing the Transmittal Policy could enable the Fund to share country Board papers with established RFAs after they are submitted to the Board. This may allow the members of the RFA to coordinate their views through the RFA.
- To obtain two-way reciprocal information-sharing and confidentiality assurances, RFAs need to provide a commitment to transparent and reciprocal information-sharing as well as that they will treat as confidential any information from the Fund that is considered and classified confidential by the Fund.

[23] See http://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/35/Transparency-at-the-IMF .

[24] This could be done on an LOT basis when a paper is circulated to the Board, when deemed appropriate and in the interest of the Fund and the member.

- Any commitment of RFAs should be provided by the primary entity with which the Fund is actively coordinating. A secretariat sufficiently covering all other necessary organs of the RFA could give such a commitment, conditional on its ability to provide assurances on behalf of the RFA.

39. Information-sharing in surveillance. For regular surveillance (e.g., Article IV), it may be beneficial to allow RFAs with surveillance capacity to receive the staff reports for their members at the same time as the reports are circulated to the Fund's Executive Board. This would require a revision to the Fund's existing policy governing the transmittal of staff reports, but would allow the RFA to help coordinate regional views and assist its members coming to a position for the Board discussion.

40. Information-sharing in lending operations. As in the discussion on program design and monitoring in lending operations with ex-post conditionality, the timing and granularity of information-sharing depend on the existence of a Fund link as well as the practical and proven capabilities of RFAs in program design and monitoring, financing expertise, and institutional independence.

- For an RFA with sufficient capacity to design and monitor programs, Fund staff can—with management approval and the member's consent—share information with RFA counterparts on the macroeconomic framework (a set of tables and key policies) but not the policy note itself.
- For an RFA without such capacity, exchanging information on key program parameters and policies in the field would be sufficient, with the possibility of sharing more detailed information on an as-needed basis and with the member's consent.
- For precautionary instruments (with ex-ante conditionality), since all qualification criteria are available in the public domain, and qualification assessments should be decided independently by each institution, information-sharing could be similar to a regular program case.
- For cases where an RFA is lending without the Fund, the RFA could consult the Fund on aspects of the proposed loan and adjustment needs. Under existing policies, this could be accomplished through technical assistance requested by either: (i) the member borrowing from the RFA; or (ii) the RFA—provided it has its own legal personality—with the approval of the Board. An assessment letter may, in some circumstances, also provide a vehicle for the Fund to share its views.

C. Governance

41. A clearly defined legal identity and governance structure of the RFA—with transparent decision-making—will facilitate collaboration, particularly in the context of information-sharing (and confidentiality assurances). Since the ability of the Fund to share information with the RFA is contingent on the consent of the corresponding member country, appropriate governance structures and confidentiality arrangements would be necessary to provide sufficient comfort for the member

country to share confidential and potentially sensitive information. The legal entity should sufficiently cover all other necessary organs of the RFA and be able to provide assurances on behalf of the RFA. This could also help reduce potential conflicts of interest in joint financing operations at the Fund Executive Board, where Directors represent countries that are also RFA members.

D. Maturity and Financing Assurances

42. The use of Fund resources must always comply with its policies, lending modalities, and other policy requirements. The Fund's Financing Assurances Policy requires pre-commitment to future financing from all sources, including from RFAs. When the program period and maturity of RFA financing (without decisions of extensions) are longer than those of the Fund, there are no issues regarding financing assurances. However, when RFA lending instruments have an arrangement period shorter than the Fund's, and if the given RFA finds it difficult to pre-commit to future financing beyond its arrangement duration, this would create a tension with the Fund's financing assurances. For effective and smooth collaboration in this area, RFAs may need to change policies, for example, to raise the maximum number of rollovers of lending/swap lines and to provide pre-commitment of rollovers, conditional on the completion of program review.

NEXT STEPS

43. Holding test-runs for coordinated financing could strengthen collaboration. The collaboration of the Fund with other institutions, such as MDBs and bilateral donors, points to the importance of accumulating experience for better collaboration. Also, the recent participation of the Fund in a CMIM test-run was aimed at improving the operating procedures of CMIM and its coordination with the Fund. The exercise helped highlight coordination issues. Identifying such issues—and possibly, additional constraints—by holding test-runs with other RFAs (that have not had experience of co-financing or test-runs with the Fund) could be a useful step toward greater collaboration.

44. Continued dialogue between the Fund and the RFAs—both individually and collectively—and consistent communication are fundamental to secure successful collaboration. This hinges on achieving better understanding and support from different stakeholders, including political parties, media, civil society, and the public. Hence, communication should be incorporated into Fund-RFA operations to ensure timely, clear, and consistent messaging that leads to a better understanding of the role of the IMF-RFA collaboration. In turn, this would improve the traction and effectiveness of joint efforts. Establishing a forum for regular dialogue between the Fund and RFA institutions could also help identify and address newly emerging issues.

45. The proposed modalities outlined in Section V should have sufficient flexibility to handle newly developed RFA (and Fund) instruments. As the nature of vulnerabilities and risks evolve, RFAs may need to adjust instruments to cope with the new reality. The Fund's instruments may also need to be refined to enhance liquidity support and improve collaboration with the RFAs. This issue is addressed in other papers.[25]

ISSUES FOR DISCUSSION

46. Directors may wish to consider the following issues for discussion:

- Do Directors agree with the rationale for stronger collaboration (Section II), and the lessons derived from past IMF-RFA collaboration (Section III)?
- Do Directors support the proposed operational principles of IMF-RFA collaboration (Section IV)?
- Do Directors concur with the proposed (activity-based) operational modalities for collaboration (Section V)?
- Do Directors agree with the need to identify: (i) potential impediments to collaboration; and (ii) modalities for establishing a regular informal exchange of views on issues affecting their common members?
- Do Directors agree with the proposed next steps, specifically, any scope for the Fund to improve its operational preparedness and procedures for co-financing by exploring the possibility of holding joint test-runs with RFAs without extensive experience of co-financing (Section VII)?

[25] For example, IMF (2017b, c).

Annex I. Review of Literature on IMF-RFA Cooperation

1. Experience with IMF-RFA cooperation since the global financial crisis has led to an increased focus on the cost of coordination failures and the need for a coordination mechanism. There is consensus in the literature about the benefits of establishing an ex-ante IMF-RFA cooperation mechanism: to prevent facility shopping and institutional arbitrage; to allow for a larger pool of resources for crisis prevention and management; and to promote a stronger sense of ownership. The literature so far has mainly focused on the Fund-EU co-financing program experience and to what extent relatively successful cooperation is transferrable to other RFAs.

2. However, the literature also highlights that there are a lot of challenges for establishing a well-functioning coordination mechanism. Political stigma is definitely an issue to be overcome for effective cooperation (Kawai 2009). Also, the challenges, especially for joint-lending operations, arise from the need to sacrifice some autonomy by the involved institutions (Henning 2011) although many RFAs came into existence and were expanded to provide an alternative to Fund lending (Volz 2012). An inherent tension in RFA financing (Eichengreen 2012) may complicate the cooperation mechanism further.[1]

3. The literature has proposed a spectrum of the division of labor between RFAs and the Fund for better coordination. Key considerations include: comparative advantages of each institution, such as better local knowledge and ownership by RFAs and universal risk pooling and the outsider status of the IMF (Henning 2011); and compatibility of facilities (liquidity provision vs. adjustment) of each institution. The proposals are broadly divided into four groups:

i) *Alignment of the qualification criteria across RFA precautionary lines with that of the Fund* (Henning 2011, 2015; Volz, 2012; Lamberte and Morgan 2012). This would eliminate the risk of facility shopping and the watering down of qualification criteria by providing consistency and clarity on policy standards across institutions. The consistent qualification criteria should help keep global risk pooling sufficient to handle global liquidity crises more than RFAs solely can handle, and could be the presumption of receiving BSAs from key reserve currency central banks (Henning 2015).

ii) *A sequential approach* proposes that an RFA provide a short-term liquidity backstop, while the Fund would only step-in when fundamental imbalances arise (Sussangkarn 2011). He suggested, in the context of CMIM, that instead of the existing Fund-linked portion the Fund should only be called when the number of swap rollovers exceeds a certain number of times. McKay et al (2011) criticized this approach because of: an incentive for RFA members to delay necessary structural

[1] The small distance between borrowers and an RFA makes it difficult to for the RFA to demand structural adjustment, creating an incentive to outsource the negotiations on conditionality to others like the Fund, while the RFA has an interest in influencing the modality of the financial support including conditionality.

adjustment by treating the crisis as a short-term liquidity need; and the possibility that the Fund gets involved only in tough cases of painful adjustment, exacerbating the stigma effect.

iii) *A two-tier approach* assumes that an RFA provides financing by itself, up to a certain threshold, and, beyond that, by co-financing with the Fund, with more demanding conditionality (Jeanne, 2010). This approach is similar to the current CMIM approach.

iv) *A shock-specific approach* proposes that an RFA would provide financing with the Fund for small-scale shocks and/or small member states, with the Fund taking the lead in formulating conditionality for joint lending in the event of regional and systemic shocks (Kawai and Lombardi, 2012). Rhee et al. (2013) and Lamberte and Morgan (2012) discussed the possibility that the Fund could lend to a region as one entity rather than its individual member countries. This could reduce the stigma and increase the Fund's leverage in the region. A similar idea was proposed by Ocampo and Titelman (2012) in the context of FLAR.[2] However, Fund lending to regions (or RFAs) is not possible under the Fund's Articles of Agreements.

[2] Given its strong capacity to provide financing to its small member countries, FLAR, with expanded membership and resources, should provide support to small- and medium- sized members, while the Fund would provide financing to large members and allow FLAR to access to its resources.

Annex II. Any Lessons from RFA Lending Beyond its Members' Constituency?[1]

1. RFAs assistance is usually extended to its own member countries. However, the European Union has mechanisms for providing financing beyond its borders. Specifically, the European Commission (EC) is allowed to borrow from international capital markets on behalf of the European Union (EU) and lend resources to partner countries outside the EU using the Macro-Financial Assistance (MFA) facility. This facility provides a useful example of complementarity, not only on financing but also at the operational level between the Fund and an RFA, highlighting the importance of having a clear demarcation of responsibilities.

A supplementary role

2. The EC recognizes "[…] that although within the global financial architecture the provision of balance-of-payments support is primarily the role of the Fund, it is in some cases appropriate to supplement, on an exceptional basis, the Fund's assistance for countries politically, economically, and geographically close to the EU." (EC, 2011b). The MFA facility thus allows to extend emergency financing aid to countries geographically, economically, and politically close to the European Union experiencing balance of payments crisis—e.g., bordering the EU and covered by the European Neighborhood Policy (ENP).[2] The assistance takes the form of medium- or long-term loans or grants, or a combination of these. The MFA is mobilized on a case-by-case basis to help countries facing balance of payments problems restore their external financial stability, while encouraging economic adjustments and reforms.

3. The facility is only available in the context of a Fund adjustment and reform program and is intended to be a strict complement to the Fund, with a clear demarcation of responsibilities. Disbursements are conditional on the satisfactory progress under the Fund-supported program and the fulfilment by the recipient country of certain economic and financial policy measures agreed between the EU and the beneficiary based on a joint understanding of the country's main economic and structural challenges.[3] In addition, some key preconditions exist for the provision of the MFA by the EU. These include the existence of a residual external financing gap—as estimated by the Commission in liaison with the Fund— and the respect of effective democratic institutions and mechanisms in the beneficiary country. The MFA is intended to be exceptional and discontinued once the country can satisfy its financing needs through other sources. MFA's disbursements are paid to beneficiary central banks and its use is not restricted (e.g. can be used for FX intervention or as direct

[1] This annex relies on information available by the European Commission's website: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance_en .

[2] The ENP governs EU's relations with 16 of its closest eastern and southern partners, focusing on stabilizing the region's political, economic and security terms. Countries involved include Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine in the east, and Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, and Tunisia in the South.

[3] The separate agreement between the EC—on behalf of the EU—and the recipient is laid out in a Memorandum of Understanding (MoU).

budget support). The Guarantee Fund covers the loan against the risk of default by the beneficiary through a 9 percent provision.

Burden sharing

4. Burden sharing under the MFA facility has no ceiling, recognizing the implicit difficulties in estimating financing gaps. However, prior to 2011 burden sharing was capped at 60 percent of the country's residual external financing gap (i.e., after the support expected from international financial institutions) for countries covered by the ENP, and to one-third of the residual external gap for other countries that are politically, economically, and geographically close to the EU.

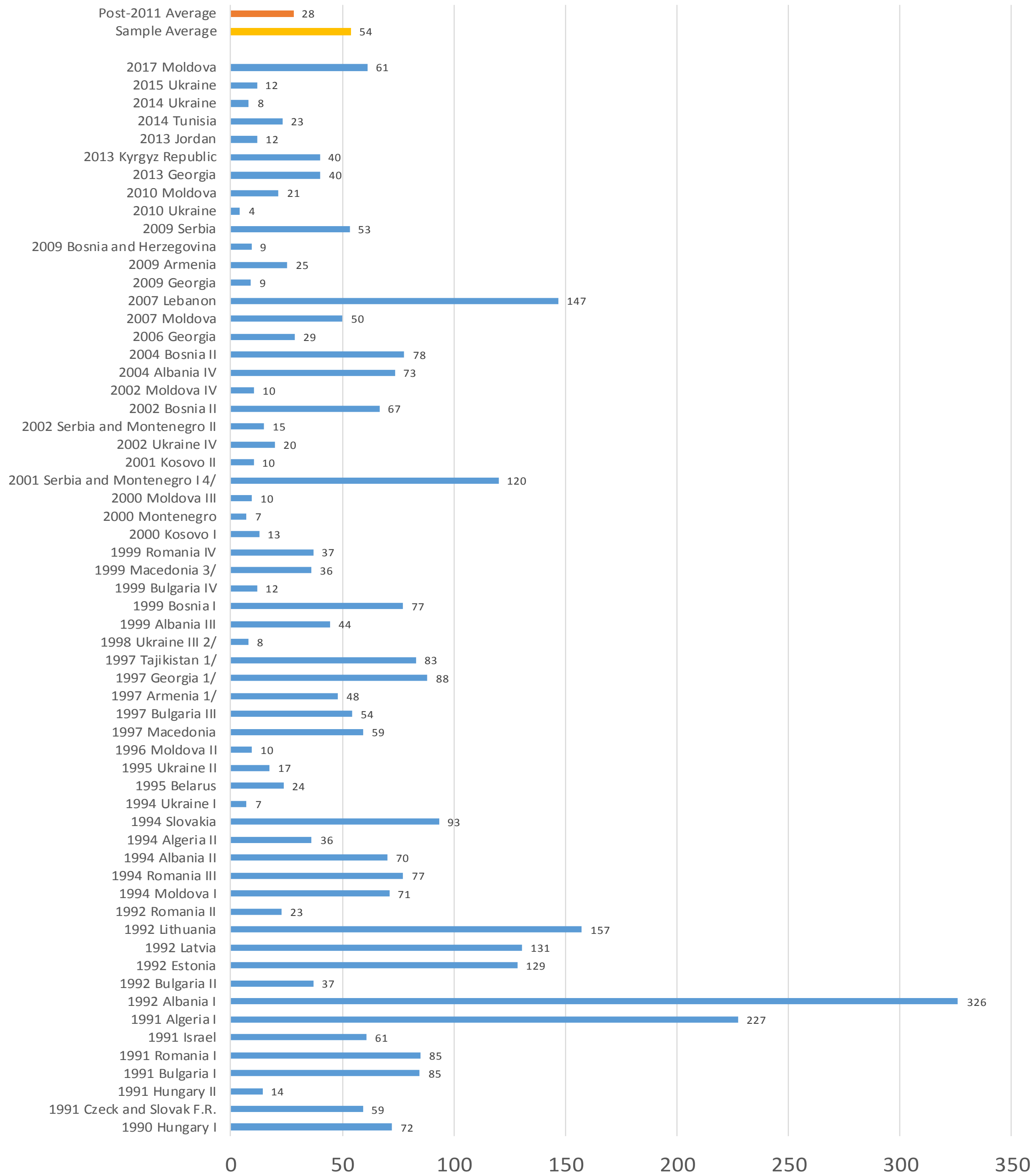
5. MFA experience goes back to the 1990s (see Figure). Since 2009 MFA beneficiaries have included Armenia, Georgia, Jordan, Lebanon, Moldova, Tunisia, and Ukraine. Kyrgyz Republic has also benefitted of the MFA even though it lies outside the scope of the MFA instrument. Historically, the MFA's contribution through the MFA has been on average about 54 percent of the Fund's intended disbursement at the onset of the program, but this has declined since 2011, and has represented about 9 billion euros in supplementary financing (see Figure).

Effectiveness

6. The EC considers that the MFA has made a valuable contribution to macroeconomic stability in beneficiary countries, with positive spillovers on the EU economy. After the 2008-09 global financial crisis, the EC introduced in 2011 a proposal to enhance the MFA instrument. The new regulations had the purpose of deploying resources in a quicker and more efficient manner, and to speed up the decision-making process for individual MFA operations. They also aimed at improving the complementarity of the facility with the Fund and other international financial institutions (EC, 2011a, b). However, the initiative was withdrawn in May 2013, and as result decisions on individual MFA operations continued to be adopted on a case-by-case basis (EC, 2016).

Collaboration

7. Field collaboration has been active, timely, and constructive. While the MFA involves conditionality, Fund staff also indicated that there was no overlap of the roles played by each institution in the program. Some staff highlighted difficulties with the timing of the disbursement. Nonetheless, this appears to be related to specific cases, as Fund staff estimates show that, since its inception in 1990, MFA disbursements were approved by the Council about 818 days prior to the Fund's Board approval (204 days on average after 2011). Some staff also highlighted the risk of overburdening authorities with conditionality. Overall, staff considered that clear delineations between institutions allowed a successful partnership in which the MFA has played a *de facto* and not just *de jure* complementary role to the Fund, both in terms of its financing as well as its operational role.



Source: European Commission, IMF, and Fund Staff Calculations.

Annex III. Mapping Between the Proposed Principles and the G20 Principles

1. This annex describes the G20 Principles on Fund-RFA cooperation and illustrates the mapping between the operational principles proposed in this paper (Section IV) and these high-level principles endorsed by the G20.

2. **G-20 Principles**. In November 2011, based on contributions by the EU and by ASEAN+3 countries of the G20, six non-binding broad principles for cooperation were agreed and endorsed by G20 Leaders.[1] The preamble to the Principles states that collaboration with the IMF should be tailored to each RFA in a flexible manner in order to take account of region-specific circumstances and the characteristics of RFAs.

i) 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.

ii) Cooperation should respect the roles, independence and decision-making processes of each institution, taking into account regional specificities in a flexible manner.

iii) 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.

iv) 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.

v) 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 program should be taken by the respective institutions participating in the program.

vi) RFAs must respect the preferred creditor status of the IMF.

3. **Mapping**. The operational principles developed in this paper relate to the G20 Principles in the following way:

[1] Source: Group of Twenty (see http://www.g20.utoronto.ca/2011/2011-finance-principles-111015-en.pdf).

Mapping Between the Proposed Principles and the G20 Principles

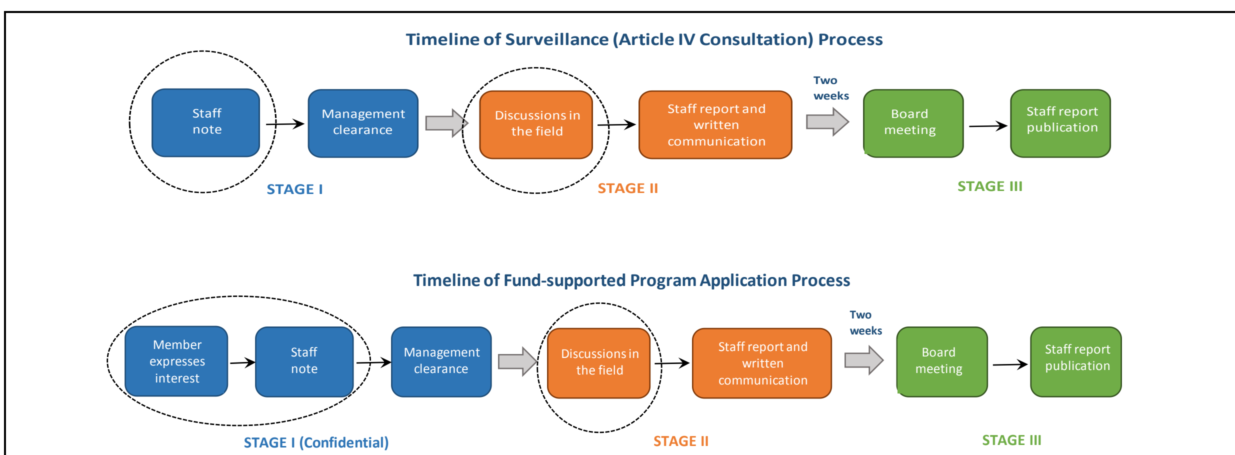
Proposal	A. Independence	B. Mandate and technical expertise	C. Early and ongoing cooperation	D. Consistency and Limited arbitrage	E. Evenhandedness	F. Fund's preferred creditor status
G20 Principles	2. Respect the roles, independence and decision making process	2. Respect the roles, independence and decision making process 3. Ongoing collaboration to build regional capacity for crisis prevention 4. Information sharing to foster comparative advantage	3. Ongoing collaboration to build regional capacity for crisis prevention 4. Information sharing to foster comparative advantage	5. Consistency of lending conditions and limited arbitrage	1. Evenhanded surveillance and the common goals 5. Consistency of lending conditions and limited arbitrage	6. Respect Fund's Preferred creditor status

Sources: G20; and Fund Staff Elaboration

Annex IV. Workflow of Fund Surveillance and Program Discussions

1. *Understanding Fund and RFA processes is fundamental to achieve effective collaboration. Particularly relevant is an understanding of the timeline for surveillance and program. Stylized representations are discussed below.*

2. The operational process in surveillance and in a Fund-supported program negotiation or program review involves the preparation for engagement (stage I), engagement with the country authorities (stage II) and, finally, Board approval and the dissemination of staff reports (Stage III).



3. **Stage I is the preparatory stage** in which staff prepares an internal policy note which set the line on key policy issues, priorities, along with sufficient exposition of the background diagnostics and the outlook as to justify the key issues and policy line. In the case of programs, it also includes clear explanations of program design, and tables on program conditionality. The Policy Note, setting the route for a formal assessment in the field and for discussions with authorities, is discussed with all relevant departments in the Fund and is cleared by management.

4. **Stage II covers preparing the staff report**. In the case of a program, this step is only accomplished once an agreement on the policies to address external imbalances is reached with the authorities. Authorities express their agreement with Fund staff in the Memorandum of Economic and Financial Policies and Letter of Intent. Article IV missions are usually expected to issue a concluding statement that normally includes a clear attribution, noting that they represent preliminary views of staff that are subject to Board discussion and decision.

5. **Stage III is the discussion of the staff report by the Fund's Executive Board**. Following internal procedures, staff report is circulated to the Board two weeks ahead of the Board meeting date. At the Board meeting, Executive Directors discuss the staff report and make a decision (in program cases). Once the meeting is concluded, the Board issues a press release, and the documents will be published following the Fund's Transparency Policy.

Annex V. Bank-Fund Collaboration—Principles of the Concordat[1]

1. When the World Bank provides quick-disbursing financial support in conjunction with Fund resources, their collaboration is guided by principles, agreed by the Bank President and IMF Managing Director, known as **the Bank-Fund Concordat** (Boughton, 2001). The Concordat was first articulated in 1989 and then updated and reaffirmed in 1998. The Concordat attempted to identify areas of primary responsibility for the two institutions. The 2007 external review of Bank-Fund collaboration led to a Joint Management Action Plan on World Bank-Fund Collaboration (JMAP) to further enhance the way the two institutions work together. Under the plan, Fund and Bank country teams discuss their country-level work programs, which identify macro-critical sectoral issues, the division of labor, and the work needed in the coming year.

2. An updated Concordat sought to strengthen operational modalities and improve mechanisms to resolve disagreements. Procedures clarified modalities for exchange of information, including, inter alia, draft and final mission briefs, missions' back-to-office reports, and technical assistance reports. Most major disagreements related to program design or its specific components were expected to be resolved at the staff level. When disagreements could not be resolved, the issue was to be raised to more senior management, such as area department heads or country directors. At the overall institutional level, the focal point for collaboration was the SPR Director and the appropriate Bank counterpart. Regular, and as needed, consultations were envisaged between the Managing Director and President as well as the Fund's deputy managing directors and the Bank's managing directors.

3. To avoid cross-conditionality—it refers to subjecting the use of the Fund's resources directly to the rules or decisions of other organizations (i.e., deferring to other entities to make determinations about whether Fund conditionality has been met)— each institution can proceed independently with its own financial assistance according to its own standards. In the latter circumstance, Bank/Fund management would present the case to an informal meeting of its Executive Board before proceeding.

The three central principles of Bank-Fund collaboration are:

- *Clarity for members*. Countries in which both institutions are actively involved need to have a clear understanding of which institution has primary responsibility in any given area of policy advice and reform.
- *Full consultation between Bank and Fund*. Before finalizing its position on key elements of a country's policies and reform agenda, each institution will solicit the views of the other and share its evolving thinking at as early a stage as feasible. When there are differences of view between the two institutions about policy and priorities in countries where both are involved, and the disagreement cannot be resolved at the staff level, the issue will be raised at the level of senior management for resolution. If agreement still cannot be reached, the views of the institution with primary responsibility will prevail in the final advice to, or negotiations with, a

[1] This annex is mainly based on IMF (2013b) and Kincaid (2016).

member country and such differences will be reflected in reports on the country to the Executive Boards of the two institutions.

- *Each institution retains separate accountability for its lending decisions*. Programs supported by the Bank and Fund should be complementary and part of an overall reform agenda owned by the member country. The Executive Board of each institution will be made aware of the total package and of how the components covered by one institution complement the parts supported by the other. At the same time, each institution must proceed with its own financial assistance according to the standards laid down in its Articles of Agreement and the policies adopted by its Executive Board. Any difference of view between the two institutions will be reported to the Boards when approval to support a program is sought.

4. It is worth noting that, despite the Bank and Fund's common history (both were born out of the Bretton Woods conference in 1944), physical proximity, and complementary mandates—with the Fund focused on macroeconomic stability and the Bank focused on development—it took roughly two decades before any formal agreement on Bank-Fund coordination was reached, suggesting a critical mass of practical experience working together may be needed before well-reasoned recommendations can be made and implemented.

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