

European Stability Mechanism



## Finding complementarities in IMF and RFA toolkits

---

This work takes stock, using a comparative approach, of the existing IMF and RFA toolboxes, and the related lending policies. The paper first aims to serve as a manual on IMF and RFA lending toolkits and policies. It also highlights the similarities and differences across institutions to facilitate collective reflections on potential ways to enhance inter-institutional cooperation for common member state assistance. The paper recommends the IMF and RFAs leverage their instrument diversity, align policy frameworks where possible, and share experience in programme design as well as instrument and lending policy development.

**Gong Cheng, \* ESM**  
**Dominika Miernik, ESM**  
**Teuta Turani, ESM**

February 2020



**Disclaimer:** The views expressed herein are those of the authors and do not necessarily reflect those of the European Stability Mechanism, nor those of the institutions consulted (listed in the paper) and their shareholders. We thank especially Rimtautas Bartkus and Graciela Schiliuk for their insightful comments throughout the project. We thank colleagues from the Arab Monetary Fund, BRICS Contingent Reserve Arrangement, Chiang Mai Initiative Multilateralization and its surveillance unit ASEAN+3 Macroeconomic Research Office, Eurasian Fund for Stabilization and Development, European Commission, the International Monetary Fund, and Latin American Reserve Fund for their constructive input. We also thank the ESM Communications team for editing and layout suggestions.

\*Lead and corresponding author. Address: ESM, 6a Circuit de la Foire Internationale, L-1347 Luxembourg. E-mail: g.cheng@esm.europa.eu.

Print	ISBN 978-92-95085-82-4		doi:10.2852/79159	DW-AC-19-003-EN-C
PDF	ISBN 978-92-95085-81-7	ISSN 2467-2025	doi:10.2852/970114	DW-AC-19-003-EN-N

More information on the European Union is available on the Internet (<http://europa.eu>).

Luxembourg: Publications Office of the European Union, 2020

© European Stability Mechanism, 2020

All rights reserved. Any reproduction, publication and reprint in the form of a different publication, whether printed or produced electronically, in whole or in part, is permitted only with the explicit written authorisation of the European Stability Mechanism.

# Table of contents

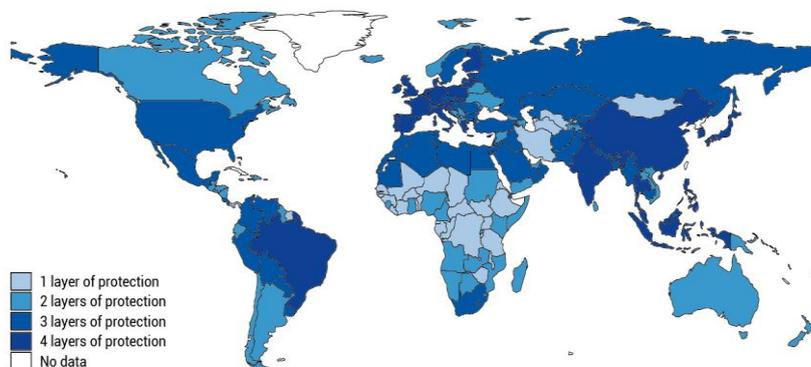
---

Introduction	2
1. IMF and RFA toolboxes: commonalities and specificities	5
Crisis resolution tools	6
Crisis prevention tools	8
Other tools	11
2. Stocktaking of policies underpinning the use of IMF and RFA facilities	13
Prerequisites for official-sector lending	14
Access limits	15
Pricing structure	16
Conditionality	20
3. Reflections on enhancing IMF-RFA collaboration when common members need financial assistance	21
Rationale behind commonalities and differences	22
Exploring potential instrument complementarities	23
Enhancing mutual understanding and alignment of lending policies	28
Maintaining programming and policy development experience	29
Conclusion	31
References	33
Annex	35
Glossary	41

# Introduction

In the face of an increasingly interconnected global economy with the potential for local shocks to quickly transmit elsewhere, sovereign states need to secure robust insurance for emergency liquidity provisions in crisis times. The International Monetary Fund (IMF) and its regional partners, the Regional Financing Arrangements (RFAs), are important financial backstops in this regard. Together with foreign exchange reserves and bilateral currency swap arrangements, they form the Global Financial Safety Net (GFSN), a multi-layered insurance system against economic and financial crises. Figure 1 shows that most countries in the world are covered by at least one of these protective layers.

**Figure 1**  
Global Financial Safety Net and its coverage



Source: Cheng et al. (2018)

To enhance cooperation among the different layers of protection, especially between the IMF and RFAs, staff from a number of RFAs co-authored a paper on IMF-RFA collaboration in 2018 (Cheng, et al., 2018). This joint work sheds light on their existing cooperation and explores new avenues for enhancing it. The heads of the RFAs and IMF representatives discussed the joint staff paper at the third High-level RFA Dialogue on 10 October 2018 in Bali (AMRO, ESM, FLAR, AMF and EFSD, 2018). RFA leaders endorsed this work for publication and tasked their staff to follow up on its proposed IMF-RFA collaboration enhancements.<sup>1</sup>

In this paper, ESM staff build upon the findings of the 2018 joint paper and explore more deeply the complementarities between IMF and RFA toolboxes and lending frameworks.<sup>2</sup> This work first compares and takes stock of the existing toolboxes available at the IMF and different RFAs, and the related access eligibility and lending policies. It then highlights the similarities and

<sup>1</sup> G20 International Financial Architecture Working Group (IFAWG) and the G20 Eminent Persons Group also encourage collective reflections on the complementarity between the IMF and the RFAs, especially in terms of their instruments and intervention in crisis times.

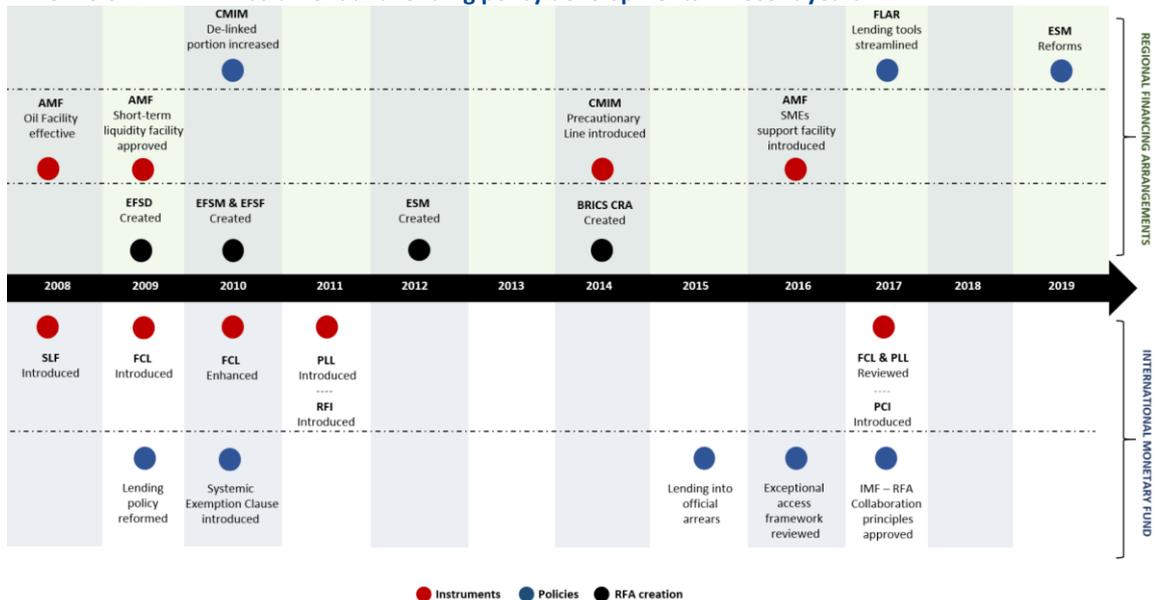
<sup>2</sup> Following the joint RFA staff paper, each RFA committed itself to leading a work stream that would elaborate further on the work initiated in the joint paper. This paper is the deliverable for the work stream led by the ESM, which focuses on toolkit complementarity during crisis times. The other work streams include technical assistance in common member states led by the AMF, peacetime surveillance frameworks led by AMRO, conditionality design led by the EFSD, communication strategies led by the European Commission, and training and institutional capacity building led by FLAR.

differences between toolboxes and lending policies across institutions to facilitate collective reflections on potential ways to enhance inter-institutional cooperation for common member state<sup>3</sup> assistance. Understanding the differences and commonalities will also help each institution rethink its current toolbox and lending framework and inspire future improvements and reviews.

In general, the global financial crisis and the subsequent European debt crisis pushed crisis resolution mechanisms to improve their assistance toolkits and policies, and develop new tools. The timeline in Figure 2 highlights the main instrument and lending policy developments both at the IMF and the RFAs since 2008.

The IMF, in light of emerging risks and their quick transmission across borders, made a proposal for a Short-term Liquidity Facility (SLF) in 2008 to provide quick financing to countries with strong fundamentals but exposed to liquidity shocks. The SLF was subsequently replaced by the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL). In addition, the IMF replaced its emergency assistance policy with the Rapid Financing Instrument (RFI) and Rapid Credit Facility, to provide rapid and small-sized financial assistance to countries with urgent balance of payment (BoP) needs following natural disasters and other extreme shocks. The Policy Coordination Instrument (PCI) was introduced as a non-financing tool designed to help countries demonstrate commitment to a reform agenda and unlock financing opportunities from third-party sources. The IMF has also strengthened its lending policies and frameworks in parallel with the creation of new instruments. The Systemic Exemption Clause was eliminated in 2016 when the IMF revised its exceptional access framework, strengthening the sovereign debt sustainability requirements (IMF, 2015a). The IMF also revised its lending into arrears policy to allow lending in carefully circumscribed situations when a potential beneficiary member runs arrears vis-à-vis official creditors (IMF, 2015b). Finally, to better encourage collaboration with regional firefighters, the IMF set out six principles to guide its future collaboration with RFAs (IMF, 2017c).

**Figure 2**  
**Timeline of IMF-RFA instrument and lending policy developments in recent years**



Source: Authors' depiction based on information publicly available on IMF and RFA websites

Note: The AMF Oil Facility was approved by the Board of Governors in 2007 and went into effect in December 2008. See <https://www.amf.org.ae/en/page/types-lending>

<sup>3</sup> In this paper, all terms related to RFA and IMF membership, such as member countries or member states, will be lower cased to harmonise capitalisation conventions and thereby ensure equal treatment.

The RFAs have also undergone major changes since the global financial crisis, from the establishment of new institutions to reforms within existing ones. At the onset of the crisis in 2009, Russia and five other countries from the Eurasian Economic Community created an anti-crisis fund, which quickly evolved into the Eurasian Fund for Stabilization and Development (EFSD). In Europe, several regional crisis mechanisms have been created successively since 2010 to complement the EU Balance of Payments (EU BoP) Facility that covers only those EU member states that have not adopted the euro currency. The EU-wide European Financial Stabilisation Mechanism (EFSM) and the temporary euro area fund, the European Financial Stability Fund (EFSF), were created in 2010, while the permanent euro area crisis resolution mechanism, the European Stability Mechanism (ESM), was established in 2012.<sup>4</sup> Lastly, BRICS Contingent Reserve Arrangement (CRA) was established in 2014 to assist large emerging markets. Other RFAs further enhanced their size, toolkit, or institutional framework. The Chiang Mai Initiative for instance, upon becoming the Chiang Mai Initiative Multilateralization (CMIM), expanded its responsibilities from a network of bilateral swaps into a multilateral currency swap arrangement that provides short-term liquidity, addresses BoP issues, and complements other existing international financial arrangements. Financial contributions from member states for both the Arab Monetary Fund (AMF) and the Latin American Reserve Fund (FLAR), the two oldest RFAs, also significantly increased during the global financial crisis. The AMF doubled its subscribed capital to 1.2 billion Arab Accounting Dinar in 2013. FLAR's paid-in capital has increased by 70% since 2009. In addition, the AMF introduced several new instruments, such as the Oil Facility, which is designed to assist member countries affected by transitory rises in oil and gas imports. FLAR streamlined its lending toolkit in 2017 by removing the treasury and external debt restructuring facilities.

In this paper, Section 1 and Section 2 take stock of the current IMF and RFA toolkits and lending policies, respectively. Section 3 proposes reflections on how to enhance IMF-RFA collaboration, especially as regards the complementarity of their toolkits, and identifies a few policy proposals.

---

<sup>4</sup> For a detailed account of the development of European RFAs, refer to Cheng (2019).



## **1. IMF and RFA toolboxes: commonalities and specificities**

This section presents key features, emphasising similarities and differences, of IMF and RFA toolkits. Readers can refer to Annex 1 as a detailed and comprehensive inventory describing the individual instruments available at the IMF and RFAs.

The IMF's reflections on its toolkit have provided valuable insight for RFAs in designing and developing their own instruments. This explains the many common features observed across all institutions' toolboxes. The RFAs reach, however, remains regional, while the IMF tries to capture the most common issues through an even-handed treatment of its members in similar circumstances. Regional specificities often require RFAs to adapt toolkits to particular regional needs and existing institutional settings.

Table 1 maps the current IMF and RFA tools according to their purposes. The table does not offer a one-to-one matching since, depending on its design, a given instrument may fulfil multiple purposes. The simplified framework allows for a comparison of the range of functions being serviced across institutions, and for a comparison of instruments at RFAs and the IMF that fulfil similar purposes.

This paper focuses mainly on crisis resolution and prevention tools. Most institutions have these two sets of instruments, but there are interesting variations in detail within each group. Many institutions have additional tools, such as signalling tools and sovereign security purchase programmes or grants, which are tailored to each region and members' needs.

**Table 1**  
**Classification of IMF and RFA instruments**

	CRISIS RESOLUTION					CRISIS PREVENTION		OTHER
	Liquidity provision for short-/medium-term needs	Liquidity provision medium-/long-term needs	Urgent liquidity provision	Sectoral assistance	Concessional support	Credit lines with ex ante conditionality	Other types of credit lines	
IMF	✓	✓	✓		✓	✓*		Signalling
AMF	✓	✓	✓	✓	✓			Guarantees
BRICS CRA	✓		✓				✓	
CMIM	✓		✓			✓		
EFSD	✓	✓			✓			Investment Loans Grants
ESM	✓	✓		✓		✓		Sovereign securities purchases
EU Facilities**	✓						✓	Grants
FLAR	✓		✓				✓	

Source: Authors' depiction based on information publicly available on IMF and RFA websites

Note: \*As described in the subsection on crisis prevention tools below, the IMF's FCL and PLL are designed to deal with actual, prospective, and potential BoP needs, as such they can serve as both financing or precautionary tools. In comparison, RFAs' precautionary credit lines are all designed to address potential financing needs only. \*\*EU facilities include the EU BoP facility, the EFSM, and the EU MFA.

### Crisis resolution tools

Loans and credit lines for BoP or budget support are the main form of crisis resolution tools across all the institutions. Table 1 distinguishes crisis resolution tools based on the types of

issues or financing needs an institution wishes to address. For instance, a loan can be provided to address short- to medium-term BoP imbalances or to tackle medium- to long-run structural reforms. In some cases, an emergency loan, which involves limited or no policy adjustment requirement, is used to address urgent financing needs. Some institutions also have loans and credit lines especially for dealing with sector-specific issues or assisting a subset of their member states, such as low-income countries.

Financing tools for short- to medium-term BoP needs seem to be the prevailing crisis resolution instrument across the IMF and most RFAs. The IMF workhorse Stand-by Arrangement (SBA), created in 1952, is such an instrument and has been a reference for RFA lending tools. The IMF has provided the bulk of its assistance through SBAs. This tool typically covers a period of one to two years but can be extended to three. The AMF's Automatic, Ordinary and Compensatory Loans, the BRICS CRA Liquidity Instrument, CMIM Stability Facility (CMIM-SF), the EU BoP facility, and FLAR's BoP Facility are designed in a very similar fashion, generally offering the same programme length. The IMF SBA can also be provided on a precautionary basis if a member state faces potential or prospective financing needs. Similarly, the EU BoP can provide a loan on a precautionary basis. This feature is discussed in the next subsection on preventive tools.

Some institutions can offer financial assistance with longer programme and repayment durations. This type of tool aims to address more deep-rooted structural issues by giving the beneficiary member sufficient time to implement necessary reforms. The Extended Fund Facility (EFF) is the IMF's main tool for medium-term support to countries facing serious payment imbalances due to structural impediments. It has a programme length of up to four years and a repayment period of up to 10 years. The AMF's Extended Loan offers a programme of more than two years and a repayment period of up to seven years. The long duration relative to its other facilities aims to support the requesting member in dealing with structural imbalances. The EFSF's Financial Credit is designed to provide budget and BoP stabilisation programmes to member states that might need prolonged support due to weaker state capacity and market infrastructure. It thus has similar design features as the IMF EFF with a programme duration of up to five years and a repayment period of up to 10 to 20 years. The EFSF and ESM also provide medium- to long-term financing to accompany beneficiary member states to implement structural reforms. An ESM loan with a macroeconomic adjustment programme usually has a three-year duration but no predefined repayment maturities. The de facto average maturities of existing EFSF and ESM programmes are between 12.5 years for Spain and 42.5 years for Greece. The EU's Macro-Financial Assistance (MFA) for eligible neighbouring countries is designed to complement the IMF's programmes, offering a programme duration of 2.5 years and a loan repayment period of around 15 years.

This stocktaking exercise also highlights that several RFAs have instruments to tackle a member's urgent financing needs, providing speedy financing for a relatively short one-to-two year timeframe requiring limited or no policy adjustment. BRIC CRA and CMIM decision-making bodies can, respectively, make 30% of the BRICS CRA Liquidity Instrument and CMIM-SF available without IMF financing commitment and conditionality. In this case, the BRICS CRA would only require some safeguards from the requesting member country, such as data provision and non-arrears vis-à-vis the financing parties and multilateral institutions, instead of policy adjustments.<sup>5</sup> The AMF also designed a short-term liquidity facility during the global financial crisis to provide prompt liquidity to countries in need without a reform agenda. The maximum limit is 100% of the member's paid-up subscription in convertible currencies. FLAR's Liquidity Facility is available at the very short-term and can theoretically provide liquidity up to one year. By doing so, FLAR could buy extra time for the beneficiary country to negotiate

---

<sup>5</sup> Article 14 of the Treaty establishing the BRICS CRA, <http://www.brics.utoronto.ca/docs/140715-treaty.html>.

additional financing with the IMF. Similarly, the IMF developed the Rapid Financing Instrument (RFI) which provides rapid and low-access financial assistance to member countries facing an urgent BoP need, such as commodity price shocks, natural disasters, conflict and post-conflict situations, and emergencies resulting from fragility. Limited to 75% of a member's quotas and 100% on a cumulative basis, the RFI allows outright purchases without a full-fledged programme in place.

The AMF and the ESM are the only two RFAs that have sectoral lending instruments. The AMF can intervene to support institutional reforms in the banking and financial sector, public finance, and the oil sector with specific tools. The AMF established an Oil Facility in 2007, which came into effect in 2008, to assist member states exposed to oil price volatility in episodes of BoP deteriorations as a result of oil price fluctuations. The AMF Structural Adjustment Facility supports reforms by the borrowing country in the financial, banking, and public finance sectors. In addition, the AMF created a specific tool, the SME's Conducive Environment Support Facility, to support SME development. Sudan, Egypt, and Tunisia have benefitted from this SME facility since 2018. Throughout 2018, 29.9% of AMF loan commitment was extended with its Structural Adjustment Facility for reforms in the requesting countries' banking and financial sector and public finance sector. The SME facility recorded 5.6% of the total commitment and the Oil Facility 1.4% (AMF, 2018). The bulk of AMF assistance was provided with its BoP facilities. The ESM also has dedicated tools for banking-sector recapitalisation. In 2013, the ESM extended a loan to the Spanish government for banking-sector restructuring with its loans for indirect bank recapitalisation tool. The ESM also has a Direct Recapitalisation Instrument that can provide capital directly to a bank that needs recapitalisation and restructuring. Approved in December 2014, this instrument will be removed with the revision of the ESM Treaty given that the ESM will be providing a credit line as the financial backstop to the Single Resolution Fund, which is mandated to conduct needed bank resolution. This new credit line fits in the broad context of shifting supervisory and resolution competences to the European level.

Finally, it is important to highlight that some of the instruments mentioned earlier can be reshaped to cater to the specific characteristics of low-income countries that the IMF and some RFAs cover. This often involves providing loans on concessional terms with extended maturity and grace periods. The IMF offers concessional lending facilities, currently at a 0% interest rate, for countries eligible for its Poverty Reduction and Growth Trust (PRGT). The three concessional lending facilities of the PRGT, namely the Standby Credit Facility (SCF), the Extended Credit Facility (ECF), and the Rapid Credit Facility (RCF), mirror the key features of the SBA, EFF, and RFI available for all members under the General Resources Account (GRA) and are tailored to the needs of low-income countries. Similarly, the AMF and the EFSD can provide loans at concessional rates to eligible low-income members, which will be detailed in the subsection on RFAs' pricing policies. And the EU MFA could include grant elements for the eligible neighbouring countries.

### **Crisis prevention tools**

The IMF and RFAs intervene not only when a crisis materialises, but also preventively. Preventive tools aim to incentivise countries to develop and maintain good housekeeping in tranquil times by creating insurance contracts against potential crises. This is why many tools serving a precautionary purpose take the form of a credit line with access conditions set *ex ante*.

Crisis prevention is especially important for the "innocent bystanders", i.e. countries that have good policy frameworks and track records but could be adversely affected by global or regional shocks. Many IMF economists and academics have drawn this important lesson from the IMF

crisis management experience of the 1990s, especially the Asian financial crisis.<sup>6</sup>

The IMF started to work on precautionary lines of defence based on pre-qualification in 1999 with the Contingent Credit Line (CCL), which expired in 2003. The IMF's efforts culminated in the introduction of the FCL and PLL during the global financial crisis. The SBA framework was also updated in 2009<sup>7</sup> to expand the range of high access precautionary arrangements aimed at dealing with very large potential financing needs.

RFAs have also designed precautionary instruments. The BRICS CRA has a precautionary instrument to provide support in response to short-term potential BoP pressures. By default, access to the CRA precautionary instrument is open to all members without ex ante conditionality; the requesting party needs only to provide certain safeguards. The CMIM added a Precautionary Line (CMIM-PL) to its toolkit in 2014. This precautionary instrument requires both ex ante qualification based on the CMIM Economic Review and Policy Dialogue Matrix (ERPD Matrix) and ex post conditionality. The CMIM ex ante qualification focuses on five areas: external position, fiscal position, monetary policy, financial sector soundness, and data adequacy with both quantitative and qualitative assessments. Both the CRA and CMIM precautionary instruments foresee a portion linked to an IMF financial commitment and a standalone de-linked portion. FLAR also has a contingent loan for potential BoP needs, available for six months and renewable once.

The ESM has a tiered system of precautionary credit lines with ex ante conditionality similar to the IMF. The ESM Precautionary Conditioned Credit Line (PCCL) is designed as a precautionary instrument for countries with sound macro-financial fundamentals and policies. The Enhanced Conditions Credit Line (ECCL) aims to assist members that are economically sound but face some vulnerabilities. In 2018, ESM shareholders mandated the institution to review its precautionary toolkit with the aim to enhance instrument effectiveness, transparency, and predictability. The revised framework for ESM precautionary assistance provides more clarity on the eligibility requirements, particularly in relation to public finances. It is also designed to improve the overall process of granting precautionary support.

Two important differences have emerged in this analysis of the IMF and selected RFAs' preventive tools. First, although the IMF's FCL and PLL are also credit lines with ex ante conditionality, they could be used to address potential or actual BoP pressures. In fact, IMF policies define clearly the FCL and the PLL as facilities to address present, prospective, and potential BoP needs (IMF, 2016). As regards the instruments' objective, these credit lines with ex ante conditionality thus do not differ from other lending facilities, such as SBA and EFF. In comparison, the precautionary instruments at the RFAs address potential financing needs only. The EU BoP facility is one exception as it does not have a standalone precautionary instrument, but can grant a loan facility on a precautionary basis, similar to an IMF precautionary SBA. Romania, for instance, has benefitted from this arrangement from both the IMF and the EU BoP facility in 2011–2013 and 2013–2015. These two precautionary arrangements mainly worked through market signalling instead of outright and immediate disbursements; Romania drew on neither precautionary credit line in the end.

Second, though the IMF's FCL and PLL were a reference point when the CMIM and the ESM designed their precautionary instruments, in particular the qualification criteria, some differences in qualification criteria and the qualification approach exist.

Table 2 shows the qualification criteria of the CMIM scorecard and for the ESM PCCL. They converge on the eligibility areas used for the IMF FCL/PLL qualification. The “missing” criteria for

<sup>6</sup> Readers can refer to Jeanne and Zettelmeyer (2001), Jeanne and Zettelmeyer (2005), Jeanne et al. (2008), and Corsetti et al. (2006).

<sup>7</sup> See <https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0940>.

the ESM PCCL are ensured by other institutional arrangements in the euro area. These include an independent currency union central bank targeting low and stable inflation, and the euro as an international reserve currency ensuring a comfortable reserve position.

**Table 2**  
**Alignment of qualification criteria**

IMF FCL	ESM PCCL	CMIM ERP Matrix ("scorecard")
Sustainable external position	Sustainable external position	Sustainable external position
A capital account position dominated by private flows		Financial account position dominated by private sector
Track record of steady sovereign access to capital markets at favourable terms	Track record of access to international capital markets, where relevant, on reasonable terms	Track record of steady sovereign access to capital markets
A comfortable reserve position (when the arrangement is requested on a precautionary basis)		A comfortable reserve position (measured by reserve adequacy metrics)
Sound public finances, including a sustainable public debt position	Respect of the quantitative fiscal benchmarks Absence of excessive imbalances	Sound public finances
Low and stable inflation in the context of a sound monetary and exchange rate policy framework		Low and stable inflation
Sound financial system and absence of solvency problems that may threaten systemic stability	Absence of severe financial sector vulnerabilities	Sound financial system
Effective financial sector supervision		
Data transparency and integrity		Data transparency and integrity

Source: Authors' depiction based on IMF (2017b), proposed revision of the eligibility criteria of ESM precautionary financial assistance <https://www.consilium.europa.eu/media/39771/esmt-annexes.pdf>, and CMIM ERP 2019 work plan [http://dws.fpo.go.th/file\\_manager/root\\_directory/admin/TF2019\\_January/2-3%20ERP%20Matrix%202019%20workplan\\_Jan%202019.pdf](http://dws.fpo.go.th/file_manager/root_directory/admin/TF2019_January/2-3%20ERP%20Matrix%202019%20workplan_Jan%202019.pdf)

Alignment in qualification criteria should not mask potential differences in the qualification approach, which could be a source of diverging qualification outcomes. Based on the FCL/PLL operation guidance notes and actual country cases, the IMF seems to have a top-down approach to country qualification for the FCL and PLL. The core of its qualification process consists of assessing whether the soliciting member "(a) has very strong economic fundamentals and institutional policy frameworks; (b) is implementing—and has a sustained track record of implementing—very strong policies; and (c) remains committed to maintaining such policies in the future (IMF, 2018a)." The qualification criteria are thus used to give quantitative evidence support.

The CMIM and the ESM, in contrast, seem to have a bottom-up approach, putting a strong emphasis on the qualification criteria of their instrument documents. The CMIM-PL qualification builds on the ERP matrix, which considers the five criteria listed earlier and experts' judgement.

At the ESM, the ongoing precautionary instrument review team has spent considerable time discussing the qualification criteria, and identifying underlying assessment variables and their thresholds.

### Other tools

Additional instruments available at the IMF or RFAs are worth touching upon. These include signalling tools without financing, grants, sovereign debt market intervention, and facilities for long-term economic development.

The IMF's PCI, for instance, is a non-financial tool that helps beneficiary countries signal commitment to reforms, thereby improving their market access and catalysing financing from other sources. The PCI is designed to facilitate a close collaboration between the IMF and RFAs or other third-party financiers. The IMF also has a similar signalling instrument for PRGT-eligible countries, called the Policy Support Instrument (PSI).

AMF lending policy and procedures allow it to serve as a financial intermediary for its member states by, for instance, providing guarantees for member states willing to issue bonds in international capital markets.

The ESM is the only RFA that can intervene in primary and secondary sovereign securities markets. The ESM Primary Market Support Facility (PMSF) is solely an auxiliary disbursement method for an ESM loan programme or an ESM precautionary instrument. Instead of providing a loan or allowing outright drawing from the precautionary credit line, the ESM can purchase the beneficiary member state's sovereign securities when they are issued, with a maximum set at 50% of the total amount issued. The Secondary Market Support Facility (SMSF) can be used either within an ESM loan programme or as a standalone facility.

Finally, the EU MFA, the AMF, and the EFSD can provide grants to low-income countries for development purposes. In addition, the EFSD has an investment loan for development projects, which reflects the EFSD's dual mandate of macroeconomic stabilisation and long-term development, a unique feature among RFAs.

Figure 3 (panels a–g) illustrates the usage of IMF and RFA instruments between 2008 and 2018. Each institution uses certain instruments more than others, while some tools remain untested.

**Figure 3**  
Usage of financial instruments



Source: Authors' depiction based on information publicly available on IMF and RFA websites  
 Note: All numbers refer to the financial commitment available on the approval of a programme, which may differ from actual disbursements.

## **2. Stocktaking of policies underpinning the use of IMF and RFA facilities**

The lending framework of the IMF and RFAs includes, in addition to crisis resolution and prevention tools, a series of policies that guide and underpin the use of such tools. These policies dictate the circumstances under which facilities can be provided, the determination of the assistance envelope and associated financial terms, and whether policy adjustments are required.

This section compares four policy aspects related to toolkit use: (i) prerequisites for official sector lending, (ii) access limits, (iii) pricing structures, and (iv) policy adjustments or conditionality.

There are similarities and differences across institutions. In general, the way an institution designs its assistance-related policies reflects the balance it strikes between intervening quickly in a crisis to reduce the economic costs, or “real hazard” (Mussa, 1999), and mitigating moral hazard risks. Delayed or insufficient assistance could result in severe economic damage and raise the risks that a programme might go off track. While a larger and quicker loan to the beneficiary country could help to prevent or resolve the crisis, it could also increase the risk of moral hazard by encouraging imprudent behaviour in non-crisis times. Section 3 will explore this trade-off after an overview of the key policies in this section.

### **Prerequisites for official-sector lending**

Financial backstops, such as the IMF or its regional peers, usually set clear conditions for a member’s official-sector lending eligibility. Any lending institution would examine a borrowing member’s repayment capacity before making public money available. The repayment capacity is mainly assessed against the sustainability of a country’s public debt, the prospect of macroeconomic adjustment implementation, the potential impact on creditors, and whether it is running arrears vis-à-vis some types of creditors. For institutions that have a surveillance mandate, like the IMF, economic surveillance over members’ policies is a pre-condition for crisis assistance.

The IMF is a solid reference for RFAs’ lending policy frameworks. Over its 75 years of existence, the IMF has continually enhanced its lending policies, which gives it a strong “commitment device” (Jeanne & Zettelmeyer, 2001) to catalyse alternative financing from private creditors or other official creditors. IMF lending decisions are predicated on resolving a member’s BoP need and the existence of sufficient safeguards. These general considerations translate into three critical policy elements for providing assistance: (i) debt sustainability requirement, (ii) financing assurances policy, and (iii) arrears policies.

Debt sustainability is a requirement for all IMF lending, but it is more stringent for higher-level access to IMF resources, as explained in the next subsection. The debt sustainability assessment is forward looking, taking into account national fiscal adjustment efforts, official-sector financing from the IMF and any other sources, as well as potential debt restructuring.

The financing assurance policy requires the IMF to provide resources only when the member’s programme is fully financed. When action by a third party is needed to close the financing gap – be it RFA financing, arrears, or debt restructuring provided by private creditors, the IMF would request specific and credible assurances from the third-party concerned. For a few RFAs, their efforts towards closing the financing gap in a common member state requesting assistance is the policy entry point for cooperation with the IMF.

The arrears policies have evolved with the IMF’s crisis resolution experience since the 1980s. The IMF policy on lending into arrears to private creditors was initially introduced in 1989 (IMF, 1999) to prevent a handful of private holdout creditors from blocking timely official lending

(Buchheit & Lastra, 2007). It was revised several times in the 1990s and 2000s to enable IMF assistance to countries in arrears to private creditors.<sup>8</sup> However, until 2015, the IMF could not lend to countries in arrears to bilateral official creditors. Following a similar reasoning and considering the changing official creditor landscape, the IMF updated its policy on non-tolerance of arrears to official creditors in 2015 (IMF, 2015b) to allow for such lending under carefully defined circumstances. The IMF would still withhold its lending decision in case of unresolved arrears between a requesting member and its multilateral creditors (IMF, 2013).

As for the RFAs, their founding legal documents and lending policies often spell out member states' obligations for regional assistance eligibility. Most RFAs refer to a member state's repayment capacity, but policy requirements in practice vary largely across institutions.

A number of RFAs emphasise the non-tolerance of arrears in their lending decision. The BRICS CAR Treaty requires that the requesting party not have arrears with any other members or their public financial institutions, or other multilateral and regional financial institutions. The EFSD financial credits can only be provided to a requesting country that is current on all its financial obligations vis-à-vis the EFSD, its member countries, and other international financial institutions.

The current Treaty revision specifies that ESM stability support can only be provided to members "whose debt is considered sustainable and whose repayment capacity to the ESM is confirmed".<sup>9</sup> In addition, "in exceptional cases an adequate and proportionate form of private sector involvement, in accordance with IMF practice, shall be considered in cases where stability support is provided, [...]".<sup>10</sup>

### Access limits

Crisis resolution mechanisms usually set clearly defined emergency liquidity access limits per member state. The European RFAs, the ESM and the EU BoP, are the sole exceptions; they stipulate only the overall lending capacity of the institution without predetermining individual country access.

Most RFAs define country access limits as a multiplier of member states' financial contributions.<sup>11</sup> BRICS CRA, CMIM, and the EFSD define the overall access limits per member state to their regional resources. FLAR further distinguishes the multipliers per member country across different instruments. Its BoP facility has bigger access multipliers than its liquidity loan and contingency facility, for instance. Moreover, we observe that these RFAs set access multipliers proportionally to their members' financial contributions but make significant upward adjustments for smaller or less developed members. The CMIM, for instance, sets the purchasing multipliers for Vietnam, Cambodia, Myanmar, Brunei, and Laos at five times their own contributions to CMIM and 10 times those of China and Japan, the biggest shareholders. FLAR has assigned a maximum multiplier of 2.5 to its member countries, except for a higher, 2.6 multiplier for Bolivia and Ecuador.

The AMF does not set access limits per country but defines the access per instrument. In general, the instrument associated with a structured and longer-term assistance programme receives a higher multiplier across member states. For instance, AMF members can solicit up to 175% of

<sup>8</sup> There are conditions attached to lending into arrears: a) IMF support is crucial to the successful implementation of the adjustment programme, and (b) the beneficiary country is pursuing policies that intend to resolve the arrears.

<sup>9</sup> Preamble 12A of the draft revised text of the ESM Treaty, as agreed by the Eurogroup on 14 June 2019.

<sup>10</sup> Preamble 12B of the draft revised text of the ESM Treaty, as agreed by the Eurogroup on 14 June 2019.

<sup>11</sup> Cheng and Lennkh (2019) compile all details about RFAs' access limits.

their paid-up subscriptions in convertible currencies under an extended loan. In comparison, its automatic loan, which is a shorter-term facility, provides up to 75% of members' paid-up subscriptions.

The European RFAs – mostly the EU BoP, the EFSM, and the ESM – do not set ex ante access limits per country. They prefer flexibility in determining the financial envelope as well as other financing terms based on the needs of potential beneficiary members and circumstances. The financial commitments of past EFSF and ESM euro area programmes range from €9 billion (ESM programme for Cyprus) to €144 billion (EFSF programme for Greece). One possible explanation for the absence of pre-set access limits is that interlinkages in the EU, especially in the monetary union, are very strong. Such interconnectedness could justify the need for large-sized financial assistance. Setting ex ante country access limits could shape market participants' expectations, thus undermining the bazooka effect of official sector lending when potential shocks and contagion appear strong.

The IMF has a tiered access framework based on member states' quotas. In practice, this combines pre-set country access limits (the normal access) and additional support to deal with exceptional circumstances under strictly defined conditions (the exceptional access). The normal access for GRA financing goes up to 145% of a member state's quota in a year and cumulatively 435% during a programme. If programme financing goes beyond the normal access, exceptional access must be considered against the scrutiny of a number of additional factors, including a higher bar for debt sustainability, demonstration of exceptionally larger BoP financing needs, and good prospects for the requesting country to regain market access with a well-designed policy adjustment programme giving a reasonably strong prospect of success. The IMF created its Exceptional Access Framework in 2002–2003 drawing lessons from its large-scale lending experience during the Asian Financial Crisis (the 1997 assistance programme for Korea reached almost 2,000% of the country's quota). The framework was revised several times, especially during and in the aftermath of the global financial crisis, in the context of providing assistance to Greece. A systemic exemption clause needed to be inserted to allow the IMF to provide a SBA to Greece in 2010, which reached 3,212% of the country's quota and 13.5% of the country's GDP. The Exceptional Access Framework was revised once again in 2016 to revoke the systemic exemption clause and clarify the debt sustainability requirement. The IMF needs to assess the public debt of the requesting country as “sustainable with high probability”. If there are uncertainties over debt sustainability, lending beyond the normal access level would only be permitted if financing from sources other than the IMF improves debt sustainability and sufficiently enhances safeguards for IMF resources. This latest revision has strengthened the IMF's commitment device and signals that the IMF can only provide large-scale facilities to countries with very sound crisis prevention policies and debt management (Weder di Mauro & Zettelmeyer, 2017).

### Pricing structure

The IMF and RFAs often intervene when a country is at risk of losing market access or has already lost it, including when market financing reaches prohibitively high rates. Thus these multilateral institutions aim to provide lending with more favourable financial conditions during periods of stress. Their pricing policies should, however, also prevent a country from using a public institution's resources in a prolonged way that is not justified by economic fundamentals or circumstances. Given limited resources, protracted use by a handful of beneficiary countries, especially at high access levels, would reduce the forward commitment capacity of an institution for other potential users or emergencies.

The basic pricing structure is very much alike across different institutions. It is typically

composed of a reference rate (also called base rate in some institutions), margins (basic margins and possible surcharges), and fees (possible commitment and service fees).

Institutions choose reference rates to reflect the cost of mobilising funds and thus heavily depend upon the funding strategy adopted (Cheng & Lennkh, 2019). The IMF and the AMF use the interest rate of the Special Drawing Rights (SDRs) as their reference rate. The SDR interest rate is a weighted average of representative interest rates on short-term government debt instruments of the US, euro area governments with a rating of AA and above, China, Japan, and the UK. The IMF adjusted the reference rates for concessional loans to PRGT-eligible countries, currently set at 0%. For the institutions that raise funds from markets, such as the European RFAs, the reference rates are the costs of funding at which they issue securities. The highest supranational ratings that the EU and the ESM enjoy ensure relatively low costs, which are directly passed on to beneficiary member countries. The difference between the EU facilities and the ESM is that the former raises funds on a back-to-back basis (i.e., issues securities for a specific country) and the latter pools market funds regardless of the beneficiary member state.<sup>12</sup> The EFSF's reference rate is mainly associated with the cost at which Russia and Kazakhstan borrow from markets. Middle-income borrowers in the EFSF membership have in the past paid the 50/50 blended costs of Russian and Kazakh Eurobonds with a duration comparable to the EFSF loan received. These costs are reassessed every six months based on market conditions and are currently at 4%. The borrowing cost is, however, capped at 4.9% for middle-income member states. Low-income borrowers from the EFSF can benefit from much lower fixed interest rates, currently at 1% for both Financial Credits and Investment Loans. BRICS CRA, CMIM and FLAR all use Libor in US dollars as their benchmark reference rates, which reflect the real-time cost of obtaining dollars from interbank markets. The tenor could differ according to the repayment period of the assistance facilities chosen. Figure 4 shows the reference rates used at the IMF and selected RFAs, ranging from 0.65% for the ESM cost of funding to 2.2% with 6-month Libor (for CMIM-SF).

For the IMF and most RFAs, reference rates focus on short-term financial instruments of financial institutions (Libor) or sovereign governments (SDR). The EFSF/ESM's funding is, in contrast, a combination of short-term bills and long-term bonds; the longest bond series runs for 45 years. Therefore, the EFSF/ESM cost of funding reflects a wider band of the yield curve. Moreover, market conditions and sentiment can affect reference rates; Libor is more volatile than the sovereign securities-based rates. The institutions need to prevent reference rates from sliding into negative territory, which would arguably be controversial in the context of official sector lending. The IMF Executive Board set a floor SDR rate of five basis points in 2014 given very low and negative SDR component interest rates.<sup>13</sup> They must also, however, cope carefully with future monetary policy tightening in advanced economies, which can push up money market rates, especially Libor.

The margins are another important element of institutions' pricing structure. They can include basic margins and surcharges, which aim in part to dissuade countries from a protracted use of public resources, particularly when access levels are high. The IMF, for instance, introduced surcharges based on both the amount of credit outstanding above a certain quota-based threshold (level-based surcharge) in the late 1990s and surcharges based on the period during which credit at that level is outstanding (time-based surcharge) in the early 2000s. The level- and time-based surcharges were revised in 2016 following a general quota increase. Since then,

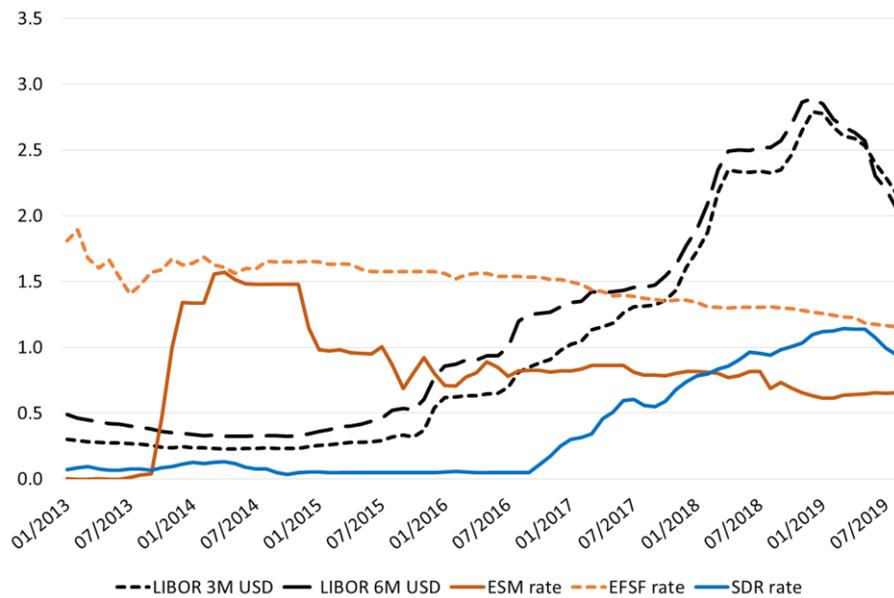
<sup>12</sup> Greece is an exception among the ESM programmes, as the country benefitted from short- and medium-term debt relief measures, which include specific interest rate swaps and fixings for the country. For more details, refer to <https://www.esm.europa.eu/press-releases/esm-implements-short-term-debt-relief-measures-greece>, <https://www.esm.europa.eu/press-releases/explainer-efsf-medium-term-debt-relief-measures-greece>.

<sup>13</sup> Refer to the IMF press release <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr14484>.

a surcharge of 200 basis points is applied on credit outstanding of more than 187.5% of quota and an additional surcharge of 100 basis points for credit outstanding at that level for more than 51 months for an EFF or 36 months for a non-EFF programme. Table 3 provides information on the margins charged across institutions. Together with Figure 4, this table shows that the spectrum of margins is much wider than the differences between reference rates. Basic margins range from 10 basis points (ESM loan facility) to over 100 basis points (e.g., AMF and IMF). When surcharges are applied, margins charged in some institutions can increase to up to 400 basis points (e.g., FLAR and IMF).

Finally, RFAs and the IMF may charge commitment and service fees. These charges generally reflect some transactional and operational costs for crisis resolution mechanisms to mobilise funds. For the IMF and the CMIM, commitment fees are intended mainly for instruments treated on a precautionary basis, especially possibly high precautionary access where it is costly to set aside substantial financial resources for crisis prevention. The ESM charges commitment fees for all instruments, which reflect possible negative carry for the period between fund raising from the market and disbursement to a beneficiary member state.

Figure 4  
Reference rate comparison



Source: Authors' depiction with Bloomberg, ESM, and IMF SDR data

**Table 3.**  
**Pricing structures**

	Reference rate (as of July 2019)	Basic margin	Surcharges	Commitment fees	Service fees
IMF	SDR interest rate (100 basis points)	100 basis points	Up to 300 basis points depending on duration and level of credit outstanding	Up to 60 basis points depending on access level based on a tiered structure; <sup>1</sup> fees are refunded if the amounts are drawn in the relevant period	50 basis points
AMF	SDR interest rate <sup>2</sup>	60 basis points	100 basis points (on overdue amounts only)	0.25% of the value of each disbursement; zero commitment fees on the automatic loan	0.35% of the value of the total loan amount, except for the automatic loan (0.25%)
BRICS	Libor <sup>3</sup>	Yes	Yes	Only for precautionary facility	-
CMIM	6-month Libor USD (229 basis points)	150–300 basis points depending on the linkage with the IMF and drawdowns drawings		15 basis points (for precautionary facility)	-
EFSD	Mix of Russian and Kazak Eurobond yields <sup>4</sup> (400 basis points)	-	-	-	-
ESM <sup>5</sup>	Cost of funding base rate calculated daily	+ 10 basis points	+ 200 basis points (on overdue amount only)	Applied ex post based on the negative carry incurred	50 basis points upfront over disbursed amount, 0.5 basis points per annum
EU facilities <sup>6</sup>	Cost of funding (196 basis points)	Small fees deducted directly from the funds mobilised for beneficiary members			
FLAR	3-month Libor USD (220 basis points)	300–400 basis points	30 basis points prepaid/commission		

<sup>1</sup> 15 basis points on committed amounts up to 115% of quota, 30 basis points on committed amounts above 115% and up to 575% of quota and 60 basis points on amounts exceeding 575% of quota.

<sup>2</sup> AMF members can choose between two interest rate systems: (i) a floating rate based on the six-month SDR interest rate or (ii) an active fixing rate calculated, which is also linked to the SDR rate (i.e., a swap rate of the SDR for the corresponding term of the loan).

<sup>3</sup> Source: National Treasury of South Africa: <http://www.treasury.gov.za/brics/News/2014072301%20-%20FAQs%20on%20BRICS%20Summit.pdf>

<sup>4</sup> Middle-income borrowers in the EFSD membership can choose between two pricing options: (1) a floating pricing based on a 50/50 mix of Russian and Kazakh Eurobonds with a duration comparable to an EFSF loan, currently at 400 basis points; (2) a fixed rate of 406 basis points, which was granted to Belarus in 2016. Exceptions to the rule could be considered. In any case, cost of borrowing is capped at 4.9% for middle-income borrowers. For EFSD's low-income members, a fixed interest rate, currently set at 100 basis points, is offered (Financial Credit for BoP and budget support). There are no other fees, charges, or commissions.

<sup>5</sup> We extract information from the current ESM pricing policy, which is under revision. The margins charged at the ESM depend on the facilities used: 10 basis points are the margins for an ESM loan programme. The margins increase to 35 basis points for precautionary instruments and to 75 basis points for the Direct Recapitalisation Instrument.

<sup>6</sup> EU facilities include the EFSM, EU BoP facility, and the EU MFA as they all are financed in the same way. They are not explicit margins but the European Commission uses part of the funds to cover administrative costs. Given that the EU facilities are financed back-to-back the indicated reference rate is a weighted average of the yields on EU securities issued for the EFSM and MFA programmes; the EU BoP programmes are repaid.

Source: Authors' depiction based on information publicly available on IMF and RFA websites

## Conditionality

Programme conditionality is another important aspect of crisis resolution and prevention. Official-sector assistance, like an insurance contract, is designed to contain the impact of exogenous shocks, but overreliance on insurance could encourage risky behaviour and ill-advised policymaking. Making instruments easily accessible and predictable helps to manage a crisis and increase market confidence but could lead to moral hazard risks. Requesting conditionality in exchange for official-sector lending could impel beneficiary members to undertake clear reforms to bring their economies back to a sustainable path. In turn, the growth benefits from the combined policy adjustment and financing will also enhance the borrowing country's repayment capacity.

The IMF's experience is the inspiration for discussions on conditionality among RFAs. In the IMF's framework, conditionality refers to policy adjustments proposed by the borrowing country and agreed with the IMF in exchange for financial assistance. The system of conditionality is designed to promote national ownership of strong and effective policies. In this paper, IMF conditionality always refers to the Upper-Credit-Tranche conditionality, since any IMF member can use the first 25% of its quota outright without conditionality.

A borrowing member state proposes a set of economic and financial policies to the IMF in a memorandum of economic and financial policies together with a letter of intent seeking financial aid. Once agreed, conditionality will be checked regularly during programme reviews; if a review is positive, a financing instalment will be disbursed. The conditionality can also take different forms, such as: prior actions needed before the IMF approves financing or completes a programme review, quantitative performance criteria with measurable conditions to be achieved to conclude a review and make the next disbursement, indicative targets that assess progress in meeting a programme's objectives, and structural benchmarks that deal with non-quantifiable goals.

Based on the IMF's experience, conditionality sets clear programme objectives and indicates a stepwise path to achieve them. Conditionality attached to IMF arrangements boosts market confidence in times of crisis (Ghosh, et al., 2008). However, political stigma comes as a side effect of conditionality. IMF programmes carry a particular stigma, given the perception that they could lead to lower disposable income, at least in the short run. Some political scientists, such as Forster et al. (2019) and Stubbs et al. (2018), have provided some empirical evidence on this.

In light of the IMF's experience, the practice of associating policy adjustments with financial assistance differs across regional crisis fighters. The European RFAs have adopted very similar approaches to the IMF's. For instance, both the EU BoP facility and the ESM's loan facility require a set of policy adjustments created to help the beneficiary member return to a sustainable growth path. While the IMF focuses mainly on macro-critical conditions, EU conditionality is broader in scope, extending into additional policy areas, especially structural reforms. The EFSD's recent crisis resolution experience also shows the institution's intent to incentivise its members to implement structural reforms.

The BRICS CRA and the CMIM both have 70% of their total resources linked to IMF financing commitments, which come with upper credit tranche conditionality. As for the remaining 30% of standalone resources, the CMIM has tasked its surveillance unit, AMRO, to set up its own conditionality guidelines.

FLAR does not require conditionality in exchange for its financial assistance. In some cases, for instance for its contingency loan, it could ask for acceptable collateral, which could take the form of central bank deposits. FLAR's approach has never resulted in a default on its credit over its 40 years of operations. Recent research also shows that FLAR may also have leveraged on IMF financing to a common member state for conditionality (Cheng, Giraldo, & Hamel, 2019).

### **3. Reflections on enhancing IMF-RFA collaboration when common members need financial assistance**

Sections 1 and 2 highlight and compare the key features of IMF and RFA instruments and lending policies related to their financial assistance programmes. This stocktaking exercise sheds light on the similarities and differences across institutions. This section first lays out the rationale for these commonalities and differences, which will guide the search for collaborative areas and approaches. We will then provide our thoughts and recommendations for enhancing IMF-RFA collaboration in crisis prevention and resolution.

### **Rationale behind commonalities and differences**

The similarities stem first from the common objective of providing emergency liquidity in crises. The IMF's primary objective is to ensure the stability of the international monetary system, which means providing liquidity during crises to member countries experiencing actual, prospective, or potential BoP problems that can lead to disruptive exchange rate movements. A number of RFAs have similar objectives in their regions and are mandated to address BoP needs only. Typical loans or credit lines for BoP support aim to provide short- to medium-term assistance with which beneficiary members are expected to make quick adjustments in a three-year time window. As delineated in Section 1, this type of instrument is very common among the RFAs dealing with BoP imbalances.

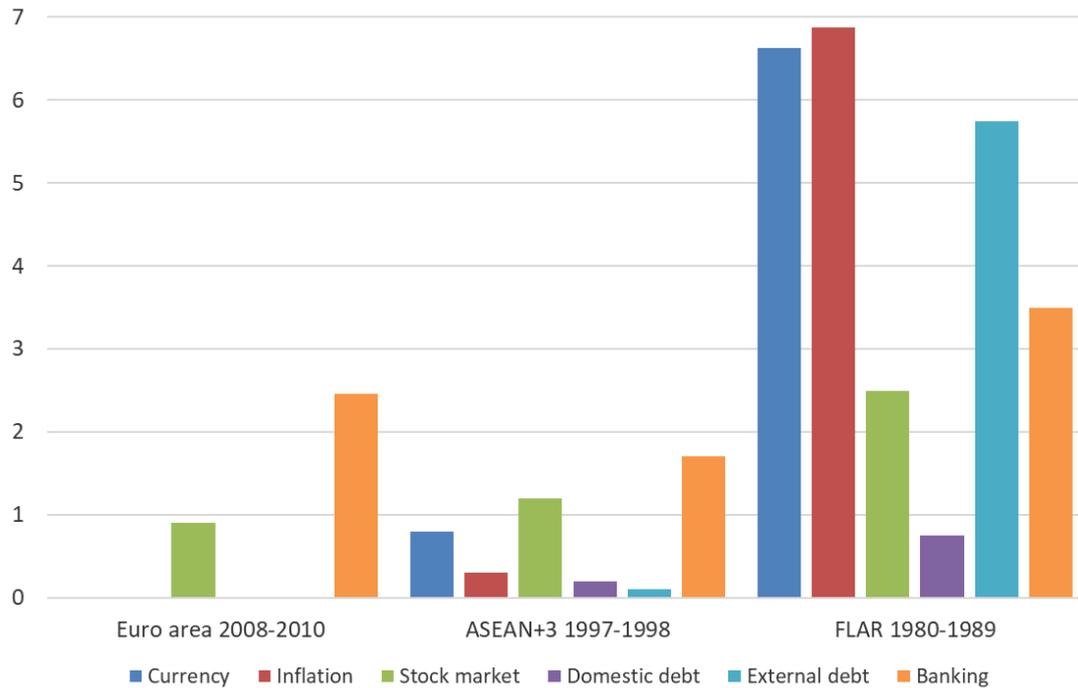
Second, the IMF was created far earlier than any regional crisis resolution mechanism and has long-standing experience in providing liquidity to a diverse group of beneficiary member states throughout different types of crises. The IMF's toolbox and policies often serve as a prototype for RFAs. Therefore, the IMF SBA-type instrument has inspired the design of the workhorse instruments at many RFAs.

Finally, and also most importantly, all crisis resolution mechanisms, which act as both insurance and public goods providers, need to address common concerns. They must all strike a balance between providing that insurance in a timely and sufficient manner, while also containing moral hazard risks and safeguarding public resources (Scheubel & Stracca, 2016). This explains why the IMF and RFAs share certain similar elements in their policy frameworks, such as eligibility criteria, safeguard measures, conditionality, and pricing strategies with incremental surcharges. Of course, different institutions have different views of where the right balance lies, because of varying regional contexts.

The institutions' toolboxes and underlying policies nevertheless display considerable heterogeneity, which is largely explained by specific regional contexts. Those differences reflect the varying membership features, past crisis experience, and the specific political and institutional set-ups in a given region. Regional specificities often shaped the RFA toolkit towards particular regional needs.

For instance, not all regions are affected by the same types of shocks. Figure 5 compares the recent euro area shocks during the global financial crisis with the Asian financial crisis of 1997–1998 and the Latin American debt crisis in the 1980s. The euro area mainly faced a banking crisis driven by the feedback loop between sovereigns' and banks' balance sheets. This explains the ESM's strong focus on safeguarding financial stability and motivated the creation of facilities specific to banking sector restructuring. Asian countries suffered principally a twin currency-banking crisis with implications for stock markets. Currency mismatches were at work and amplified the transmission mechanisms of financial constraints to the real economy. Therefore, the Asian safety nets mostly aimed at providing timely short-term dollar liquidity to fight capital reversals. In comparison, FLAR member countries experienced shocks of a different nature during the Latin American crisis of the 1980s. In addition to currency crises, prohibitive price surges and external debt problems were the most salient.

**Figure 5**  
**Varying shocks facing 28 countries in three RFA memberships**



Source: Cheng (2019)

Note: Crisis classification and data come from Reinhart and Rogoff (2011). Reinhart and Rogoff's database includes only 11 euro area countries and nine ASEAN+3 countries while FLAR's full membership – eight countries – is covered. The average occurrence of a crisis is calculated as the total number of shocks divided by the number of countries in the sample for a given RFA. Data available until 2010 only.

In addition, RFAs have very diverse memberships. The EU RFAs cover mostly advanced economies. As a result, ensuring members' market access becomes a key policy objective which can be achieved through a range of tools, including sovereign bond market interventions. Many other RFAs, notably the AMF and the EFSF, have low-income countries in their memberships, impelling the creation of concessional lending tools and frameworks.

Finally, we also acknowledge that EU members, especially the currency union members, face stronger policy constraints, given that national authorities no longer control certain policy instruments, such as interest rates or exchange rates. The IMF also recognises this additional layer of complexity in its policy on programme design in currency unions (IMF, 2018b). Moreover, economic interlinkages grow with regional integration, which could yield stronger contagion risks in crises. The currency-union specific features persuaded the ESM and its predecessor the EFSF to retain some degree of freedom when deciding the length and maturities of financial assistance. Corsetti et al. (2018) also show that euro area programmes have benefitted from ESM loans with longer maturities, which generate a stronger effect on sustainability than loans with lower spreads.

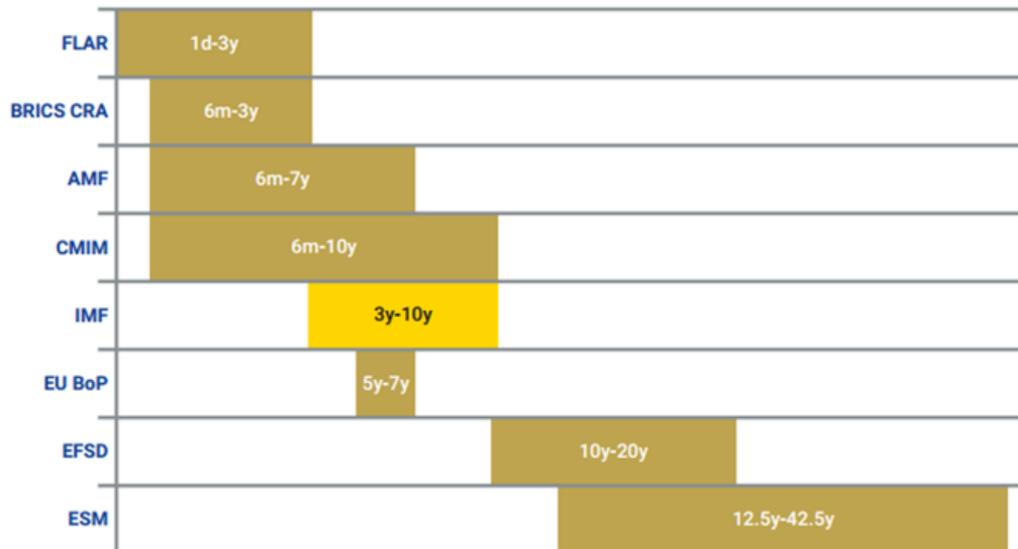
### Exploring potential instrument complementarities

This paper, building on our stocktaking exercise and the survey inputs we received from the IMF and peer RFAs, provides some reflections on enhancing inter-institutional collaboration to deal with future crises. Collaboration is understood here as creating synergies between existing toolboxes as well as borrowing each other's experience for instrument review and development of possible new instruments in the future.

Our work explores in greater detail the initial findings of Cheng et al. (2018) that RFAs can

complement IMF financing by increasing the overall firepower and offering complementary financing terms (see Figure 6). There seems to be a sequential complementarity possible between the IMF and RFA tools from both the shorter- and longer-term spectrum.

Figure 6  
Potential complementarity in programme maturity



Source: Cheng et al. (2018)

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

The idea of sequential complementarity, especially for short-run assistance, is not new to academics or policymakers. Jeanne (2010) puts forward the general idea of a “two-tier system” for an RFA to act as the first line of defence bolstered by IMF financing with stringent conditionality. Sussangkarn (2011) looks at the Asian case and argues that the Asian RFA should act quickly to provide short-term liquidity with no conditionality, while the IMF can provide additional assistance with a bigger envelope and policy adjustment conditions. In the same vein, the G20 Eminent Persons Group proposed a standing liquidity facility both at the IMF and RFAs to ensure timely access to temporary support. Qualifying for the proposed IMF liquidity instrument would automatically activate the same type of instruments at RFAs (G20 EPG, 2018).

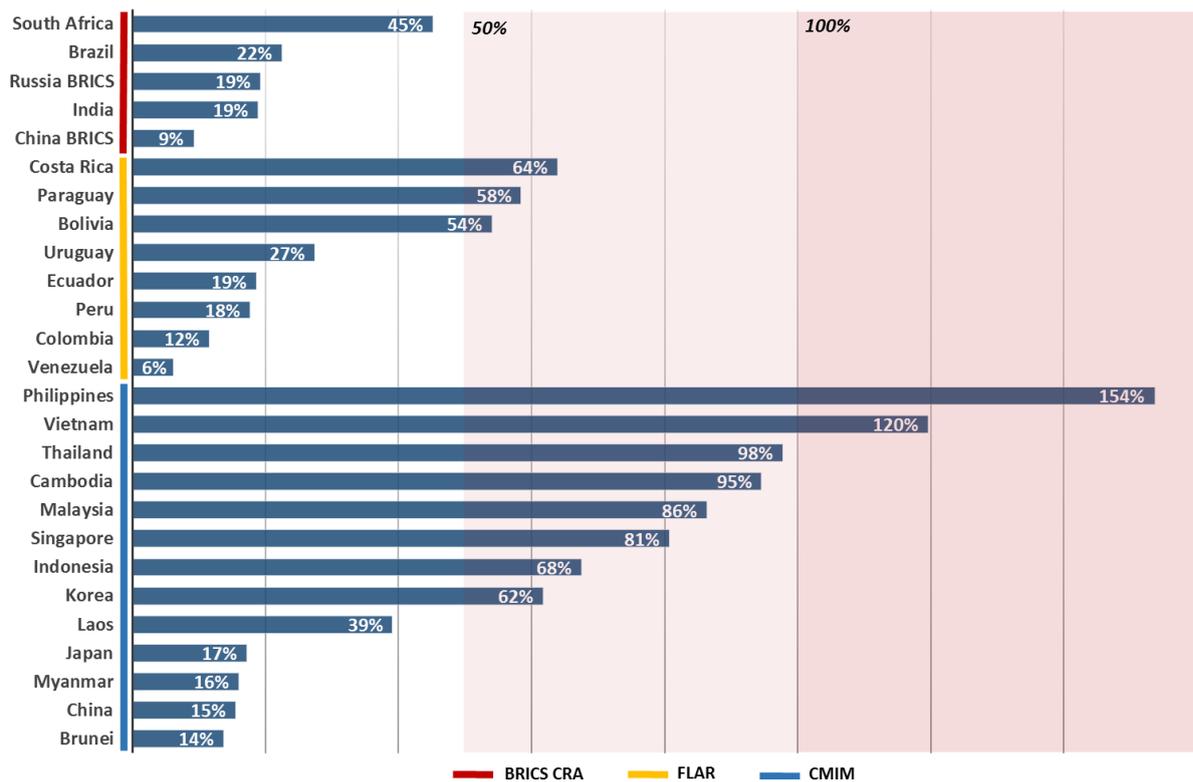
The G20 Eminent Persons Group's work coincided with the IMF staff proposal of creating a swap-line type arrangement of a revolving nature, called a Short-term Liquidity Swap or SLS (IMF, 2017b). IMF staff designed this swap-type instrument as a special facility for liquidity support without ex post conditionality. Potential users are countries facing potential BoP needs of a short-term, frequent, and moderate nature, resulting from capital account pressures due to external developments. The proposal did not, however, find sufficient support at the IMF's Executive Board.

This stocktaking exercise seems to suggest that some instruments available at selected RFAs could serve as such a standing liquidity facility, providing quickly accessible financing to satisfy member states' urgent liquidity needs in times of crisis. These are: the IMF-delinked portions of the BRICS CRA liquidity instrument and the CMIM-SF, AMF short-term liquidity facility, and FLAR's liquidity instrument. Annex 1 shows some commonalities of these liquidity facilities. They are designed to be quickly disbursable with limited available funds (up to 30% of the total available resources at the BRICS CRA and CMIM for instance). They can either transit to other

facilities (the IMF-linked portions) or be combined with other available RFA facilities (for the AMF and FLAR).

Figure 7 compares the currently available liquidity instruments at a number of RFAs with the IMF SLS proposal. Such a comparison clarifies whether the existing tools could fill the apparent toolkit gap, at least in terms of the size of available resources. We express the size of the liquidity facilities available at selected RFAs as a ratio of the IMF SLS proposal for the same RFA members as designed in IMF (2017b), namely 145% of a member's quota. For eight out of 14 jurisdictions covered by the CMIM, their access limit under the 30% IMF-delinked portions is very close to or exceeds what they are entitled to in the IMF SLS proposal. For three FLAR members, what the FLAR liquidity instrument can offer represents between 54% and 64% of their annual entitlement under the proposed SLS. The resources available for South Africa under the 30% delinked portion of the CRA Liquidity Instrument are also close to 50% of the available resources under the IMF swap proposal for the country. AMF countries are not represented in the graph, as their access to the AMF short-term liquidity facility (up to 100% of members' paid-up subscription in convertible currencies) is negligible compared with the IMF proposal. A caveat in this comparison is that the swap proposal is designed as a revolving instrument; the 145% normal access is a yearly limit.

**Figure 7**  
Comparing RFA 'liquidity' facilities with the IMF SLS proposal



Source: Authors' calculations based on information publicly available on IMF and RFA websites

Note: Hong Kong is excluded from the CMIM in the graph as the special territory is not eligible for IMF resources as a Special Administrative Region of China.

As Figure 6 shows, the sequential complementarity can also be understood from the longer time horizon. For instance, the ESM can accompany a euro area country for much longer than the IMF's SBA and EFF. The IMF and the ESM could think about how to better leverage the diverse financing terms of their instruments, to help a common member address different problems at

different time horizons. The IMF 2018 review of programme design and conditionality highlights the increase in the number of EFF provided between September 2011 and end-2017 in comparison with the previous review cycle (IMF, 2019). This increase testifies to the IMF's growing need to tackle protracted and structural BoP problems. Given the possible requirement of longer future programmes, the 2019 policy paper (IMF, 2019) finds it useful to consider combining any drawing programmes focusing on macroeconomic stabilisation with a follow-up PCI. In the future, the IMF could also leverage the term complementarity of RFAs' long-term lending facilities.

There is room to further explore sequential complementarity of the instruments available at the IMF and RFAs, both from the short- and long-term end. This would require that institutions enhance their mutual understanding of each other's instrument request procedures and facilitate timely technical-level exchange at the programming phase. Discussions should also focus on creating relevant policies to limit the potential for moral hazard, and on embedding the necessary safeguard measures to bolster confidence so that different institutions are willing to intervene in a common member state but at different times. Instrument test runs, and more importantly sharing feedback after test runs between the institutions involved and with other crisis resolution mechanisms, could help to identify any hurdles to sequential complementarity.

As for precautionary instruments, this paper's inventory shows that the BRICS CRA, CMIM, ESM, and FLAR have tools for crisis prevention, alongside the IMF. The ESM's PCCL and ECCL and the CMIM-PL are precautionary instruments similar to the IMF FCL and PLL with clearly defined qualification criteria and assessments. In contrast, the CRA precautionary line and the FLAR liquidity instrument have less explicit eligibility prerequisites. However, they set strong financial safeguards in terms of central bank guarantees to ensure the appropriate use of the precautionary instruments and repayment from beneficiary members.

The IMF and the RFAs concerned should pay particular attention to and discuss the two salient differences of their precautionary instruments highlighted in Section 1. Namely, the IMF's FCL, PLL, and precautionary SBA are designed for actual, prospective, and potential BoP needs. Most RFAs instead demarcate clearly between crisis resolution and crisis prevention tools; their precautionary tools can only be solicited for potential financing needs. Second, despite similar qualification criteria, the IMF differs in its approach to qualification from the CMIM and ESM.

These differences provide room for collaboration if the institutions use them wisely. The IMF's precautionary instruments can address both actual and prospective financing needs, allowing a common member to combine them with an RFA financing facility, subject to the member's qualification. In this scenario, the IMF precautionary instrument facility could be used as an additional signalling tool to enhance market confidence or to help the member smoothly exit the RFA financing facility. Similarly, a common member could also solicit two precautionary arrangements simultaneously from both the IMF and an RFA to benefit from a stronger policy stamp and insurance, which Romania did in 2011–2013 and 2013–2015.

The institutions having precautionary credit lines with ex ante qualification should also encourage discussions on potential differences in their qualification approaches. In fact, despite qualification criterion alignment, conflicting qualification outcomes could result from differences in the qualification approach to the precautionary facilities available at different institutions. If a common member solicits two credit lines with ex ante conditionality from the IMF and an RFA, diverging outcomes could have a negative market impact on the soliciting member were that information to leak. Given that the qualification process is confidential and subject to each institution's legal and policy frameworks, the institutions involved should consider how to accommodate a timely exchange of views to discuss the sources of diverse outcomes and the solutions. At the current stage, neither the CMIM-PL nor the ESM PCCL/ECCL has been used; future requests will provide inputs for the instruments' review and

enhancement. In the meantime, the IMF and RFAs concerned could benefit from an in-depth exchange of views as well as test runs simulating potential scenarios of possible assessment divergence.

In 2017, in the context of enhancing the adequacy of the Global Financial Safety Net, the IMF developed a non-financing and signalling tool for all IMF members, the PCI (IMF, 2017a). This instrument is designed for countries seeking to demonstrate commitment to a reform agenda, which comes with a fully-fledged IMF programme. Actual financing is expected to come from third-party financiers, including RFAs. Therefore, the IMF sees the PCI as an additional way to engage with its regional peer institutions. No RFA members have as yet solicited this signalling tool or the PSI for low-income countries. As a result, the coordination between an IMF programme and RFA financing remains untested.

In addition, the survey inputs from all RFAs indicate the perception of limited use of the PCI or PSI in current RFA memberships. The BRICS CRA and CMIM see legal constraints, for example, in using the PCI and PSI to unlock the IMF-linked portions of their regional resources. The Treaty for the Establishment of a BRICS Contingent Reserve Arrangement conditions the IMF-linked portion on “the existence of an on-track arrangement between the IMF and the Requesting Party that involves a commitment of the IMF to provide financing to the Requesting party based on conditionality, [...] (article 15 d(ii)).” The IMF and the RFAs concerned should continue discussing the potential to overcome any legal constraints on the use of PCI/PSI in a regional context.

As for the EU members protected by the ESM and the EU BoP facility, there is a common understanding that the EU policy coordination frameworks provide clear and regular signals to markets on countries’ economic performance and have policy prevention and correction mechanisms for fiscal and macroeconomic imbalances. In addition, EU members have appropriate and standing vehicles for close policy dialogue with the IMF. Therefore, the scope for future collaboration in the context of the PCI seems limited in the European context.

In light of the above, the IMF could help RFA colleagues to further explore the room for collaboration in the context of IMF signalling tools. RFAs might find it interesting to explore the PCI’s long four-year programme duration and the instrument’s technical assistance focus. An exchange of IMF-RFA views might prove fruitful. Conceivably, concerns over potential incompatibility between the IMF PCI and RFA financing could be worked out through a joint test-run.

In general, IMF facilities are also designed to play a role through their catalytic effects, by inducing private capital flows. RFAs should engage the IMF in technical discussions to find the best way to leverage the signalling or catalytic effect of the IMF facilities.

**Recommendation 1: Where appropriate and applicable, the IMF and RFAs should leverage their instrument diversity to provide coherent and complementary assistance to common members.** For all instruments considered, test runs between the IMF and RFAs could identify potential synergies and issues should a common member state consider requesting facilities from both.

**1.1 Crisis resolution tools:** future collaboration should aim at exploiting synergies with regard to differences in the timeframe for approval, the programme duration, and the need to address shocks of different natures simultaneously. Early technical-level engagement between the IMF and RFAs could help explore sequential complementarity for co-financing. Discussions on safeguard measures to prevent programme shopping and limit potential moral hazard should also be encouraged.

- 1.2 Crisis prevention tools:** the IMF and RFAs should further examine the frameworks governing the access to and use of their instruments of a precautionary nature, and work towards aligning qualification frameworks while maintaining each institution’s independent decision-making.
- 1.3 Signalling tools:** the IMF and RFAs should discuss the best way to leverage the IMF’s catalytic effect in unlocking alternative financing. The IMF and RFAs could benefit from joint test runs on potential synergies between the IMF PCI/PSI and RFA financing.

### Enhancing mutual understanding and alignment of lending policies

For the IMF and RFAs to have the confidence and solid policy grounding to explore instrument synergies and keep countries from “programme shopping,” some academics and policymakers have strongly advocated aligning different institutions’ lending frameworks, referred to as their “commitment devices” (Jeanne, Zettelmeyer, & Ostry, 2008). Di Mauro and Zettelmeyer (2017) have called on RFAs to enhance their internal commitment devices that “prevent lending in unsustainable debt cases unless there is a debt restructuring at the same time”. In the spirit of Di Mauro and Zettelmeyer (2017), debt sustainability, which could pertain to both sovereign and private debt depending on a crisis resolution mechanism’s mandate, should constitute a prerequisite for official sector lending.

This paper’s analysis indicates that the different institutions share a general understanding that official sector lending aims to address a liquidity issue and that this financial assistance should be provided against safeguard measures or conditionality. The IMF has the most codified lending frameworks and has adapted them to the evolving global environment. Therefore, we see lending policy alignment as another important area on which the IMF and RFAs should work closely together.

The RFAs can benefit from the IMF’s long experience in designing and reviewing access policy, pricing structure, and conditionality design. The ESM has, for instance, made debt sustainability an explicit requirement for ESM lending during the current treaty revision, which was directly inspired by the IMF’s practice. Similarly, IMF conditionality guidelines and the recent conditionality review (IMF, 2019) have also encouraged the CMIM to develop its own framework.

However, enhancing RFAs’ lending frameworks should also factor in regional specifics and RFA mandates. The IMF relies heavily on its strong commitment device, mainly because IMF-supported programmes are designed to catalyse spontaneous external financing from the private sector. Lending conditions and conditionality need to send a clear signal to the markets on the beneficiary member’s commitment to conducting policy reforms and returning its economy to a sustainable path. Where an RFA aims to provide liquidity only, for instance as a bridge to the approval of a fully-fledged programme with the IMF, it should clearly distinguish its lending framework from the IMF’s and make sure that more vulnerable members can benefit from emergency liquidity provision. Having aligned policies with the IMF could prevent certain members, especially the most vulnerable ones, from timely access to official assistance. On the contrary, if an RFA finances long-term structural reforms, stringent scrutiny of member states’ access, in line with the IMF’s Exceptional Access Framework, is justified. Regular exchange of views between the IMF and RFAs could help different institutions to strike a balance between enhancing the signalling effect of official-sector lending and ensuring access to timely emergency liquidity by certain RFA members.

Finally, in our bilateral consultations with RFAs, a number of RFAs have also highlighted the importance of understanding the IMF’s financing assurance policy. For some institutions, this

policy provides an entry point for an RFA to interact with the IMF when a member approaches the RFA to fill the financing gap. At the same time, for some other RFAs, IMF financing assurances policy remains elusive in practice, despite IMF staff efforts to provide clarifications in recent IMF policy papers (IMF, 2017d). Sometimes RFAs could feel obliged to provide satisfactory evidence of their engagement given especially unsynchronised co-financing time horizons. It could thus be useful for the IMF and RFAs to have dedicated discussions on the IMF financing assurance policy.

**Recommendation 2: the IMF’s lending framework should inspire RFAs’ tool and policy developments. RFAs need to strike a balance between strengthening lending policies as a commitment device and providing timely assistance in line with their mandates.** It is important to recognise that, in some cases, financing from RFAs may be the first or sole line of defence available to the most vulnerable members.

### Maintaining programming and policy development experience

Our stocktaking exercise has also highlighted that, for any crisis resolution mechanism, instrument and policy design has never been a one-off exercise. Current facility and lending frameworks at different institutions, especially at the IMF, have gone through repeated processes of design, testing, review, and redesign. For instance, as Section 1 documents, the IMF started to work on precautionary lines of defence based on pre-qualification in 1999 and the effort culminated in the creation and recent redesign of the FCL and PLL. In the meantime, several other instruments, like the CCL and SLF, were created and then expired. Recently, some RFAs, the CMIM and the ESM for instance, have also engaged in instrument review and policy developments. These reviews generate valuable regional insight into key questions all crisis fighters face, such as how to enhance instrument predictability and reduce programme stigma, or the trade-off between swift decision-making in crisis times and the need to contain moral hazard.

All institutions with a crisis resolution and prevention mandate should value this experience of instrument and policy redesign as a rare resource. Past successful design of new instruments or new lending policies can inspire peers’ review work in the future. Even less successful efforts could help peers to draw lessons and avoid similar mistakes. The IMF and RFAs should, therefore, think collectively about how to take stock of their policy and toolkit development experience. Of course, timely and transparent sharing of an institution’s policy developments with the group, within the scope of its information-sharing policies, is a useful step forward. In this regard, the IMF has engaged informally with RFAs on its recent policy reviews, for instance, the review of conditionality, MAC DSA Review, and Comprehensive Surveillance Review. The ESM has also updated IMF colleagues about ongoing ESM reforms. In the future, it would also be very useful for the IMF and RFAs to share the lessons from less successful experiences with instrument and policy design. Ad hoc bilateral exchanges on specific policies, such as the IMF Exceptional Access Framework, could be encouraged especially when an RFA intends to review or develop policies similar to the IMF’s.

Financial programming experience is also a rare resource. Given that not all RFAs have had actual crisis resolution experience and that the chances for them to face future crises are also unevenly distributed across the regions, RFAs might benefit from working closely with the IMF to share collectively their institutional memory of programme design. The IMF has, of course, by far the longest experience, but regional crisis resolution expertise could provide insight and lessons for the IMF’s future work in the specific regions. The group of RFAs and the IMF could think about

how best to discuss concrete country programme cases. Collective reflection could place the emphasis on the rationale behind the determination of the programme size, length, and the facilities used. It could even be useful to look at recent co-financed programmes and think about alternative co-financing strategies. Some of these post-programme reflections have been carried out by individual evaluation offices or units of different institutions. For instance, the IMF Independent Evaluation Office, the ESM, and the European Commission have sponsored independent evaluations of euro area programmes. Looking forward, RFAs should seek the IMF's assistance to set up a roster of staff members with financing programming experience and make them public goods for all crisis resolution mechanisms. The IMF's roster of experts for technical assistance missions could provide a useful example of how to leverage specific expertise available at peer institutions.

**Recommendation 3: The IMF and RFAs should encourage experience sharing as regards programme design and instrument/lending policy development and review, in full respect of institutions' confidentiality and information-sharing requirements.** Past experiences in one institution – successful and less successful – could help others draw lessons and avoid mistakes. A roster of available experts with programme design and resolution experience could be developed to facilitate transmission and maintenance of expertise.

## Conclusion

---

This paper investigates the extent to which global and regional crisis fighters could further explore the complementarities in their financial assistance toolkits and thus enhance their cooperation in crises. For this, we first scrutinise the existing tools for crisis prevention and resolution available at the IMF and seven RFAs (AMF, BRICS CRA, CMIM/AMRO, EFSF, EU facilities administered by the European Commission, ESM, and FLAR). This stocktaking exercise provides a comparative and detailed presentation of the toolkits and lending practices across the institutions concerned, which can help the reader to find relevant information in one place.

RFAs drew inspiration from the established experience of the IMF to shape their own instruments and lending policies, thus there are some similarities between their toolboxes. For instance, loans and credit lines are typically the institutions' workhorse instruments. Some RFAs developed precautionary instruments inspired by the IMF FCL and PLL. Just as the IMF has specific tools for PRGT-eligible countries, a few RFAs have concessional facilities for their low-income member countries.

Heterogeneity across institutions also exists for both specific terms of assistance and lending policies. Instruments range from emergency liquidity provision without conditionality to medium- to long-term loans targeting structural reforms. Some RFA precautionary instruments appear to have similar eligibility criteria but different qualification approaches compared to the IMF's FCI and PLL. In addition, some regions have developed sector-specific instruments while the IMF cannot do sectoral lending.

The heterogeneity is largely explained by variance in mandates, which depend on the political and institutional context in which each RFA operates. The IMF aims to capture the most common challenges affecting its global membership; RFAs, on the other hand, are equipped with tools to respond to shocks to which their regional members are most prone. Despite diverse contexts, our study stresses that the variety of the available instruments and the underlying policies and terms are a source of complementarity to tailor specific needs of the common members, provided that adequate safeguards to limit moral hazard risks are put in place.

This analysis proposes three sets of recommendations aimed at enhancing IMF-RFA collaboration on toolboxes, lending frameworks, and on drawing lessons for designing new facilities and reviewing the existing ones. IMF and RFAs should develop synergies regarding the timeframe for request approval, programme duration, and the need to address shocks of different natures simultaneously. Early technical-level engagement between the IMF and RFAs could help explore sequential complementarity for co-financing. Concerning the preventive tools, in-depth discussions about access policy among the pertinent RFAs and the IMF and about assessing the impact of diverging qualification outcomes on potential users would be advisable. The paper also recommends the IMF and RFAs discuss how best to leverage the IMF's catalytic effect in unlocking alternative financing and to examine potential uses of IMF signalling tools. To address these collaborative challenges on crisis prevention and signalling instruments up front, more test runs between the IMF and RFAs should be conducted in the upcoming months. These exercises would aim to identify potential synergies and issues in case a common member state considers applying for precautionary facilities from both an RFA and the IMF. In addition, they would equip institutions with valuable knowledge of each other's protocols and practices which, in turn, could considerably smooth cooperation should the tested scenario materialise. It is also suggested that aligning standards of lending frameworks between the IMF and RFAs is important for seeking instrument synergies, limiting cross-institutional inconsistencies, and

avoiding programme shopping. Finally, the IMF and RFAs could benefit from experience sharing as regards programme design and instrument/lending policy development and review. Past experiences in one institution – successful and less successful – could help the others to draw lessons and avoid mistakes. RFAs could solicit the IMF's assistance to develop a roster of available experts with programme design and resolution experience and consider staff exchange to ensure transmission and maintenance of expertise.

Prevention is better than cure. Given the increasingly global nature of economic shocks, global and regional crisis fighters will likely be called upon to join forces in the future. This would require the institutions to use tranquil times to prepare. Hopefully, this study has provided some fruitful future avenues to develop toolkit and policy complementarities between the IMF and RFAs.

## References

- AMF. (2018). *Annual Report*. Abu Dhabi: Arab Monetary Fund.
- AMRO, ESM, FLAR, AMF and EFSD. (2018, October 10). *Joint statement on the 3rd High-Level RFA Dialogue*. Retrieved from <https://www.esm.europa.eu/press-releases/joint-statement-third-high-level-rfa-dialogue>
- Buchheit, L., & Lastra, R. (2007). Lending into Arrears - A Policy Adrift. *The International Lawyer*, pp. 939-955.
- Cheng, G. (2019). Reflections on the development of Regional Financing Arrangements: experience from Europe. In N. Yoshino, C. J. Kim, F. Taghizadeh-Hesary, & S. C. Park, *Economic Integration: Should Asia Follow Europe or Create Its Own Model?* Asian Development Bank Institute.
- Cheng, G., & Lennkh, A. R. (2019). *RFAs' Financial Structures and Lending Capacities: a statutory, accounting and credit rating perspective*. Luxembourg: ESM Working Paper no.42.
- Cheng, G., Giraldo, C., & Hamel, M. (2019). *IMF-RFA cooperation: a de facto approach*. European Stability Mechanism.
- Cheng, G., Miernik, D., Barnieh, Y., Han, B., Sari, I. M., Pang, F., . . . Monroy, V. (2018). IMF–RFA collaboration: motives, state of play, and way forward. *ESM Discussion Paper no.4*.
- Corsetti, G., Erce, A., & Uy, T. (2018). *Debt sustainability and the terms of official support*. London: CEPR Discussion Papers 13292.
- Corsetti, G., Guimaraes, B., & Roubini, N. (2006). International Lending of Last Resort and Moral Hazard: A model of IMF's Catalytic Finance. *Journal of Monetary Economics*, pp. 441-471.
- Forster, T., Kentikelenis, A. E., Reinsberg, B., Stubbs, T. H., & King, L. P. (2019). How structural adjustment programs affect inequality: A disaggregated analysis of IMF conditionality, 1980–2014. *Social Science Research*, 80, pp. 83-113.
- G20 EPG. (2018). *Making the Global Financial System Work for All*. G20 Eminent Persons Group on Global Financial Governance.
- Ghosh, A. R., Zalduendo, J., Thomas, A. H., Kim, J. I., Ramakrishnan, U., & Joshi, B. (2008). *IMF Support and Crisis Prevention*. Washington, D.C.: IMF Occasional Papers 262.
- IMF. (1999). *IMF Policy on Lending into Arrears to Private Creditors*. Washington, D.C.: IMF Policy Paper.
- IMF. (2013). *Sovereign debt restructuring - recent developments and implications for the Fund's legal and policy framework*. Washington, D.C.: IMF Policy Paper.
- IMF. (2015a). *The Fund's Lending Framework and Sovereign Debt - Further Considerations*. Washington, D.C.: IMF Policy Paper.
- IMF. (2015b). *Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors*. Washington, D.C.: IMF Policy Paper.
- IMF. (2016). *Adequacy of the Global Financial Safety Net - Considerations for Fund Toolkit Reform*. Washington, D.C.: IMF Policy Paper.
- IMF. (2017a). *Adequacy of the Global Financial Safety Net--Proposal for a New Policy*

- Coordination Instrument*. Washington, D.C.: IMF Policy Paper.
- IMF. (2017b). *Adequacy of the Global Financial Safety Net—Review of the Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform—Revised Proposals*. Washington, D.C.: IMF Policy Paper.
- IMF. (2017c). *Collaboration between Regional Financing Arrangements and the IMF*. Washington, D.C.: IMF Policy Paper.
- IMF. (2017d). *2017 Handbook of IMF Facilities for Low-income Countries*. Washington, D.C.: IMF Policy Papers.
- IMF. (2018a). *Flexible Credit Line - Operational Guidance Note*. Washington, D.C.: IMF Policy Paper.
- IMF. (2018b). *Programme Design in Currency Unions*. Washington, D.C.: IMF Policy Paper.
- IMF. (2019). *2018 Review of Program Design and Conditionality*. Washington, D.C.: IMF Policy Paper.
- Jeanne, O. (2010). *Dealing with Volatile Capital Flows*. Washington, D.C.: Peterson Institute for International Economics Policy Brief.
- Jeanne, O., & Zettelmeyer, J. (2001). International Bailouts, Moral Hazard and Conditionality. *Economic Policy*, pp. 409-432.
- Jeanne, O., & Zettelmeyer, J. (2005). The Mussa Theorem (and other Results on IMF-induced Moral Hazard). *IMF Staff Papers*, pp. 1-5.
- Jeanne, O., Zettelmeyer, J., & Ostry, J. (2008). *A Theory of International Crisis Lending and IMF Conditionality*. IMF.
- Jeanne, O., Zettelmeyer, J., & Ostry, J. D. (2008). *A Theory of International Crisis Lending and IMF Conditionality*. Washington, D.C.: IMF Working Paper 08/236.
- Mussa, M. (1999). *Reforming the International Financial Architecture: Limiting Moral Hazard and Containing Real Hazard*. Reserve Bank of Australia.
- Reinhart, C. M., & Rogoff, K. S. (2011). From Financial Crash to Debt Crisis. *American Economic Review*, 101(5), pp. 1676-1706.
- Scheubel, B., & Stracca, L. (2016). *What do we know about the global financial safety net? Rationale, data and possible evolution*. ECB Occasional paper Series, European Central Bank.
- Stubbs, T., Reinsberg, B., Kentikelenis, A., & King, L. (2018). How to evaluate the effects of IMF conditionality. *The Review of International Organizations*, pp. 1-45.
- Sussangkarn, C. (2011). Chiang Mai Initiative Multilateralization: Origin, Development, and Outlook. *Asian Economic Policy Review*, pp. 203-220.
- Weder di Mauro, B., & Zettelmeyer, J. (2017). *The New Global Financial Safety Net: Struggling for Coherent Governance in a Multipolar System*. Centre for International Governance Innovation.

# Annex

## International Monetary Fund

Type of lending	General Resources Account				
Instrument	Stand-By Arrangements	Extended Fund Facility	Flexible Credit Line	Precautionary and Liquidity Line	Rapid Financing Instrument
Purpose	Present, prospective, or potential BoP need	Protracted BoP need/medium-term assistance	Present, prospective, or potential BoP need (very strong fundamentals and policies)	Present, prospective, or potential BoP need (sound fundamentals and policies)	Actual and urgent BoP needs
Length, renewal, and maturity	Length: typically 12–24 months; no more than 36 months. Maturity: 3½–5 years	Length: up to 3 years, extendable to 4 years. Maturity: 4½–10 years	Length: 1 or 2 years with a review after 1st year. Maturity: 3½–5 years	Length: Either 6 months, or 1 to 2 years. Maturity: 3½–5 years	Length: N/A. Maturity: 3½–5 years
Pricing	<p><b>Basic Rate:</b> SDR interest rate plus margin (currently 100 bps)</p> <p><b>Surcharge:</b> 200 bps on credit outstanding above 187.5% of quota; an additional surcharge of 100 bps for credit outstanding at that level for more than 36 months in the case of non-EFF or 51 months in case of an EFF</p> <p><b>Commitment fee:</b> 15 bps on committed amounts of up to 115% of quota, 30 bps for amounts over 115% and up to 575% of quota, and 60 bps for amounts over 575% of quota.</p> <p><b>Service charge:</b> 50 bps</p>				
Conditionality	Ex post; Adopt policies to resolve BoP difficulties	Ex post; Up to 4-years, with structural agenda	Ex ante; Macroeconomic fundamentals, economic policy framework, policy track record, sustainable external position	Ex ante and ex post; Sound policy framework, external position and market access. Purchases subject to ex post conditionality	Member state cooperation required. Possible prior actions
Access limit	Normal access (145% of quota annual; 435% of quota cumulative) + Exceptional Access Framework		Uncapped	125% of quota for 6 months ; annual 250% of quota available upon approval of one- to two-year arrangements; cumulative of 500% of quota after 12 months of satisfactory progress	50% of quota annually; 100% of quota cumulatively; uplift adjustment for members hit by a large natural disaster (80% and 133%)
Request procedure and decision making	Commitments described in the member country's letter of intent. Assessment by IMF staff; Decision of Executive Board		Informal and confidential consultation followed by a formal request in case of qualification. Core assessment: (i) Strong economic fundamentals (ii) Track record of policy implementation (iii) Commitment to maintaining strong policies		Commitments described in the member country's letter of intent. Assessment by IMF staff; Decision of Executive Board

Type of lending	Non-financing tools		Poverty Reduction and Growth Trust		
Instrument	Policy Coordination Instrument	Policy Support Instrument	Extended Credit Facility	Standby Credit Facility	Rapid Credit Facility
Purpose	Non-financial instrument signalling commitment to reform agenda, possibly to help unlock financing from official creditors	Non-financial instrument for PRGT-eligible countries that have no current or prospective BoP need, used to deliver clear signals to donors, creditors, and the public about the strength of the country's economic policies	Support programmes for members with protracted balance of payments problems, for poverty reduction and growth	For low-income countries with actual or potential short-term BoP needs	Provide low-access, rapid, and concessional financial assistance for urgent BoP needs without ex post conditionality
Length, renewal, and maturity	Generally 2-3 years. Minimum of 6 months, maximum of 4 years.	1 to 4 years, extendable to 5 years	Length: 3–5 years. Maturity: 5%–10 years	Length: 12–36 months; limited to 3 out of any 6 years. Maturity: 4–8 years	Length: outright loan disbursement; a repeat use possible within any 3-year period; no more than two disbursements in any 12 months. Maturity: 5%–10 years
Pricing	Costs aligned with Fund's technical assistance policy, which currently requires only advanced economies to pay for the associated administrative costs		Currently zero; review every 2 years		
Conditionality	UCT Conditionality	UCT Conditionality; the requesting member must be in a "broadly stable and sustainable macroeconomic position."	UCT standard conditionality; quantitative conditions used to monitor macroeconomic variables		N/A; Track record used to qualify for repeat use
Access limit	N/A		Normal access: 100% of quota (annual), and total outstanding concessional credit limited to 300% of quota (cumulative). Exceptional cases with hard caps of 133.33% of quota (annual) and 400% of quota (cumulative)		Annual limit: 50% of quota (up to 80% for urgent BoP need from large natural disaster, which causes damage of at least 20% of the member's GDP). Cumulative limit: 100% (133.33% for large natural disasters)
Request procedure and decision making	Commitments described in the member country's letter of intent. Assessment by IMF staff; Decision of Executive Board.	Commitments described in the member country's letter of intent. Assessment by IMF staff; Decision of Executive Board. Formal requirements for submission to the IMF of Poverty Reduction Strategy (PRS) documents.			Commitments described in the member country's letter of intent. Assessment by IMF staff; Decision of Executive Board

## Arab Monetary Fund

Type of lending	Facilities addressing balance of payment imbalances			
Instrument	Automatic loan	Ordinary loan	Extended loan	Compensatory loan
Purpose	Assist in financing the overall deficit in the balance of payments	Extended to a member country when its financing needs exceed 75% of its paid subscription	Provided to a member country with chronic BoP deficit resulting from structural imbalances	Assist a member country experiencing an unanticipated BoP deficit resulting from an export or import shock
Length, renewal, maturity	Maturity of 3 years with grace period of 18 months	Disbursement repaid within 5 years from withdrawal date and with grace period of 30 months	Disbursement repaid within 7 years from withdrawal date with grace period of 42 months	Maturity of 3 years and a grace period of 18 months
Pricing	Concessionary and uniform rates of interest and fees. Member countries have an option to choose between two interest rate systems: (i) a <b>floating rate</b> based on the 6-month SDR interest rate as determined on the first working day of each month, and (ii) an active <b>fixed rate</b> calculated on the first working day of each month based on the swap rate of the SDR for the corresponding term of the loan			
Conditionality	Normally no conditionality. Subjected to terms applied to the outstanding loans when applicable.	Ex post; stabilisation programme, covering a period of not less than 1 year	Ex post; economic reform programme covering a period of not less than 2 years	N/A
Access limit	Not exceeding 75% of member country's subscription in the Fund's capital paid	Up to 100% of the member country's paid subscription. Could be supplemented with an automatic loan to reach a maximum of 175%.	Up to 175% of the member country's paid subscription. Could be supplemented with an automatic loan to reach a maximum of 250%.	100% of the member's paid subscription in convertible currencies
Request procedure and decision making	Decision by Director General	Decision by Board of Executive Directors		

Type of lending	Facilities aiming at supporting specific sectors or purposes				
Instrument	Structural Adjustment Facility	Trade Reform Facility	Oil Facility	Short-term liquidity facility	SME's Conducive Environment Support Facility
Purpose	Support reforms by borrowing country in the financial and banking and public finance sectors	Assist member countries to meet finance costs associated with the implementation of trade reforms	Support member countries affected by the transitory rise in oil and gas imports	Assist member countries with track record of structural and economic reforms that face temporary liquidity shortage	Support reforms in SME sector
Length, renewal, maturity	Each tranche is to be repaid in 4 years from date of withdrawal			Each payment is settled after 6 months of disbursement, with possible extension of 2 terms (18 months)	Maturity of 4 years from date of disbursement
Pricing	Same as BoP instruments				
Conditionality	Ex ante and ex post. Member country is required to have started structural reforms; access is subject to agreement on a reform programme to be monitored by the Fund	Ex ante and ex post conditionality; structural reform programme	No conditionality up to 100% of subscription; ex post reform programme for up to 200% access limit	Extended promptly and without any prior agreement on a reform programme	Ex post reform programme in SME sector
Access limit	Up to 175% of the member's paid subscription in convertible currencies		Up to 100% of a member country's paid subscription in convertible currencies without programme of reforms; up to 200% with reforms	Up to 100% of the member's paid-up subscription in convertible currencies	
Request procedure and decision making	Decision by Board of Executive Directors				

## BRICS CRA

Instrument	Liquidity instrument	Precautionary instrument
Purpose	Provide support in response to short-term actual BoP pressures	Provide support in response to short-term potential BoP pressures
Length, renewal, maturity	<b>De-linked portion:</b> access of 6 months with renewal up to 3 times; maturity 6 months; <b>IMF-linked portion:</b> access one year with renewal up to 2 times; maturity 1 year	
Pricing	LIBOR + margin	
Conditionality	Safeguards measures for the de-linked portion, IMF conditionality for the IMF linked portion	
Access limit	Maximum access limits equal to a multiple of each Party's individual commitment set forth as follows: China (0.5), Brazil (1), Russia (1), India (1), South Africa (2). Max 30% delinked from IMF. If a requesting party has an on-track arrangement with the IMF, it shall be able to access up to 100% of its maximum access limit.	
Request procedure and decision making	A party that wishes to request support through the liquidity or precautionary instruments, or renewal of such support, shall notify the Standing Committee Coordinator of the type of instrument, the amount requested, and the envisaged starting date.	

## CMIM

Instrument	Stability facility	Precautionary line
Purpose	Provide support in response to short-term actual BoP pressures	Provide support in response to short-term potential BoP pressures
Length, renewal, maturity	<b>De-linked portion:</b> 3 renewals up to 2 years, maturity 6 months; <b>Linked portion:</b> 2 renewals up to 3 years, maturity 1 year	
Pricing	LIBOR + 150-300 bps margin	Commitment fee: 0.15% to CMIM-PL; if drawn like SF
Conditionality	De-linked portion: CMIM own conditionality Linked portion: IMF conditionality	Ex ante qualification (ERPD matrix) Ex post conditionality like CMIM SF
Access limit	Maximum drawing in either case is the predefined country's access limit.	
Request procedure and decision making	Executive Level Decision-Making Body	

## EFSD

Instrument	Financial credits	Investment loans	Grants
Purpose	Support anti-crisis and stabilisation programmes formulated and implemented by the borrowers	Support interstate investment projects that spur integration among member states	Provide grants to the Republic of Armenia, the Kyrgyz Republic, and Tajikistan
Length, renewal and maturity	Length: up to 5 years Maturity: 10-20 years	Length: up to 8 years Maturity: 10-20 years	N/A
Pricing	(1) 1-3% fixed for low-income borrowers; (2) variable, linked to cost of funding for Russia and Kazakhstan for middle-income borrowers	(1) 1-1.5% fixed for low-income borrowers; (2) variable, linked to cost of funding for Russia and Kazakhstan for middle-income borrowers	N/A
Conditionality	Reform programme	Disbursements against implementation actions specified in the procurement plan	Ex ante: EFSD Council approves eligible countries according to income level, projects are selected on a competitive basis
Access limit	Maximum drawing in either case is the predefined country's access limit		Grant financing facility size: up to 10% of annual net profit Grant size: USD 0.5-5 million
Request procedure and decision making	EFSD Council		

## ESM

Type of instrument	Financing instruments	Precautionary instruments		Sector-specific instruments		Other instruments	
	Loans within a macroeconomic adjustment programme	Precautionary Conditioned Credit Line	Enhanced Conditions Credit Line	Loans for indirect bank recapitalisation	Direct recapitalisation of institutions	Primary Market Support Facility	Secondary Market Support Facility
Purpose	Assist ESM members in significant need of financing, and which have lost access to the markets, either because they cannot find lenders or because the financing costs are too high	Support sound policies and prevent crisis situations from emerging, aims to help ESM members whose economic conditions are sound to maintain continuous access to market financing by strengthening the credibility of their macroeconomic performance		Preserve the financial stability of the euro area by addressing those cases where the financial sector is primarily at the root of a crisis, rather than fiscal or structural policies	Help remove a serious risk of contagion from the financial sector to the sovereign by allowing the direct recapitalisation of institutions	Engage in primary market purchases of debt securities issued by ESM members to allow them to maintain or restore their relationship with the investment community	To support the sound functioning of the government debt markets when lacking market liquidity threatens financial stability
Length, renewal and maturity	Decided case by case and specified in FFA. De facto average maturity of 14.9-42.5 years.	Initial availability of 1 year; renewable twice for 6 months each. Maturity decided case by case		Decided case by case and specified in FFA. De facto average maturity of 12.5 years (Spain).	N/A	Depending on the underlying programme	Depending on the underlying programme or specific SMSF decisions
Pricing	ESM cost of funding + margin (10bps) + commitment fees + service fees	ESM cost of funding + margin (35bps) + commitment fees + service fees		ESM cost of funding + margin (30bps) + commitment fees + service fees	ESM cost of funding + margin (75bps) + commitment fees + service fees	ESM cost of funding + margin (10/35bps) + commitment fees + service fees	ESM cost of funding + margin (5bps) + commitment fees + service fees
Conditionality	Ex post; conditional upon the implementation of macroeconomic reform programmes	Ex ante; enhanced surveillance if drawn. Available to a member state with sound economic and financial situation	Ex ante and ex post; for members with sound economic and financial situation, obliged to adopt corrective measures	Ex ante and ex post; applies to financial supervision, corporate governance and domestic law	Ex ante and ex post; addressing sources of difficulties in the financial sector or the general economic situation	No additional conditionality beyond the underlying programme	Ex ante eligibility + ex post conditionality
Access limit	No fixed maximum access per country. Overall ESM lending capacity of €500 billion. Past programmes: €6.3 billion to €130.9 billion.	No fixed maximum access per country. Overall ESM lending capacity of €500 billion.		No fixed maximum access per country. Overall ESM lending capacity of €500 billion. Past programme: €41.3 billion.	Total lending capacity of €60 billion	Max. 50% of the final issued securities	N/A
Request procedure and decision making	BoG decision (member states' Ministers of Finance)						

## EU Facilities

Instrument	EU Balance of Payments	European Financial Stabilisation Mechanism	EU Macro-Financial Assistance
Purpose	Offered outside the euro area that are experiencing or threatened by difficulties regarding their BoP	Provide financial assistance conditional on the implementation of reforms and short-term bridge loans	Form of financial aid extended by the EU to partner countries experiencing a balance of payments crisis
Length, renewal and maturity	Maturity decided on a case-by-case basis		
Pricing	Back-to-back financing conditions of the EU		
Conditionality	Ex post; measures to ensure the strength of public finances and the stability of the financial sector, structural reforms to improve economic competitiveness and growth, and safeguards against fraud	Ex post; measures for re-establishing or ensuring a sustainable BoP situation	Pre-conditions such as the respect of human rights and effective democratic mechanisms, including a multi-party parliamentary system and the rule of law. MFA is also conditional on the existence of a non-precautionary credit arrangement with the IMF and a satisfactory track-record of implementing IMF programme reforms
Access limit	Overall lending capacity of €50 billion. No fixed country access limit. Recent programmes since 2008 range from €3.1 billion to €6.5 billion (excluding precautionary lines).	Overall lending capacity of €60 billion. No fixed country access limit. Recent programmes since 2011 range from €22.5 billion for Ireland to €26 billion for Portugal.	Defined in relation to residual financing gap of IMF programme
Request procedure and decision making	A country must submit a request to the European Commission and the Council and put forward a plan outlining the policies they intend to pursue. The Commission and Council examine the request and then decide whether or not to grant financial assistance.	Council decision on the initiative of the European Commission or a member state experiencing or threatened with financing difficulties	EU's Ordinary Legislative Procedure, which means they must be proposed by the European Commission and then approved by both the European Parliament and the Council

## FLAR

Type of lending	Financing instrument		Precautionary instrument
Instrument	Balance of Payments Support	Liquidity loan	Contingency loan
Purpose	Financial support to deal with structural disequilibria	Financial support for transitory problems of actual or potential liquidity strains	Precautionary purpose
Length, renewal, and maturity	Maturity: 3 years Grace period: 1 year (capital amortisation)	Maturity: maximum 1 year; renewal possible within a year and up to 1 year and not possible beyond 1 year	Length: Up to 1 year, renewable only once. Maturity: 6 months
Pricing	3-Month Libor + spread calculated based on inter'l market indicators LA EMBI, VIX		
Conditionality	Presentation of policy measures and an economic and financial programme with period checks of objectives	No conditionality, guarantees requested	
Access limit	2.5xpaid-in capital (2.6 for Bolivia and Ecuador)	1xpaid-in capital (1.1 for Bolivia and Ecuador)	2xpaid-in capital (2.1 for Bolivia and Ecuador)
Request procedure and decision making	Board of Directors	Executive President	

# Glossary

---

<b>AMF</b>	Arab Monetary Fund
<b>BoP</b>	Balance of Payments
<b>BRICS CRA</b>	BRICS (Brazil, Russia, India, China, South Africa) Contingent Reserve Arrangement
<b>CMIM</b>	Chiang Mai Initiative Multilateralization
<b>CMIM- PL</b>	CMIM Precautionary Line
<b>CMIM- SF</b>	CMIM Stability Facility
<b>ECCL</b>	Enhanced Conditions Credit Line
<b>ECF</b>	Extended Credit Facility
<b>EFF</b>	Extended Fund Facility
<b>EFSD</b>	Eurasian Fund for Stabilization and Development
<b>EFSF</b>	European Financial Stability Facility
<b>EFSM</b>	European Financial Stabilisation Mechanism
<b>EPG</b>	Eminent Persons Group
<b>ERPD</b>	Economic Review and Policy Dialogue
<b>ESM</b>	European Stability Mechanism
<b>EU</b>	European Union
<b>EU BoPF</b>	European Union Balance of Payments Facility
<b>EU MFA</b>	European Union Macro Financial Assistance
<b>FCL</b>	Flexible Credit Line
<b>FLAR</b>	Latin American Reserve Fund
<b>GRA</b>	General Resources Account
<b>IMF</b>	International Monetary Fund
<b>LIBOR</b>	London Interbank Offered Rate
<b>PCCL</b>	Precautionary Conditioned Credit Line
<b>PCI</b>	Policy Coordination Instrument
<b>PLL</b>	Precautionary and Liquidity Line
<b>PMSF</b>	Primary Market Support Facility
<b>PRGT</b>	Poverty Reduction and Growth Trust

<b>PSI</b>	Policy Support Instrument
<b>RCF</b>	Rapid Credit Facility
<b>RFA</b>	Regional Financing Arrangements
<b>RFI</b>	Rapid Financing Instrument
<b>SBA</b>	Stand-by Arrangement
<b>SCF</b>	Standby Credit Facility
<b>SDR</b>	Special Drawing Rights
<b>SLF</b>	Short-Term Liquidity Facility
<b>SLS</b>	Short-Term Liquidity Swap
<b>SME</b>	Small Medium Enterprise
<b>SMSF</b>	Secondary Market Support Facility