

## Coordination and Collaboration with Multilateral Entities

This chapter examines the partnerships and institutional arrangements through which the IMF assisted in coordinating the response to the crisis, as well as its cooperation with national authorities, country groupings, and other international agencies.<sup>2</sup> Specifically, it describes the IMF's relationship with and role within four key operational partnerships: the G20, the FSB, the Vienna Initiative, and the Troika arrangement with the European Commission and the European Central Bank.<sup>3</sup>

The response to the crisis represents a successful example of international cooperation. The IMF played an important role within this response. It supported the G20 process including by providing analytical inputs to the Mutual Assessment Process (MAP). It took the lead in providing financial support for programs in affected emerging markets, particularly in Central and Eastern Europe. It cooperated well with partners and played important roles within the FSB, the Vienna Initiative, and the Troika, but its effectiveness and legitimacy in coordinating with these entities could have been enhanced by greater clarity on responsibilities and accountabilities.

### A. Supporting the G20 Process

The G20 assumed leadership in directing responses to the crisis as the forum was elevated to the Heads of State

(“Leaders”) level in November 2008.<sup>4</sup> This was in keeping with past experience, when the leadership for crisis response passed to political bodies (previously the G7), particularly regarding coordination among large advanced economies.<sup>5</sup> The IMF Managing Director and the Chair of the IMFC participated in G20 Finance Ministers’ meetings to facilitate transparency and coordination between the work and political support of the G20 and the universal membership of the IMF.

The IMF played a dual role in influencing the G20 and in supporting its work, especially in the early years of the crisis. It played an influential role at the November 2008 G20 Leaders’ Summit in calling for a coordinated global fiscal stimulus. Also, the G20 (which has no dedicated secretariat) looked to the IMF to provide analytical support, most prominently for the MAP. The G20 called on the IMF to collaborate with the FSB to promote financial stability and participate in the G20 Data Gaps Initiative. The IMF followed through on G20 initiatives, for instance as the G20-brokered resource mobilization strategy was adopted by the IMFC and implemented by Management and staff working with members.

The relationship with the G20 in the context of the crisis raised concerns within parts of the IMF’s membership. At successive Board meetings, assurances were sought that decisions regarding the IMF’s engagement in the G20 would first be considered by Executive Directors. Some Directors, particularly from those countries not represented in the G20, expressed misgivings

<sup>2</sup>This chapter draws on Bernes (2014), which is based primarily on interviews with current and former authorities in 22 countries, 16 of which are members of the G20, as well as with officials from the Bank for International Settlements (BIS), the European Bank for Reconstruction and Development (EBRD), the European Central Bank (ECB), the European Commission (EC), the Financial Stability Board (FSB), the Organization for Economic Cooperation and Development (OECD), and the World Bank.

<sup>3</sup>A full assessment of the IMF’s participation in the Troika will be conducted in a future evaluation of the IMF’s response to the euro area crisis, which will assess IMF-supported programs in the euro area.

<sup>4</sup>The G20 was established in 1999 at the level of finance ministers and central bank governors. G20 members account for around 85 percent of global GDP, and two-thirds of the world’s population. They also represent 63.4 percent of voting power at the IMF Board (plus the 13.6 percent share of non-G20 IMF member countries represented by virtue of the EU’s membership in the G20).

<sup>5</sup>A February 2009 IMF staff paper examining the initial response to the crisis recognized that it was difficult for the IMF to take the lead in coordinating the global response, because of questions about the legitimacy of its governance framework and because it had not provided adequate warning of the crisis (IMF, 2009b).

about the IMF being so closely involved in the MAP and other G20 activities, given the G20's restricted membership and the heavy demands on IMF staff at a time of constrained resources. They argued that the IMFC was better placed than the G20 to set the course for the IMF in responding to the crisis, given its arrangements for weighted universal representation in decisions.<sup>6</sup> Other Directors, however, thought that involvement with the G20 would be helpful for the IMF to build political support, and thus gain greater traction for its policy advice.

The involvement with the G20 gave the IMF the opportunity to have its analysis reach the heads of state of the largest economies, and to gain traction for its recommendations. On the other hand, the involvement raised questions about whether all members have a voice in decision making, and about to whom the IMF and its management are accountable.

## B. Working Within and With the FSB

In November 2008, G20 leaders called for the establishment of the FSB as a strengthened successor to the Financial Stability Forum (FSF). The goal was to promote financial stability by coordinating and strengthening regulation and supervision and by exploring sources of financial risks, among other activities. The FSB charter provided for membership comprised of central banks, finance ministries, and other regulators from G20 countries and a few other advanced economies. The IMF and a few other international organizations were also asked to join.

In considering whether the IMF should become a member of the FSB, a number of IMF Executive Directors were concerned that FSB membership would affect the IMF's ability to conduct its surveillance mandate and might compromise its independence and its accountability to its membership.<sup>7</sup> A number of Executive Directors representing EMEs expressed reservations and suggested that perhaps the IMF's role in the FSB should be limited to that of observer.

The Board ultimately approved IMF membership in the FSB conditional on clarifying that this would have

no legal and policy implications for the IMF's rights and obligations and by providing "opt-out" clauses from decisions that may not be consistent with the IMF's legal or policy framework. Directors stressed that the IMF would continue to take the lead in surveillance of the international monetary system and analysis of macro-financial stability issues in its member countries, but that it would collaborate with the FSB to address financial sector vulnerabilities and to develop and implement regulatory, supervisory, and other policies in the interest of financial stability.

The G20 called upon the IMF and the FSB to collaborate in identifying macroeconomic and financial risks and the actions needed to address them, and to reshape regulatory systems so that authorities would be able to identify and take account of risks emanating from the financial sector. The G20 asked them to conduct the Early Warning Exercise (EWE) and to present the results to the IMFC, in addition to the G20 Finance Ministers and Central Bank Governors. Authorities who had attended the EWE presentations expressed satisfaction with the initiative, although some commented that the outputs appeared more like "two reports stapled together than a single document." Some authorities believed that this lack of integration carried the potential for missing important risks. The EWE is discussed further in Chapter 3.

These challenges in the EWE process illustrate the difficulties in fostering collaboration between a treaty-based organization with universal membership and a large professional staff, such as the IMF, and a comparatively small organization with limited membership, such as the FSB. Staff in both organizations were satisfied with their working relationship, but they worked more in parallel than jointly, as evidenced by the EWE. Joint work is particularly difficult when the parties' mandates, size, structure, and culture are very different. To this end, IMF Management may need to focus on incentives and accountabilities for joint work, which are difficult to establish across institutional boundaries.

Authorities from both advanced economies and EMEs wondered whether certain issues—such as the implications of changing regulatory frameworks for capital flows and investment, or the incentives and behaviors of regulatory and supervisory agencies—were not examined sufficiently because of a lack of clarity in the IMF and FSB on their respective mandates. Other interviewees suggested that IMF staff may have yielded to the FSB on such issues out of deference to its expertise and mandate.

<sup>6</sup>Some authorities, however, argued that significant quota reform must take place before the IMFC could become the locus for global economic and financial cooperation.

<sup>7</sup>The discussion centered on the implications of full FSB membership for the IMF's engagement with processes related to Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT), but the concern was broader. Some Directors were concerned that IMF staff might feel compelled to yield to FSB views on broader financial sector issues.

Overall, IMF collaboration with the FSB, both as a member and as a partner, has served the whole IMF membership well. At the same time, authorities and analysts have raised questions about the impact that this partnership has had on the IMF's willingness and ability to examine and discuss certain financial sector issues. Preserving the IMF's actual and perceived independence while working with and within other organizations is difficult and requires that the IMF's roles and accountabilities be clarified in advance.

### C. The IMF and the Vienna Initiative

The Vienna Initiative was launched in January 2009 to establish a coordinated framework for financial sector crisis management in the EMEs of Central, Eastern, and Southeastern Europe. This effort involved multinational banks with exposure to the region, their home and host authorities, and several multilateral institutions, including the IMF. While the focus has evolved over time, its main goal remains to prevent foreign banks from withdrawing from the region so as to avoid a financial collapse (see De Haas and others, 2012).

The IMF was an important partner in the Vienna Initiative, providing financial support for country programs and policy advice. Authorities and other stakeholders credited the IMF with having played a key role in the efforts to convince banks to maintain exposures in emerging Europe, thereby avoiding a large capital flight. They appreciated the IMF's use of analytical approaches to bridge differences, particularly in the early years of the crisis. While both creditor and debtor country authorities felt that at times the IMF had pressured them too much, overall they viewed it as a trusted and independent arbiter. Staff from other international organizations were appreciative of the good collaboration with the IMF, noting that this had been better than in the pre-crisis period. One interviewee perceived that a new "humility" on the part of IMF staff had facilitated this improvement in collaboration.

### D. Working with the EC and the ECB

As the euro area crisis erupted, the IMF was called upon to provide both policy and technical support and

eventually to assist in providing financing to advanced economies in Europe.<sup>8</sup> The institutional arrangement that emerged involved a Troika including the EC, ECB, and IMF. This was a novel coordination arrangement in that the monetary authority of the member country in crisis was formally seated on the same side of the table as the IMF. Moreover, there was an understanding that disagreements would not be raised publicly. This arrangement raises questions as to whether it afforded greater traction of the IMF's policy advice, or whether it increased the pressure on the IMF to compromise its positions. Ultimately, such questions can only be answered by examining the context of individual country program negotiations—a task that goes beyond the scope of this evaluation.

Most authorities from G20 countries considered that the arrangement was a pragmatic and flexible response to a crisis that could have become systemic at a time of great fragility in the global economy. European authorities believed the IMF was well placed to put crisis-response programs together—a role for which the EC and the ECB lacked experience. Other authorities, however, thought it inappropriate, from a governance perspective, for the IMF to be seated at the negotiating table alongside the monetary authority of a member country. In their view, this implicitly took certain policy actions "off the table" and constituted bad governance. Some authorities also mentioned that this partnership could compromise IMF surveillance of the euro area, including on issues related to countries that did not need IMF financial support. Authorities from EMEs and many other countries asked whether the exceptional access that was provided in support of programs in the context of the Troika would be available in future crises and for member countries in other regions.

A full assessment of the effectiveness of the Troika arrangement is outside the scope of this study, but the arrangement has clearly raised concerns regarding the IMF's independence and the principle of uniform treatment of member countries.

<sup>8</sup>By late 2008, the IMF had already supported Iceland with a Stand-By Arrangement (SBA), the first such financing arrangement for an advanced country in decades.