Regional Monetary Co-operation in the Developing World

Taking Stock

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Working Paper

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"Strengthening pro-growth macroeconomic management capacities for enhanced regional financial and monetary co-operation among selected countries of Latin America and the Caribbean, and West and Central Africa"

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I. Introduction

Regional co-operation has increased significantly during the last decades, not only economically via increasing South-South trade, but also in monetary and financial terms. Varieties of active efforts for monetary and financial co-operation can be observed in different parts of the world that range from informal policy dialogue to informal or formal regional policy co-ordination to regional payment systems, to regional liquidity sharing mechanisms, to regional exchange rate arrangements, and to a formal currency union. In view of the instable global monetary and financial system that not sufficiently contains economic volatility (Cohen, 2000), forming regional economic and monetary blocs can be understood as a possible response. Against this background, the vivid interest of developing countries and emerging markets in regional monetary policy strategies is motivated largely by three factors.

First, under the current conditions of liberalized capital flows and flexible exchange rates, developing countries and emerging markets find it particularly difficult to achieve macroeconomic stability and favourable conditions for economic growth and development. With the breakup of the Bretton Woods system in 1973, but especially since the increase of financial liberalization at the global level from the 1990s on, volatility of international capital flows and exchange rates between international key currencies has increased the risk and magnitude of economic and monetary shocks.

Second, the introduction of the euro in the European Union (EU) in 1999 attracted particular attention in developing countries. The introduction of the euro represents the most advanced form of regional economic and monetary bloc building around an international key currency, the former Deutsche Mark. Hence, the question is if South-South regional monetary-bloc building appears to be a viable monetary policy strategy, considering the limited possibility of integrating with key currency areas. At the same time, the on-going Euro crisis seriously puts into question the feasibility of regional monetary integration without full political integration of the member countries, and without putting into danger sustainable growth for all member countries.

Third, emerging market crises, especially during the 1990s, had a regional contagious element in terms of crisis diffusion. The unfolding of the Asian financial crisis from its origins in Southeast Asia in 1997 to the Argentinean and Brazilian financial crisis and regional economic downturn in South America and also South Africa is telling in this regard. Being tied together through regional contagion of financial crises provoked the formation not only of regional monetary arrangements.

As economic literature lacks a clear definition of regional monetary co-operation, regional monetary co-operation is understood here in a broad sense, following Schelkle (2001). Regional monetary co-operation may range from informal policy dialogue to formal or informal policy co-ordination to various formal forms of regional monetary co-operation as analysed here (see also Frankel 1988, Bénassy-Quéré/Coeuré, 2005).

It is important to note that the different forms of regional monetary co-operation have no pre-determined sequencing and are not mutually exclusive. More shallow forms of regional monetary co-operation, such as regional payment systems, for example, may serve as learning grounds for deeper forms of regional monetary co-operation, such as regional exchange rate co-ordination, but not necessarily transform themselves automatically into such deeper – more binding – forms of co-operation. While macroeconomic co-operation creates the grounds for increasing regional shock buffering capacity in general, each form provides a specific buffering potential against negative effects of financial volatility. In general, harmonized regional macroeconomic policy stances contribute to regional macroeconomic stability. More important, from our point of view, is the crucial precondition for reducing macroeconomic vulnerability in peripheral developing countries: to achieve and sustain a stable and competitive real exchange rate level that contributes to reducing external vulnerability. It is under such conditions that the economy is able to build up macroeconomic capabilities to buffer external shocks and enhance economic growth. We evaluate three forms of regional monetary co-operation with regards to their respective contribution to establishing macroeconomic conditions that enable the region to buffer external shocks and reduce its vulnerability to financial volatility (for an extended discussion see UNCTAD, 2011).

In the following, we first present a systematization of regional monetary co-operation mechanisms alongside their respective development goals (part II). In part III, we present case studies for all regional monetary co-operation mechanisms, both realized and planned, that to our knowledge exist in Latin America and in Africa. Relevant mechanisms in other regions of the world are included. The overview only includes those mechanisms that involve developing countries and emerging markets that are not in any form linked to an international key currency, such as the euro or the US dollar (see Fritz/Metzger, 2006; Mühlich, 2014). Thus, unilateral mechanisms such as the East Caribbean dollar, pegged to the US dollar, and the West African Monetary Union of the Franc zone and the CFA zone of Central Africa, both pegged the euro and supported by the French treasury, are excluded. Furthermore, the presented overview does not consider in depth regional investment funding mechanisms such as development banks in a comprehensive manner since for these, sufficient literature and overview exists. In section IV, we do a general evaluation based on exemplified observations of the major characteristics of the mechanisms presented in section III.

II. Development goals and objectives of South-South regional monetary co-operation

In face of the repeatedly volatile global economic and monetary conditions, it is important to systematically address the question how each form of regional monetary co-operation may contribute to reduce macroeconomic volatility and buffer exogenous shocks for developing countries and emerging markets. The small body of more systematic literature offers various alternative ways to classify arrangements of regional monetary and financial co-operation; (see Edwards 1985; Ocampo, 2006; UNCTAD, 2007). Here, we follow the approach developed in UNCTAD (2011), further developed in Fritz/Mühlich (2014).

1. Facing short-term balance of payments imbalances: Regional liquidity pooling

Preventing short-term balance of payments problems is a necessary condition for buffering volatility. Developing countries have recently exerted considerable efforts to accumulate foreign exchange reserves, partly as a means of self-insurance against external shocks.

Swap arrangements or regional liquidity pooling have a strong appeal as more efficient ways of self-insurance against short-term liquidity shortages (Ocampo, 2006) and uncontrolled exchange rate devaluations in periods of massive private capital outflows.

A regional swap arrangement usually consists of bilateral liquidity swap arrangements between the participating central banks of a region. Alternatively, pooling national foreign exchange reserves requires a collective commitment on the part of participating countries to a joint regional contract to provide liquidity to member countries in times of crisis. As such, regional reserve funds or swap arrangements may constitute a flexible tool for reserve provision that can be easier and more rapidly accessible than international mechanisms of liquidity provision.

However, regional self-insurance mechanisms only work as insurance mechanisms if the pooled resources are not drawn on by all the member countries at the same time (Eichengreen, 2006). Further to this, regional liquidity sharing is more effective the smaller the member country is as it may benefit relatively more in relation to the size of the regional liquidity fund (Eichengreen, 2006). Beyond size, regionally adapted surveillance and enforcement rules within regional mechanisms are highly relevant, as the Southeast Asian Chiang Mai Initiative Multilateralization mechanism shows.

In all, regional liquidity sharing, when adequately designed, may play a complementary role to established international forms of liquidity provision through the IMF (Henning/Khan, 2011). On the one hand, compared to international liquidity provision, it provides a comparatively small framework for regional self-insurance, on the other hand, with a mechanism properly set up it is readily available and can be better enforceable than larger funds available on the international scale.

In contrast to most other forms of regional co-operation arrangements, regional asymmetries are beneficial to regional reserve pooling since the participating countries' demand for liquidity should differ in time and volume in order to avoid simultaneous drawings which would exceed the volume of available pooled reserves (Imbs/Mauro, 2007). As such, regional liquidity sharing may be adopted even at a low level of regional macroeconomic co-ordination.

2. Reducing exposure to exchange rate volatility and promoting inter-regional trade: Regional payment systems

Besides trade integration schemes such as customs unions, the mechanism which directly addresses intra-regional trade is a regional payment system. The objective of such a system is to foster trade between member countries by reducing the transaction costs of foreign exchange market operations through the use of domestic currencies.

According to Chang and Chang (2000, p. 3), a reduction of foreign currency flows and associated transaction costs is realized mainly in two ways. First, the number of transactions is reduced to net final settlement at the end of the period, while transactions of equal value cancel out. Second, temporary liquidity is provided to the member countries' central banks, as they allow each other to cancel mutual obligations not immediately, but only at the end of the clearing period. In effect, an efficiently run regional payment system in its simple version may slightly improve the terms of trade for intra-regional trade transactions (see Fritz et al. 2014 for a detailed analysis).

While such small scale regional co-operation arrangements provide important learning ground for regional policy co-ordination beyond intra-regional trade (Birdsall/Rojas Suarez, 2004), they generally represent a small instrument to enhance intra-regional trade and thus contribute in a – modest – way to reducing the participating countries' macroeconomic vulnerability. At the same time, regional payment systems can only effectively contribute to reducing a region's macroeconomic volatility if the participating countries are able to design the system's clearing mechanism in a way that reflects macroeconomic shifts of the participating countries adequately. To these ends, regional payment systems may provide an initial step towards further forms of regional monetary co-operation.

3. Promoting structural transformation, and increasing policy space for sustainable growth and development: Macroeconomic co-operation and integration

Regional bilateral monetary co-operation can range from policy consultation to explicit co-ordination of exchange rates and other monetary policy fields. Its aim is to internalise, at least partially, the externalities of national macroeconomic policies on regional neighbours. Regional co-operation needs to give particular attention to the prevention of regional contagion and to internalizing the external effects of domestic macroeconomic policies on regional partners (Akyüz, 2009; Ocampo, 2006; UNCTAD, 2009).

Unilateral currency devaluation and deflationist policies trigger contagious effects to other countries of the region. First, due to hoarding behaviour based on insufficient information of investors, devaluation of one currency within a region increases expectations of devaluation of other currencies in the region, thus triggering sudden stops of capital flows and the spreading of a financial crisis in the region. Second, restrictive domestic policies following currency devaluation produce restrictive effects on regional partners through direct trade and financial links in the region: falling demand and changes in the direction of financial flows due to higher yields in the adjusting economy create a deflationary effect on other countries within the region. Deleterious effects of 'beggar-thy-neighbour' policies increase with the depth of regional market economic integration already achieved if the monetary and overall macroeconomic co-operation are not enforced sufficiently to protect economic integration. Even in regional blocs that have rather low levels of economic integration, but whose members have similar production structures, a currency devaluation in one country will give rise to competition for export earnings and for foreign direct investment, and hinder deeper economic integration. Hence, the crucial role of regional monetary co-operation in the form of a co-ordinated exchange rate policy is to mutually enforce regional trade and financial integration, and to put an end to shock-induced large nominal exchange rate depreciations as well as to 'beggar-thy-neighbour' policies reactions to such shocks. As such, regional exchange rate co-ordination may provide a way to achieve stable intra-regional and stable and competitive extra-regional exchange rates to sustainably enhance a region's economic growth and prevent major financial crises.

All in all, each of the discussed forms of regional monetary co-operation provides learning grounds for further regional monetary co-operation efforts (Birdsall/Rojas-Suarez, 2004). By co-operating in different policy fields, such as regional trade or liquidity provision, the degree of macroeconomic co-operation and co-ordination can be expected to increase through a process of mutual reinforcement.

III. Taking stock of existing and planned regional monetary co-operation mechanisms

1. Liquidity sharing mechanisms

a. Latin American Reserve Fund / Fondo Latinoamericano de Reservas (FLAR)

FLAR
Date of Foundation: 1978 as Andean Reserve Fund (FAR), 1991 transformed into FLAR
Website: http://www.flar.net/
Legal form: legal entity of public international law (FLAR Agreement, Art.1)
Headquarters: Bogotá, Colombia
Member States (year of access): Bolivia (1988), Colombia (1988), Costa Rica (1999), Ecuador (1988), Peru (1988), Uruguay (2008), Venezuela (1988), Paraguay (2013, in accession process)
Objectives: (FLAR, 2013; see also FLAR Agreement, Art.3)
Support the member countries balance of payments by providing credits or guaranteeing third party credits.
Improve investment conditions of international reserves made by member countries.
Contribute to the harmonization of member countries exchange, monetary and financial policies.

The regional liquidity fund FLAR has a comparatively long history. It was founded first in 1978 as a regional reserve fund based on the Pacto Andino (today's Andean Community). In 1991, after the experience of severe debt cries in Latin America during the 1980s, FAR as expanded to FLAR in order to invite new member countries from all over Latin America. However, so far, only Costa Rica, Uruguay and Paraguay joined. FLAR provides several short-term and medium-term (from one-day treasury financing up to three years) financing and guarantee schemes to its member countries, with the objective of providing liquidity in times of balance of payments crises and improving investment conditions in its member countries (FLAR, 2013). The two major medium-term financing schemes (with a duration of three years and one year grace period) are balance of payments and foreign debt restructuring support. While the first have historically been the main engagement of FLAR, debt restructuring support has "the potential to improve significantly the performance of the central bank's liabilities by allowing for the repurchasing of high-yield outstanding sovereign instruments" (Rosero, 2014, p. 55), and hence are likely to gain importance in the future.

The fund's overall size in terms of credit disbursement and member countries is comparatively small, however; in particular, at its current size, the fund has not been able to respond to liquidity demands of the larger member countries (Culpeper, 2006, p. 60; see also Rosero, 2014). As of December 2012, FLAR had a volume of about USD 3.3 billion, of which about USD 2.3 billion was paid-in capital. Despite its small size and little diversification in membership, FLAR holds an AA rating. Such favourable borrowing conditions enable the fund to play a complementary role when it comes to leveraging international borrowing of its member countries (cf. Rosero, 2014, p. 80).

FLAR understands itself as a possible complement to IMF liquidity support (cf. Chauvin, 2012). For the smaller member countries, however, total disbursements on average amounted to about two thirds of total IMF financing (Ecuador borrowed more than twice as much from FLAR than from IMF). Larger member countries, that is, Colombia, Peru, or Venezuela, turn to larger sources of funds, such as the IMF or bilateral swap agreements with extra-regional countries. In face of such differences in use of the fund, the most important challenge for FLAR is stagnating member contributions that not only limit the fund's business potential but also reduce its attractiveness for an expansion of its activities to Latin America as a whole (see Rosero, 2014).

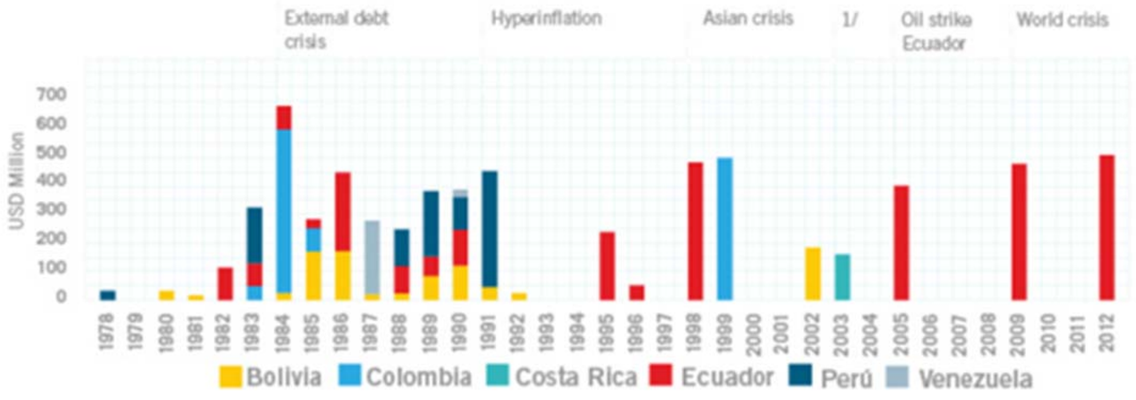
In favour of a possible expansion of FLAR, Ocampo and Titelman (2012) explore the possibility of expanding FLAR into a so called “Latin American Fund.” The authors explore several suggestions. As a start, an expansion of the fund’s volume is suggested: “A minimum step in the case of FLAR is obviously to increase the quotas of its members, which are smaller than those in the IMF, particularly for its largest members, and now minute relative to their foreign exchange reserves” (p.28). This is also true of a reserve fund with broader membership. An illustrative exercise for a South American fund has been made by FLAR (Titelman et al., 2014, p. 17), with contributions by Brazil twice as large as those of the current larger FLAR members, and the addition of Argentina and Chile to the large members, and the other smaller South American countries. This exercise indicates that a fund with three times the level of current contributions would provide USD 14 billion in capital and a credit potential of USD 21 billion, still small relative to the short-term debt of the large and medium-sized members, and thus a larger size would be preferable.

Any expansion of the fund’s volume and membership would need to take into consideration a change in the current voting mechanism of one vote per member country – especially if larger Latin American economics, such as, for example Brazil, are about to join. At the same time, it is precisely such egalitarian governance structure that may be an important ingredient to the strong ownership that characterize FLAR and its membership and that may explain the absence of any arrears in repayment ever since. “The expanded FLAR should consider whether to maintain the existing set-up for lending without conditions or introduce some kind of conditionality, such as ex-ante requirements. The latter would pose a significant challenge because macroeconomic policies differ from country to country and it is not clear that they could all agree on what the “appropriate” ex-ante requirements might be. Nor is it clear that they could agree on how to monitor and assess a country's compliance with its conditions” (Titelman et al., 2014, p. 23).

In all, Rosero (2014, p. 82/83) concludes on the viability of FLAR that “[f]irst, the institution provides a rapid rate of response to loan requests (28 days on average […]) […] in sharp contrast to […] multilateral institutions such as the IMF. Second, FLAR has provided important savings to its member countries by making funds available to them at better terms than the ones available to them in […] international financial markets. […] Third, FLAR has the potential to leverage additional funds for its member countries through its own lending process. A prompt loan from FLAR has typically resulted in further access to liquidity from other institutions, and has arguably contributed to overcoming coordination failures associated with the first-mover disadvantage in lending. Finally, the empirical data considered suggest important improvements in key economic indicators following an intervention by FLAR.”

Apart from Venezuela, the member countries’ macroeconomic situation has improved considerably, compared to the end of the 1990s. Inflation rates decreased to single digit levels and external debt stocks have been reduced while some countries, in particular Peru, managed to stock pile on foreign exchange reserves.

FLAR Approved Credits



Source: FLAR, 2012a.

FLAR Capital Structure

	Capital Subscribed (In Millions USD)	Paid-in Capital (In Millions USD)	Capital Limit (In Millions USD)	Share of total Capital
Bolivia	328,1	197,9	514,5	10%
Colombia	656,3	468,8	1172	20%
Costa Rica	328,1	234,4	586	10%
Ecuador	328,1	207	538,2	10%
Peru	656,3	468,8	1172	20%
Uruguay	328,1	234,4	586	10%
Venezuela, R.B.	656,3	468,8	1172	20%
Total paid-in capital	3281,3	2280		

Source: FLAR, 2012b.

FLAR Loan Conditions

Conditions	Balance of Payments	Liquidity	Debt Restructuring	Contingency	Treasury
Maturity	3 Years of grace for capital subscriptions	Up to 1 year	3 years of grace for capital subscriptions	6 months renewable	1-30 days
Access Limits	2,5 times paid-in capital	Paid-in capital	1,5 times paid-in capital	2 times paid-in capital	2 times paid-in capital
Interest Rates	3-month LIBOR + 400 bp	3-month LIBOR + 150 bp	3-month LIBOR + 400 bp	3-month LIBOR + 150 bp	
Prepaid commission	30 bp	10 bp	30 bp	10 bp	

Attribution for approval	Board	Executive President	Board	Executive President	Executive President

* In the case of balance of payment credits, debt restructuring, liquidity, and contingency, Central Banks from Bolivia and Ecuador have 0.1 additional access relative to paid-in capital compared to the other members. Source: FLAR

Source: Ocampo/Titelman, 2012.

b. Chiang Mai Multilateralization Initiative (CMIM)[2]

CMIM
Date of Foundation: The CMIM was signed on 24 December 2009 and entered into force on 24 March 2010. CMIM evolved from the Chiang Mai Initiative (CMI), the first regional currency swap arrangement launched by the ASEAN+3 countries in May 2000.
Website: http://www.asean.org (No specific institutional website CMIM available)
Legal form: Multilateral swap arrangement (Bank of Japan, 2009).
Headquarters: Not defined, ASEAN Headquarters in Jakarta, Indonesia
Member States (year of access): plus-three partner countries (2000/2009): China (incl. Hong Kong), Japan, Korea, ASEAN member countries (2000/2009): Indonesia, Thailand, Malaysia, Singapore, Philippines, Vietnam, Cambodia, Myanmar, Brunei, Lao PDR
Objectives: The core objectives of the CMIM are (i) to address balance-of-payments and short-term liquidity difficulties in the region and (ii) to supplement the existing international financial arrangements (Bank of Japan, 2009, joint press release).

Currently, probably the most popular liquidity sharing mechanism is the Chiang Mai Initiative Multilateralization (CMIM). It was initially set up as a network of bilateral swap arrangements in 2001 among the member states of the Association of Southeast Asian Nations (ASEAN) and its plus-three partner countries of China (incl. Hong Kong) and South Korea and the northern partner country Japan (named Chiang Mai Initiative, CMI) in reaction to the Asian financial crisis. In 2010, in reaction to the global financial crisis of 2008/2009, CMIM was established as a multilateral arrangement that comprises about USD 240 billion of paid-in capital today (cf. Kawai, 2004; Henning, 2009; Eichengreen, 2012; see also Mühlich, 2014).

However, as yet, the mechanism has never been utilized by its member states. On the one hand, “the accumulation of record levels of ‘self-defence’ in the form of large international reserves may have slowed the pace of action” (Ocampo 2006, p. 32). On the other hand, the number and volume of intra- and extra regional bilateral swap arrangements have increased substantially. For the member countries, these represent an alternative means of short-term access to liquidity without the strong IMF link that drawing on CMIM still entails and that member countries associate with painful stigmatization. Such bilateral swap arrangements partly exceed the countries’ quota in CMIM and (cf. Mühlich, 2014, p. 161). Historically, CMI countries could draw on up to 20 percent of the maximum amount of the entitled disbursement volume without the need to agree to an IMF program. Recently, the limit has been raised to 30 percent with a perspective to further increase the ceiling of non-IMF-linked disbursements to 40 percent of the maximum amount of drawings for each country. The CMIM conditionality “[…] implies that regional liquidity financing is complementary to that of the IMF in a more explicit way than in the case of the Latin American Reserve Fund [FLAR]” (Ocampo, 2006, p. 32). Such delinked liquidity provision can be distributed upon demand, depending on the decision of a two-thirds majority (ibid. Grimes, 2011). In addition, a CMIM Precautionary Line was set up for crisis prevention for countries with strong fundamentals.

[2] The case studies of the CMIM, CMA, Mercosur, and GCC are based on Mühlich, 2014.

In essence, CMIM creates a multilateral currency swap arrangement governed henceforth by only one contractual arrangement. CMIM represents a swap fund in the sense that each countries' foreign exchange contributions are made not in advance but on demand. Currently the most essential task for CMIM is the development of a forceful regional monitoring and surveillance system in order to guarantee that the respective lending is adequately protected and the long-term sustainability of the mechanism is provided. So far, the reluctance of member states to use CMIM as it stands suggests a lack of certain constituting elements required to live up to the agreed objectives of the regional monetary co-operation.

Since 2011, CMIM has been additionally supported by an independent regional surveillance unit based in Singapore, the ASEAN+3 Macroeconomic Research Office (AMRO) (cf. ASEAN+3, 2010; for a detailed description of AMRO see Siregar/Chabchitrchaidol, 2013). AMRO's advisory role requires asserting its independence and distinction from IMF advice in order to build up a truly regional liquidity-providing mechanism.

Hence, CMIM is faced with the question of how to introduce adequate enforcement mechanisms while ensuring sufficient flexibility, and to define the role of the IMF in CMIM (cf. Dullien et al., 2013; Siregar/Chabchitrchaidol, 2013: 14). "[…] the major stumbling blocks in the process seem to be the weak institutional arrangements that have been established and the unsettled leadership among the two major economic powers in the region [China and Japan]" (Ocampo, 2006, p. 32).

Among the ASEAN-5 countries, Singapore's level of economic development compares to industrialized countries, its inflation rate is comparatively low, and its macroeconomic conditions are favourable, including current account surpluses, are stable. If any, Malaysia and Thailand are comparable to Singapore in economic strength. In general, inflation rates among the ASEAN-5 countries have harmonized to a similarly low level and economic growth is similarly dynamic, debt structures have equally improved, except rising shares of short term debt in Malaysia and Thailand. The remaining economies, Cambodia, Laos, Vietnam, and Myanmar, clearly lag behind, despite increasingly dynamic economic growth, in particular in Vietnam.

CMIM Contributions, purchasing multiples and voting power Distribution

(figures as in signing date 2009)

Country	**USD (billion)**	**(%)**	**Purchasing Multiple**	**Basic Votes (no. of vote)**	**Votes based on Contribution (no. of vote)**	**Total voting power (no. of vote)**	**Total voting power (%)**
China (Inc. Hong Kong)	38,4	32	0,5	1,60	34,20	35,80	25,43
Hong Kong	*4,2*	*3,5*	*2,5*	*0*	*4,20*	*4,20*	*2,98*
Japan	38,4	32	0,5	1,60	38,40	40,00	28,41
Korea	19,2	16	1	1,60	19,20	20,80	14,77
Plus-Three	***96***	***80***	-	4,80	96,00	100,80	71,59
Indonesia	4,77	4	2,5	1,60	4,552	6,15	4,369
Thailand	4,77	4	2,5	1,60	4,552	6,15	4,369
Malaysia	4,77	4	2,5	1,60	4,552	6,15	4,369

Singapore	4,77	4	2,5	1,60	4,552	6,15	4,369
Philippines	3,68	3,1	2,5	1,60	4,552	6,15	4,369
Vietnam	1	0,8	5	1,60	1,00	2,60	1,847
Cambodia	0,12	0,1	5	1,60	0,12	1,72	1,222
Myanmar	0,06	0,1	5	1,60	0,06	1,66	1,179
Brunei	0,03	0	5	1,60	0,03	1,63	1,158
Lao PDR	0,03	0	5	1,60	0,03	1,63	1,158
ASEAN	***24***	***20***	-	**16,00**	**24,00**	**40,00**	**28,41**
Total	**120**	**100**	-	**20,80**	**120,00**	**140,80**	**100**

* Hong Kong, China's purchasing is limited to IMF de-linked portion because Hong Kong, China is not a member of the IMF

Source: ASEAN+3, 2010.

CMIM Instruments & Terms

Instrument	**Maturity**	**Grace / Rollover period**
Swap, Precautionary line (CMIM-PL)		
IMF – delinked	6 months	Renewable up to 2 years
IMF – linked	1 year	Renewable up to 3 years
Swap, Stability Facility (CMIM-SF)		
IMF – delinked	6 months	Renewable up to 2 years
IMF – linked	1 year	Renewable up to 3 years

Conditions: Beyond 30% of country's allotment, disbursements must be linked to IMF program.

Source: Rhee et al., 2013.

c. Arab Monetary Fund (AMF)

AMF
Date of Foundation: 1976 by Economic Council of the League of Arab States
Website: http:// http://www.amf.org.ae/
Legal form: juridical person (AMF Agreement, 1976, p. 5).
Headquarters: Abu Dhabi, United Arab Emirates
Member States: People's Democratic Republic of Algeria, Kingdom of Bahrain, Union of the Comoros, Republic of Djibouti, Arab Republic of Egypt, Republic of Iraq, Kingdom of Jordan, State of Kuwait, Republic of Lebanon, State of Libya, Islamic Republic of Mauritania, Kingdom of Morocco, Sultanate of Oman, State of Palestine, State of Qatar, United Arab Emirates of Saudi Arabia, Federal Republic of Somalia, Republic of the Sudan, Syrian Arab Republic, Republic of Tunisia, Republic of Yemen
Objectives: The AMF has the objective of (1) correcting disequilibria in the balance of payments of member states by providing short-term and medium-term credit facilities, (2) striving for the removal of restrictions on current payments between member states, (3) establishing policies and modes of Arab monetary co-operation, (4) rendering advice, whenever called upon to do so, with regard to policies related to the investment of the financial resources of member States in foreign markets, (5) promoting the development of Arab financial markets, (6) paving the way towards the creation of a unified Arab currency and (7) promote trade among member states (AMF, n.d.).

Today's Arab Monetary Fund has the objective of providing liquidity in times of balance of payments imbalances. It provides short-term and medium-term financing with a maturity of up to seven years. Furthermore, financial support is provided for reforms of the financial system. With a long-term perspective, the objectives of the AMF also include developing Arab financial markets, monetary co-operation, and the introduction of an Arab currency (see AMF, n.d.). With a total amount of subscribed capital of AAD 600 million (Arab Accounting Dinars, equivalent to around 1.800 million SDR or 2.7 billion USD; see AMF, 2012), the AMF is even smaller than FLAR. Like FLAR, AMF provides very flexible emergency credit lines to their members, credit that is frequently used as a complement to IMF lending, for example.

The AMF came into being in 1977 with 22 West Asian and African countries within the framework of the League of Arab States, founded in 1945. In the end of the 1960s, "… [oil rich] Arab countries were encouraged to promote Arab regional financial agencies and to supply them with adequate resources to enable them to reduce the bilateral lending that was now being provided not only to other Arab countries, but also to other developing countries that were suffering from the rise in oil prices" (Corm, 2006, p. 294). Hence, the oil-price boom in the early 1970s provided the economic and political context of the AMF's foundation. Such favourable conditions did not last long but the AMF "survived the sharp downturn in oil prices during the 1980s and 1990s, and operations continued, albeit at lower levels than in the 1970s. Although the sharp upturn in oil prices beginning in 2000 led to an increase in funding, funding did not return to the levels of the second half of the 1970s and early 1980s. [Today …] available resources are still being used primarily to finance infrastructure" (Corm, 2006, p. 291).

In reaction to the political upheaval during the Arab spring in 2011 and the devastating economic consequences, in 2014, the IMF provided short-term liquidity assistance to several AMF member countries, first and foremost to the newly elected democratic governments in Tunisia (USD 500 million) and Yemen (USD 550 million). In 2012, Morocco has been included in the IMF's Precautionary Credit Line program with the offer to make use of a USD 6.2 billion loan in case that repercussion (swings in oil price, decline in exports) of the 2008/2009 financial crisis and the ongoing Eurozone crisis could rapidly worsen the generally sound economic conditions of the country.

At the same time, the AMF in 2012 and 2013 disbursed a total number of four loans, three of them with a volume of about USD 180 million, with the aim of reinforcing Tunisia's balance of payment and external position and foreign exchange market and an additional USD 147 million to support fiscal and financial reforms under the 1997 introduced AMF program for the support of such sectorial reforms in its member countries. In 2012, also Yemen received an USD 205 million loan to support the country's financial and economic reform program. The same year, Morocco started negotiating an USD 127 million loan to deal with rising food prices and protect political stability after political upheaval in the surrounding nations.

Hence, in times of crises, IMF and AMF programs seem to go hand in hand in their ability to provide short term liquidity support. AMF loans are disbursed more timely but with a smaller volume.

The macroeconomic stance of the member countries is very heterogeneous. For a joint liquidity fund, such heterogeneity provides excellent conditions since the likelihood that all member countries draw on the fund's resources at the same time is less than in a perfectly harmonized group of countries. At the same time, the largest member countries seem to have successfully stockpiled national foreign exchange reserves. Hence, AMF does not seem to be highly relevant for these countries. In terms of a – hitherto not envisaged – deeper monetary co-operation however, such heterogeneity would represent a challenge that needed active monetary and exchange policies towards regional convergence.

AMF Loan Disbursements, 2009-2012 (thousands of AAD)

Year	Country	Total	Automatic Loan	Ordinary Loan	Extended Loan	Compensatory Loan	Oil Facility	Structural Adjust.
2009	Jordan		7.365					12.275
	Mauritania							9.120
	Morocco					21.880		47.683
		98.503						
2010	Jordan					9.820		17.185
	Mauritania							47.863
	Morocco				43.000			
		117.868						
2011	Egypt		43.725					58.300
	Morocco						13.675	
		115.700						
2012	Jordan		7.365					
	Morocco					27.350		
	Tunisia		9.562		12.750			15.935
	Yemen			21.000		24.000		
		117.692						

Source: AMF, 2013* (*No information available about denied loans or loans in arrears)

AMF Loan Conditions

Instrument	Duration	Grace / Rollover period
Automatic loan	3 years	
Ordinary loan	5 years	3,5 years
Extended loan	7 years	3,5 years
Compensatory loan	3 years	1,5 years
Structural Adj. facility	4 years	2 years
Short-term liquidity	6 month	renewable, 2x

Conditions

Interest Rates: *Between 2003 and 2012 the interest rate floated from 1% up to 5.5%.*

- Interest rates more concessionary on borrowing by a member to finance deficit from trade within Arab States. Trade in petroleum excepted from this preferential treatment (Art. 25(b)).

Limits of Lending:

- Loans issued to a member over a period of twelve months, shall not exceed twice the amount of its paid-up subscription (Art. 21(a)).

Types of Loans:

- Ordinarily, to finance an overall deficit in a member's balance of payments, not exceeding 75% of paid-up subscription. (Art. 22(a))
- Amount not exceeding 100% of its paid-up subscription in order to cope with balance of payments resulting from exports decrease, or large import increase of agricultural products following a poor harvest. (Art. 23(a))

Source: Rhee et al., 2013, p. 11; AMF Agreement, 1976

AMF Capital Structure

	Capital Subscribed[2] (Thousands of AAD)	Share of Total Capital
Jordan	9.900	1.65%
UAE	35.300	5.88%
Bahrain	9.200	1.53%
Tunisia	12.850	2.14%
Algeria	77.900	12.98%
Saudi Arabia	88.950	14.83%
Sudan	18.400	3.07%
Syria	13.250	2.21%
Somalia	7.350	1.23%
Iraq	77.900	12.98%
Oman	9.200	1,53%
Qatar	18.400	3.07%
Kuwait	58.800	9.80%
Lebanon	9.200	1.53%
Libya	24.690	4.12%
Egypt	58.800	9.80%
Morocco	27.550	4.59%
Mauritania	9.200	1.53%
Yemen	28.300	4.72%
Palestine	3.960	0.66%
Djibouti	450	0.08%
Comoros	450	0.08%
Total capital subscribed	600.000[3]	

Source: AMF, 2013

[3] Approximately 46% of subscribed capital is represented as general reserve.
[4] One AAD equals three SDR (Special Drawing Rights). Total capital subscribed 600.000 AAD equals 2.771.119 USD at the exchange rate of June 3rd 2014 (http://www.imf.org/external/np/fin/data/rms_five.aspx).

d. EURASEC Anti-Crisis Fund (ACF)

EURASEC - ACF
Date of Foundation: June 2009
Website: http://acf.eabr.org
Legal form: Treaty (Regional Financial Arrangement) (Treaty ACF, 2009).
Headquarters: Operations Management Department of EurAsEC ACF, EDB Office in Moscow, Russia
Member States (year of access): Armenia (2009), Belarus (2009), Kazakhstan (2009), Kyrgyz Republic (2009), Russia and Tajikistan (2009).
Objectives:
"To overcome the detrimental consequences of world financial and economic crisis, ensure economic and financial stability, and facilitate further integration of the member economies". (Treaty ACF, 2009).

In 2009, some of the member countries of the Commonwealth of Independent States (CIS), namely Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia, and Tajikistan, established the Anti-crisis Fund of the Eurasian Economic Community (ACF) with a funding volume of about USD 8.5 billion. Its funds are managed by the Eurasian Development Bank (EDB).

The fund aims at achieving its objectives by disbursing financial credits and investment loans: "Financial credits are granted to finance budget deficits as well as to support balance of payments or national currencies. Investment loans can be used to finance the interstate investment projects" (ibid.). While emergency financing in times of balance of payments stress is mentioned in its objectives, the ACF is not oriented towards further regional monetary co-operation. The highest decision making body is the Council which is composed of member state Finance Ministers and chaired by the Finance Minister of the Russian Federation. Lending decisions are based on the perceived urgency of a country's financing needs and a country's creditworthiness and long-term debt sustainability. The absorption capacity of the borrower also plays a role (cf. EDB, 2014, p. 10-11).

Until today, the ACF has disbursed two financial credits, one to Tajikistan in 2010 (USD 70 million) and one to Belarus in 2011 (USD 3 billion). In Tajikistan, the government's expenditures on education, health, and social protection where to be maintained and public financial management was to be strengthened. In Belarus, the aim was to strengthen the countries' balance of payments. The last of six tranches to Belarus was postponed from 2013 to 2014 because of non-fulfilment of the programme conditions.

EURASEC -ACF Capital Structure

	Capital Subscribed (In Millions USD)	Share of total Capital	Fund Access Limits* (In Millions USD)	% of Access Limit
Armenia	1,0	0.01%	1.106,7	13.00%
Belarus	10,0	0.12%	1.787,7	21.00%
Kazakhstan	1.000,0	11.75%	2.043,1	24.00%
Kyrgyz Republic	1,0	0.01%	255,4	3.00%
Russian Federation	7.500,0	88.10%	3.149,8	37.00%
Tajikistan	1,0	0.01%	170,3	2.00%
Total	8.513,0		8.513,0	

* Country access limits for the Fund resources, established by the ACF Council proportionately to the countries' GNI per capita

Source: EDB, 2012

EURASEC-ACF Instruments & Conditions

Instrument	Maturity	Grace / Rollover period	Interest Rate
Financial Credits (FC)			
Stabilization credit (low inc)	20 years	5 years	1-3 % (Fixed)
Sovereign loans (middl inc)	10 years	5years	Floating Rate*
Investment Loans (IL)			
Contracted by an ACF member state	15 years	5 years	Floating Rate**
Contracted by a Project Company	10 years	5 years	Floating Rate**

* Rate calculated for each six-month interest accrual and equal to the cost of borrowing for Kazakhstan and Russia on international markets
** For low income countries terms consistent with the requirements of IFIs sovereign loans.
Requirement for co-financing by recipient: No less than 20% of the amount of the project

Source: Rhee et al., 2013; EDB, 2013

Summary of Financial Credits

Country	Authorized Loans		Disbursed Loans	
	(in Million USD)	Date	(in Million USD)	Date
Tajikistan	70,00	July, 2010	70,00	2011
Belarus	3.000,00	June, 2011	1.680,00	2012
Total	3.070,00		1.750,00	

Source: EDB, 2012, p. 5-7

2. Regional payment systems

a. Latin American Agreement on Reciprocal Payments and Credits (CPCR- LAIA)

CPCR-LAIA
Date of Foundation: Agreement signed in September 1965, modified in 1982
Website: http://www.aladi.org/
Legal form: Central Bank Agreement (ALADI Agreement, 2014a)
Headquarters: Montevideo Uruguay
Member States (year of access): Argentina (1965), the Bolivarian Republic of Venezuela (1965), Bolivia (1965), Brazil (1965), Chile (1965), Colombia (1965), the Dominican Republic (1965), Ecuador (1965), Mexico (1965), Paraguay (1965), Peru (1965), Uruguay (1965)
Objectives: The Central Banks agree to establish among them lines of credit in USD and create compensation systems of balances recorded in the accounts through which payments of authorized operations between member countries' residents are realized (ALADI Agreement, 2014a, Art. 1).

LAIA's CPCR[5], as it stands today, was founded in 1982 (in continuance of the 1965 initiated Mexico Agreement) with the aim to encourage the use of local currencies in intra-regional trade. The CPCR serves to reduce transaction costs through settlement in domestic currency at the firm level and provides temporary liquidity during a clearance period of four months. At the end of that period, the net amount of all credits is settled multilaterally in US-dollars. Even without replacing the US-dollar as the currency for final clearance, the CPCR mechanism helps overcoming the obstacles to trade expansion resulting from the high costs of trade financing in US-dollars, an advantage that the member countries could experience in particular during the debt crisis in Latin America in the 1980s.

While during the 1980s this mechanism was intensively used, the transaction volume channelled through CPCR has declined significantly since the 1990s. The underlying reasons for the declining use of the CPCR relate to a series of rather specific problems within the system which also are currently debated within the institution (LAIA, 2009). First, the CPCR has not been able to keep up with the expansion of intra-regional trade since the mid-1990s. For example, intra-regional trade within the free trade agreement of MERCOSUR was conducted without making use of the CPCR. Since then, the value of operations channelled through the CPCR has steadily declined, reaching its lowest level in 2003, at USD 700 million. While the share of intra-regional trade channelled through this mechanism amounted to an average of almost 90 percent of total regional trade transactions in the 1980s, it has remained below 10 percent since the mid-1990s.

Second, there has been a significant increase in pre-payments (i.e. voluntary settlement of claims before the maturity date of four months). These operations rose from less than 10 percent of the total at the end of the 1980s to more than 90 percent in the mid- 1990s, with only a short reduction in the period 2001–2004. The increase in pre-payments caused a steady decline in the comparative advantage of the CPCR in the settlement of intra-regional trade transactions in terms of its providing temporary liquidity by central banks. A claim is settled in advance only if there are no better alternatives available for one or both sides of the contract.

Third, the incentives to use the CPCR developed asymmetrically among the members, since more and more diverging creditor and debtor positions developed between the largest member countries. Currently, the bulk of the operations are Venezuelan imports and Brazilian exports of engineering services associated with large infrastructure projects, thus involving only a small number of transactions.

With the aim to increase the use of CPCR, Pérez Caldentey et al. (2013, p. 41f.) propose the creation of a guarantee fund to compensate for payment delays and unpaid obligations. Another possibility, in

[5] A more extensive analysis of regional payment systems can be found in Fritz et al. 2014.

their view, would be to broaden the range of financial instruments to reduce and better distribute risks and enhance the incentives to use the mechanism.

CPCR Operations Summary 2004-2014 *(Values in thousands USD)*

Year	Transferred f. currency	Canalized Operations	Intraregional Transfers	% of intra-regional trade
2004	2.233,40	2.402,00	63.119,20	3.8
2005	3.917,10	4.106,50	80.050,00	5.1
2006	6.013,70	6.233,80	96.280,70	6.5
2007	11.150,40	11.403,80	116.253,30	9.8
2008	12.316,60	12.657,40	144.263,40	8.8
2009	6.834,50	7.063,40	104.847,00	6.7
2010	4.946,80	5.169,30	129.063,50	4
2011	5.624,50	5.822,70	159.791,50	3.6
2012	5.756,10	6.134,60	159.213,20	3.9
2013	5.291,90	5.630,30	156.569,80	3.6
Total	64.085,00	66.623,80	130.708,80*	5.58*

Source: ALADI, 2014b. (*Average)

CPCR Credit Volumes 2012-2013 *(Values in thousands USD)*

	2012		2013		Variation	
	Value	%*	Value	%*	%	Contribution
Argentina	426.438,10	7	432.531,90	7.7	1.4	-1.2
Bolivia	37.290,00	0,6	31.404,90	0.6	-15.8	1.2
Brazil	136.141,40	2.2	258.179,10	4.6	89.6	-24.2
Colombia	11.061,40	0.2	8.734,60	0.2	-21	0.5
Chile	108.052,40	1.8	63.311,80	1.1	-41.4	8.9
Ecuador	237.541,50	3.9	155.700,60	2.8	-34.5	16.2
México	963	0	836	0	-13.2	0
Paraguay	30.494,00	0.5	19.018,60	0.3	-37.6	2.3
Peru	90.178,10	1.5	58.845,90	1	-34.7	6.2
Uruguay	100.263,70	1.6	63.198,50	1.1	-37	7.3
Venezuela	4.830.328,50	78.7	4.399.994,40	78.1	-8.9	85.3
R.Dom.	125.888,50	2.1	138.590,20	2.5	10.1	-2.5
Total	*6.134.640,70*	*100.1*	*5.630.346,60*	*100*	*-8.2*	*100*

Evolution of Debits 2012-2013 *(Values in thousands USD)*						
	2012		2013		Variation	
	Value	%*	Value	%*	%	Contribution
Argentina	536.734,00	8.7	359.847,20	6.4	-33	35.1
Bolivia	21.272,40	0.3	13.847,40	0.2	-34.9	1.5
Brazil	2.803.230,30	45.7	2.674.559,20	47.5	-4.6	25.5
Colombia	759.434,70	12.4	756.402,30	13.4	-0.4	0.6
Chile	463.531,10	7.6	557.172,20	9.9	20.2	-18.6
Ecuador	83.756,30	1.4	26.127,40	0.5	-68.8	11.4
México	531.384,80	8.7	513.702,00	9.1	-3.3	3.5
Paraguay	37.570,10	0.6	49.924,20	0.9	32.9	-2.4
Peru	522.874,00	8.5	351.449,00	6.2	-32.8	34
Uruguay	374.599,50	6.1	327.306,00	5.8	-12.6	9.4
Venezuela	253,4	0	9,8	0	-96.1	0
R.Dom.	0,00	0	0,00	0		0
Total	*6.134.640,70*	*100*	*5.630.346,60*	*100*	*-8.2*	*100*

Source: ALADI, 2014b
* % of total yearly operations

b. Payments system in local currencies (Sistema de Pagos en Monedas Locales) between Argentina and Brazil (SML)

SML
Date of Foundation: Agreement signed in September 2008.
Website: http://www.bcb.gov.br/?SML
Legal form: Central bank bilateral agreement (Banco Central de Argentina Agreement, 2008).
Headquarters: Buenos Aires, Argentina; Brasília, Brazil
Member States (year of access): Argentina and Brazil (2008)
Objectives: "The SML is a payment system focused on commercial deals, which allows importers and exporters from Brazil and Argentina to make payments and receive them in local currencies (Banco Central do Brasil, n.d.).

The SML between Argentina and Brazil started its operations in October 2008. It is a simple payment system which uses the national currency for trade factorizing and clearing of bilateral trade operations between an importer, an exporter and commercial banks. It is designed to overcome only the transactions costs associated with international trade operations. Use of the SML is voluntary.

Despite the modest ambition, an explicit goal of the mechanism is to develop the foreign exchange market between these two countries: The exchange rate between the Argentinean peso and the Brazilian real is determined on a daily basis, and triangulated through the respective dollar exchange rates. Payments are made like in other international transactions, by local banks previously authorized to transfer the operations, which means that credits can be granted in local currencies. Each operation between the central banks via the SML is cleared through the international banking system in New York. The maximum period for this clearing is three days, but it usually takes just 24 hours. Thus there is no clearing period which would enable a saving of foreign exchange reserves by accumulating and final clearing of net positions between the monetary authorities.

The mechanism started operating with a limited number of operations and trade volume. In the 33 months up to June 2011, a total of 7,069 transactions were channelled through the SML, of which 98 per cent were Brazilian exports. The amount channelled was equivalent to 3 percent of bilateral trade: 2.54 billion reais. Until 2012, the number of transactions more than quadrupled. At the same time, the total share of SML channelled transactions in intraregional trade remains at an average of around 3.5 per cent (Pérez Caldentey et al., 2013, p. 35). Satisfaction with the use of the system seems to be high: 65 per cent of companies have used it more than once, and the number of complaints seems to be low.

The SML is designed to cater to the specific needs of small and medium-sized enterprises (SMEs), for which access to the foreign exchange market is costly due to high transactions costs relative to their small size. Unlike the larger companies in both countries, for these smaller firms the option to pay and receive in local currency represents significant cost reductions.

In particular, currently, Argentina benefits from SML for funding imports from Brazil in local currency, reducing outflow of US dollars. Yet, in face of rising inflation and occasional exchange rate distortions, Argentinean exporters seem to be less motivated to use the mechanism for their exports, as they have an incentive to realize profits in foreign, and not in domestic currency. By a more flexible reaction to changes in the macroeconomic situation of the member countries, such disincentives could be circumvented to sustain the use of the mechanism.

The SML could gain importance by expanding regionally, especially to include other members of MERCOSUR. In 2009, Brazil and Uruguay signed a letter of intent to introduce the SML (BCB, n.d.), which was followed by a similar note of intent between Argentina and Uruguay in 2012 (cf. INTAL, 2012, p. 20).

SML, Summary of Operations (Brazil 2009-2013)

year	No. of Export Operations	Exports (in Million $R)	No. of Import Operations	Imports* (in Million $R)	Trade Surplus/Deficit
2009	1193	64,07	73	4,32	59,75
2010	3410	1.194,20	41	8,91	1.185,30
2011	4973	1.640,95	50	8,74	1.632,21
2012	7444	2.281,99	83	17,25	2.264,74
2013	9067	2.583,22	47	10,53	2.572,69

Source: (Banco Central do Brasil, 2014)

* The value of imports is the sum of SML transactions which are set in Argentinean pesos, and converted to Brazilian reais using the SML rate. This is the amount charged from the financial institutions.

c. Unified System for Regional Compensation (Sistema Unitario de Compensación Regional de Pagos) (SUCRE)

SUCRE
Date of Foundation: Agreement signed in Arpril 2009
Website: http://www.sucrealba.org
Legal form: the SUCRE Regional Monetary Council is an international juridical person (SUCRE Agreement, 2009).
Headquarters: Caracas, Bolivarian Republic of Venezuela
Member States (year of access): Bolivia (2009), Cuba (2009), Ecuador (2009), Nicaragua (2009, ratified in 2012) and Venezuela (2009), Honduras (2009, but not yet ratified), Uruguay (application in 2013)
Objectives: "This Treaty is intended to constitute and establish the general guidelines for the operation of the Unitary System of Regional Compensation (SUCRE), as a mechanism of co-operation, integration, economic and financial complementation, for the integral development of the Latin American and Caribbean region as well as joint operation of this system with the guidelines established by the Ministerial Council on Economic Compensation of the Bolivarian Alliance for the Peoples of Our America (ALBA-TCP)"

In April 2009, the member countries of the Bolivarian Alliance for the Peoples of Our America (ALBA) initiated the so-called Unified System for Regional Compensation (Sistema Unitario de Compensación Regional, SUCRE). In its initial stages, the SUCRE initiative aims at reducing transaction costs in intra-regional trade through the use of domestic currencies, and is linked to the saving of foreign exchange by allowing delayed settlement of trade transactions. Its specific political aim is to abandon the US dollar in intraregional trade (cf. Trucco, 2012, p. 116).

The mechanism offers the option of settling final net payments of net trade surpluses and deficits in a domestic or international currency. The establishment of a regional credit fund and adjustment mechanisms to balance intra-regional trade channelled through the system are envisaged, but not yet operational. A key feature of the SUCRE proposal is that it involves the creation of a regional unit of account, the sucre, to replace the dollar for invoicing regional transactions. Its use does not involve physical emission of sucre, and is restricted to invoicing operations relative to intra-regional trade payments only at the central bank level. The sucre is designed to be a common unit with its value derived from a basket of currencies of the member countries weighted according to their relative economic size.

The sucre is a voluntary payment system. Since its start in 2010, trade transactions in sucre amounted to 730 million sucre or USD 900 million in 2013. Until 2012, it was mainly Venezuela that used the sucre for its imports (92.78 percent of all transactions), followed by Ecuador (7.1 percent) and Bolivia (0.12 percent) (SUCRE, 2012, p. 23). Cuba used the sucre for about 10 export transactions in 2012. These figures demonstrate that “the high political profile of the SUCRE stands in contrast with the microscopic economic importance of such a monetary co-operation initiative” (Trucco, 2012, p. 119).

The member countries macroeconomic situation is highly diverse. National economic development strategies are not coordinated nor do converge. While Venezuela dominates the region and the SUCRE mechanism economically, its economic outlook is contained due to a high inflation rate and balance of payments problems, contrary to Ecuador, for example. The asymmetric use of the SUCRE initiative is not least related to divergence of macroeconomic policy stances and a multiple exchange rate system in Ecuador, which mainly raises incentives for Venezuelan importers to use the mechanism, but seems to create disincentives for other actors. As of yet, a flexible adaptation of the currency unit to de facto macroeconomic changes in the member countries is missing so that incentives to use the mechanism may be distorted. Hence, if the countries aim to embark on the ambitious plan of regional monetary integration, setting the right incentives in a flexible mechanism together with a convergence of macroeconomic policies and a mechanism for intraregional co-ordination and surveillance mechanisms would need to accompany the process.

Summary of Operations SUCRE, 2010-2013

year	Operations	Value (In Millions XSU)	Value (In Millions USD)	Average Operation value (in thousands XSU)	Average Operation value (in thousands USD)
2010	6	10,00	12,51	1.666,67	2.084,83
2011	431	216,13	270,36	501,46	627,28
2012	2.647	852,07	1.065,85	321,90	402,67
2013	2.094	729,19	908,95	348	434,07

Source: (SUCRE, 2012, 2013)

Operations SUCRE, 2013

Operations	Number of Transactions	% of total Transactions	Value in Million USD	Value in Million XSU
Ecuador - Venezuela	2.003	95,65	86.944,93	69.750,12
Bolivia - Venezuela	71	3,39	3.081,92	2.472,42
Nicaragua - Venezuela	3	0,14	130,22	104,47
Cuba -Ecuador	14	0,67	607,70	487,52
Cuba - Venezuela	3	0,14	130,22	104,47
Total	2.094		908,95	729,19

Source: (SUCRE, 2013)

d. The regional interlinked payment system in Central America (SIP) / Sistema de Interconexión de Pagos (SIP)

SIP **Date of Foundation**: 2006 **Website**: http://www.secmca.org/SIP.html **Legal form**: Treaty on Payment and Settlement Systems of Central America and the Dominican Republic (CMCA Resolution, 2009). **Headquarters**: Central Bank of the Dominican Republic (Institutional Manager), Santo Domingo **Member States (Treaty of Ratification)**: Costa Rica (2010), El Salvador (2007), Guatemala (2008), Honduras (2008), Nicaragua(2008), Dominican Republic (2008) **Objectives**: „The interlinked payment system aims to provide automated mechanisms through transparent, efficient and safe processes, allowing direct participants settle electronically, in gross form, real-time operations, arising from intraregional payments in US dollars" (CMCA Resolution, 2009).

The regional interlinked payment system in Central America (Sistema de Interconexión de Pagos, SIP) aims at harmonizing financial and banking standards to ease electronic payment of intraregional transactions. It does not aim at enhancing the intraregional trade volume or at further integrating monetarily on the regional level (cf. CMCA, 2012, Art. 2). "…whereas the other initiatives are specifically aimed at facilitating trade, the Bank of Guatemala highlights the fact that the importance of the SIP lies in promoting the modernization of national payment systems, helping to eliminate restrictions, and widening access to trans boundary payments" (IADB, 2012). Formally inaugurated in 2011, the system offers a safe, rapid and cheap platform for transfers and settlements between economic agents (importer/exporter; financial institutions; central banks) of the member countries. Through the centralization of all operations by one institutional administrator (currently, the Dominican Central Bank, responsible for the real time gross settlement infrastructure), a reduction of transaction costs in regional trade transactions is achieved.

However, in contrast to the Agreement on Reciprocal Payments and Credits (CPCR) of the Latin American Integration Association (LAIA) and the Local Currency Payment System (SML) between Argentina and Brazil, SIP comprises all kinds of transactions, including remittances (whereas CPCR LAIA and SML only allow trade transactions; cf. IADB, 2012).

The macroeconomic situation of the member countries appears diverse: the Dominican Republic constitutes the largest economy in SIP with the lowest inflation rate and a reasonable external debt level, compared to Nicaragua or El Salvador which show a rather high inflation rate and less favorable external debt conditions. Hence, if the member countries should decide to move towards deeper forms of co-operation beyond the establishment of a simple regional payment mechanism after all, a convergence of regional economic and monetary policies would be needed.

3. Financing regional investment

In terms of monetary and financial South-South co-operation, there exist a series of regional development banks whose membership is dominated by regional donors.

a. Corporación Andina de Fomento (CAF)/(Andean Development Corporation)

b. Banco del Sur/ Bank of the South

c. Fondo Financiero para el Desarrollo de los Países de la Cuenca del Plata FONPLATA)

d. Fondo Monetario del Sur (FONASUR)

e. Banco Centroamericano de Integración Económica (CABEI)/ Central American Bank for Economic integration (BCIE)

A more detailed description of these mechanisms would go beyond the scope of this working paper in terms of the preset lengths. Hence, we did not include case studies on these mechanisms. It is notable, however, that some of them, such as the CAF, have extended their activities during the global financial crisis towards short-term liquidity provision, and that some of the planned mechanisms, such as the BRICS bank, also are foreseen to be active in this field.

4. Regional macroeconomic co-ordination and monetary integration (realized and planned mechanisms)

a. Common Monetary Area (CMA)

CMA
Date of Foundation: Rand Monetary Area (1974), succeeded by Common Monetary Area (1986)
Legal form: multilateral monetary arrangement (Article 2, CMA Agreement, 1974).
Member States (year of access): Lesotho (1986), Namibia (1992, after independence from South African rule), South Africa (1986), and Swaziland (1986)
Objectives: The objective of the CMA is threefold: provide for sustained economic development of CMA as a whole, encourage the advancement of the less developed member countries, achieve equitable benefits from the maintenance and development of the CMA while keeping monetary policy and control of financial institutions national (CMA Agreement, 1974).

The CMA is the longest standing and as of yet only regional monetary an exchange rate arrangement among developing, transitional and emerging economies whose foundations date back to the beginning of the 20th century. When the South African Reserve Bank (SARB) was established in 1921, the British pound and, with its introduction in 1961, the South African rand became the regional medium of exchange and legal tender. After independence from British colonial rule, the countries formally established the Rand Monetary Area (RMA) in 1974. RMA was replaced by CMA in 1986. Botswana participated in CMA negotiations in the 1970s but decided not to enter the CMA agreement. The country left RMA in 1975 in order to gain monetary independence. Until today, however, its exchange rate regime is closely oriented at the South African rand. After independence in 1992, Namibia introduced its own legal tender in 1993 that is pegged to the South African rand. While Swaziland had ended the use of the South African rand as legal tender and introduced its own legal currency with the introduction of CMA, it reintroduced the rand as a parallel legal tender to the national currency in 2003.

The smaller member countries are responsible for the authorization of foreign exchange transactions of their respective local origins, but the CMA arrangement requires them to take on exchange control regulations similar to those of South Africa (cf. Art. 5 of the Preamble to CMA Agreement, 1974). Within the region, CMA provides for an intra-regionally free flow of funds and access to capital markets between the countries. CMA is an integrated financial market with common capital account regulation. Since the beginning, the SARB's monetary policy has stood at the heart of CMA and preceding arrangements. The smaller member countries peg their exchange rates at par to the South African rand. They are responsible – albeit to a very limited extent – for their own monetary policies and their own financial institutions. The CMA is coined by joint monetary policy decisions that are, however, to a high degree determined by SARB's monetary policy decisions. South Africa determines the reference values with regard to intraregional exchange rates for the CMA and, because the South African rand follows a managed floating exchange rate regime, extra regional exchange rates, as well. South Africa's role as a regional lender of last resort is facilitated by the region's pronounced economic heterogeneity. The small market size of the smaller member countries reduces the risk of destabilizing influences on the region, for example through swings in capital flows (cf. Metzger, 2008, p. 6).

Since the rand circulates as an additional legal tender in the three smaller states and none of these currencies are legal tender in South Africa, the CMA agreement includes a compensation for foregone seignorage outside South Africa. According to Tavlas (2007, p. 3), the compensatory mechanism is "based on a formula equal to the product of (1) two-thirds on the annual yield of the most recently issued long-term South African government bond, and (2) the volume of rand estimated to be in circulation in the member country concerned." Currency coins and notes of South African rand are repatriated in a clearing system by the SARB. Also, the smaller countries agree to hold a share of at least 65 percent of rand in their respective foreign exchange reserves (cf. Metzger, 2008). Furthermore, Lesotho and Namibia may draw on a foreign exchange reserves fund that is administered by SARB. Central banks and commercial banks of CMA member countries have access to the financial resources on request: „The contracting parties […] share a common pool of foreign exchange reserves under the control of the SARB and, to an increasing extent, under the control of the South African authorized dealers in foreign exchange [banks]. The central banks and authorized dealers in foreign exchange in the member countries have access to the foreign exchange market in South Africa. […] the SARB will on request make the required foreign exchange available" (van Zyl, 2003, p. 136).

In a historical long-term perspective, Masson and Pattillo (2005, p. 26) find the role of South Africa as the benignly leading economic power of the region to be the decisive element that has allowed a mutually advantageous regional co-operation arrangement until today: "The continued existence of an exchange rate union based around South Africa's currency is evidence of the mutual advantage of a [sic] exchange rate stability and the circulation of rand throughout the area. […] The willingness of South Africa to listen to the concerns of its neighbours, as evidenced by various adaptions of the monetary union over time, has also contributed to its success. The relative size of the countries is a factor in the durability of the relationship, as there is no doubt where the responsibility for monetary policy lies."

Regional monetary policy convergence is reflected in the ever-stronger harmonization of inflation rates. Asonuma et al. (2012, p. 10), interpret this situation as a quasi-currency union. Both, external debt position and foreign exchange reserve holdings of the member countries improved over the last years, except for Swaziland that still struggles with a volatile development. In all, however, economic development in the smaller countries is highly dependent on the anchor role of South Africa.

b. Southern African Development Community (SADC) (planned)

SADC
Date of Foundation: 1992
Website: http:// www.sadc.int//
Legal form: Treaty (SADC, 1992).
Headquarters: Gaborone, Botswana (SADC, 2012a).
Member States:
SADDC member countries since 1980: Republic of Angola, Republic of Botswana, Kingdom of Lesotho, Republic of Malawi, Republic of Mozambique, Kingdom of Swaziland, United Republic of Tanzania, Republic of Zambia, Republic of Zimbabwe
Further member countries (year of access): public of Namibia (1990), Republic of South Africa (1994), Republic of Mauritius (1995), Democratic Republic of the Congo (1997), Republic of Seychelles[1] (1997), Republic of Madagascar[2] (2005)
Objectives: The main objectives of Southern African Development Community (SADC) are to achieve economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through increased regional integration (SADC, 2012b).

[1] The Republic of Seychelles was a member of SADC from 1997 until 2004 and then joined again in 2008 (globalEDGE, 2014).
[2] The Republic of Madagascar' membership was suspended by the SADC between the years 2009 and 2014 (see SADC, 2012c; „Madagascar," 2014).

Envisaged regional monetary co-operation in SADC is in its very preliminary stages. In 2003, SADC introduced a Regional Integration Strategic Development Programme (RISDP) that aims at establishing regional macroeconomic stability, and at laying the grounds for a monetary union with a roadmap of about 15 years' time to implement the intended co-operation (cf. Wentworth, 2013, p. 2; IMF, 2009, p. 2f). "Its stated economic goals include the creation of a free trade area by 2008, a customs union by 2010, a monetary union by 2016, and a single currency by 2018" (IMF, 2009, p. 2f). So far, only a harmonization of financial and banking standards is under way in a regional payments system (a real-time gross settlement (RTGS) system is introduced in most but not all member countries) (cf. Wentworth, 2013, p. 6). "These targets have had to be delayed, especially with the impact of the European sovereign debt crisis on the region – the latter event calling into question the long-term prudence of monetary unions" (Wentworth, 2013, p. 2).

While its current primary objective is not directed at enhancing trade volumes, this may become an intermediate step towards the distant objective of a fully-fledged monetary union. "The long-term objective is to have harmonised cross-border and inter-bank settlement systems to facilitate the economic activity such as supporting the flow of trade within the SADC region" (Ziqubu 2007, p. ii).

In 1980, SADC was originally established as the loose development coordinating conference (SADCC) and transformed into its present formalized structure in 1992. "SADC has its origins in the organization of Frontline States (Angola, Botswana, Mozambique, Tanzania, and Zambia), which sought the political liberation of the region from colonialism and minority white rule in the mid- to late 1970s. The group expanded in 1980 when Lesotho, Malawi, Swaziland, and newly independent Zimbabwe joined to form the Southern African Development Co-ordination Conference (SADCC), with the aim of reducing economic dependence on apartheid South Africa and promoting their own economic development through co-operation and integration" (IMF, 2009, p. 2).

The realization of a monetary union in SADC suffers from diverse political commitment of its member countries and inconsistent implementation of regulatory agreements in the region. A specific obstacle to deeper integration seems to be the economic heterogeneity of the member countries. "Smaller SADC countries are reportedly hesitant to relinquish economic (and political) sovereignty to a bloc where economics and politics are largely dominated by South Africa. […] Yet it is most likely that these small countries will benefit most from the risk-mitigating mechanisms of a monetary union (for example, against symmetric shocks). There is thus a misalignment of incentives, capacity and will for moving this regionalisation process among the countries – such as South Africa, Mauritius and Botswana – with effective insurance mechanisms, as well as a good monetary policy, versus the smaller countries, which stand to gain but do not have much capacity to accelerate the project" (Wentworth, 2013, p. 3). In addition, some of the member countries are faced with armed conflicts, war, and internal strife that affect economic performance and political stability in those countries.

"The economies of Zimbabwe and DRC declined and Angola recorded low economic growth during this period, while they also experienced hyperinflation: Angola (151%), DRC (175%) and Zimbabwe (75%). The substantial external debt of most member states, with the notable exceptions of Botswana, South Africa, Mauritius and Namibia, remains one of the region's greatest challenges" (World Bank, 2013).

Despite its slow progress, SADC became part of the tripartite agreement with COMESA and EAC to form an eventual monetary union for the three regions together that was signed in 2011 (COMESA-EAC-SADC Tripartite, n.d.).

c. Common Market for Eastern and Southern Africa (COMESA) (planned)

COMESA
Date of Foundation: 1994
Website: http://www.comesa.int/
Legal form: Treaty (COMESA Treaty, 1994).
Headquarters: Lusaka, Zambia
Member States (year of access): Republic of Angola Republic of Burundi, Union of the Comoros, Democratic Republic of the Congo, Republic of Djibouti, Arab Republic of Egypt (1999), State of Eritrea, Federal Democratic Republic of Ethiopia, Republic of Ivory Coast (observer), Republic of Kenya, Libya (2005), Republic of Madagascar, Republic of Malawi, Republic of Mauritius, Republic of Rwanda, Republic of Seychelles (2001), Republic of The Sudan, Kingdom of Swaziland, Tunisian Republic (observer), Republic of Uganda, Republic of Zambia, Republic of Zimbabwe
Objectives: To "be a fully integrated, internationally competitive regional economic community with high standards of living for all its people ready to merge into an African Economic Community" (COMESA, 2014a).

Originally, COMESA member states agreed to adopt several steps towards establishing a monetary union in 2018, with the introduction of currency convertibility and the formation of an exchange rate union (COMESA, 2014b, p. 67). A COMESA Monetary Co-operation Program (CMCP) was set up to achieve intended macroeconomic harmonization objectives. Initiatives include the setup of sub-committees, among them the Monetary and Exchange rates Policies Sub-Committee, responsible for devising appropriate monetary policy strategies and appropriate set of monetary policy instruments. The Fiscal Affairs Sub-Committee was also created by the Council of Ministers in 2006, to monitor macroeconomic convergence in collaboration with the Committee on Monetary Affairs. However, implementation plans have been postponed to 2021. "To achieve Monetary Union, it was considered essential that the member States should first go through a process of monetary harmonisation with a view to achieving macro-economic convergence. In order to assess progress being made towards this objective, a number of convergence criteria were formulated […]" (see COMESA, n.d.).

Progress in the implementation of a monetary union in COMESA "has been limited by country-level implementation problems [...] Overlapping memberships have led to conflicting goals and limited progress […], and reveal a lack of political commitment" (Khandelwal, 2004, p. 4). In fact, AfDB (2013) states that the established convergence criteria of COMESA do not meet member countries' needs and interests are financially unsustainable. "The Comesa criteria concerning inflation, government budget deficit, and central bank credit to government, replicate the numerical value of the European and Monetary Union (EMU) criteria, but it is not clear how and why criteria prescribed for industrialised countries be relevant for Comesa" (Bhatia et al., 2011, p. 52).

One of the first steps was to implement a separate payment system dedicated to cross-country transactions in 1999 (Regional Payment and Settlement System (REPSS)) with the COMESA Clearing House. Apart from lowering transaction costs and speeding up transaction times, risks of currency convertibility should be reduced and intra-regional trade should be enhanced. However, challenges are, among others, "insufficiencies in the conceptual model such as exchange-rate risks brought about by sequential settlement" (African Trade Policy Centre, 2010, p. 3f). Further to regionally more harmonized payment systems, COMESA has so far mainly focused on the establishment of the customs union by removal of tariff and non-tariff barriers. Nevertheless, to date, "market integration is still an unfinished agenda" (World Bank, 2013; see also African Trade Policy Centre, 2010, p. 3f.).

Despite its slow progress, COMESA became part of the tripartite agreement with SADC and EAC to form an eventual monetary union for the three regions together that was signed in 2011 (COMESA-EAC-SADC Tripartite, n.d.).

d. East African Monetary Union (EAMU) (planned)

EAMU in the East African Community (EAC)
Date of Foundation: First established: 1967 (1977 dissolved); Re-established: 2000
Website: http://www.eac.int//
Legal form: Treaty (EAC Treaty, 1999).
Headquarters: Arusha, Tanzania
Member States: Republic of Burundi (2007), Republic of Kenya (2000), Republic of Rwanda (2007), United Republic of Tanzania (2000), Republic of Uganda (2000)
Objectives: "WThe partner states under take to establish among themselves and in accordance with the provisions of this Treaty, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation" (Art. 5(2), Treaty, EAC, 1999).
"The partner states shall co-operate in monetary and financial matters and maintain the convertibility of their currencies as a basis for the establishment of a Monetary Union" (Art. 82(1a), Treaty, EAC, 1999).

The East African Monetary Union is a monetary union planned to be established in the framework of the East African Community by 2023. Economic and monetary co-operation in Eastern Africa has a long standing tradition. "In the past, Kenya, Tanzania and Uganda have enjoyed a long history of co-operation under successive regional integration arrangements. […] Following the dissolution of the former East African Community in 1977, the Member States negotiated a Mediation Agreement for the Division of Assets and Liabilities, which they signed in 1984 […] as one of the provisions of the Mediation Agreement, the three States agreed to explore areas of future co-operation and to make concrete arrangements for such co-operation" (EAC, 2014b). Having established a customs union in 2010 and initiated plans for a common market already, the member states agreed at the end of 2013 to establish a monetary union (EAC, 2014).

The member countries expect a monetary union to foster regional trade. In the 10 years up to a fully-fledged monetary union the member countries see the convergence of their currencies and an increasing trade volume as next steps. Furthermore, "[i]n the run-up to achieving a common currency, the East African Community (EAC) nations aim to harmonize monetary and fiscal policies and establish a common central bank" (Biryabarema, 2013).

Despite its slow progress, EAC became part of the tripartite agreement with SADC and COMESA to form an eventual monetary union for the three regions together that was signed in 2011 (COMESA-EAC-SADC Tripartite, n.d.).

e. Economic and Monetary Community of Central Africa /Communauté Economique et Monétaire d'Afrique Centrale (CEMAC) (planned)

CEMAC
Date of Foundation: 1994
Website: http://www.cemac.int/
Legal form: Treaty (CEMAC Treaty, 1994).
Headquarters: Bangui, Central African Republic
Member States: Cameroon, Central African Republic, Republic of Chad, Republic of the Congo, Republic of Equatorial Guinea, Gabonese Republic (all 1994)
Objectives: "To create a common market based on free movement of persons, goods, capital and services and to ensure stable management of the common currency" (CEMAC, n.d.).

The CEMAC Programme Economique Regional (PER), includes, among a broad range of aims and goals linked to regional development, the establishment of a Monetary Union. The agenda is set between 2010 and 2025 in three five-year phases. The first phase consists of the building up of the institutional foundations until 2015, the second phase shall install "anchoring pillars of economic diversification of the Community" until 2020 and the third phase shall consolidate the previous steps taken to establish an economic area in 2025 (cf. CEMAC, n.d.). Since 1948, the African Financial Community (CFA) franc zone comprises a currency board arrangement between France and two African regional bodies, CEMAC (Economic and Monetary Community of Central Africa) and WAEMU (Economic and Monetary Community of West Africa). All CFA franc notes issued by CEMAC (BEAC (Bank of the Central African States or Banque des États de l'Afrique Centrale) and WAEMU (BCEAO (Central Bank of the West African States or Banque Centrale des États de l'Afrique de l'Ouest) are convertible to the euro at a fixed rate. The French treasury guarantees the peg of the CFA francs to the euro. "In return for the 'unlimited' lines of credit offered by the French treasury, two important institutional safeguards exist. First, at least 20 percent of sight liabilities of each central bank must be covered by foreign exchange reserves. Second, at least 50 percent of foreign exchange reserves of each member country must be held in the operations account and countries that draw on the overdraft facilities are subject to increasing interest rate penalties" (Agbor, 2013, p. 3).

Progress in the CEMAC programme "[…] toward greater integration has been limited because key institutions promoting regional policies are very constrained. Many institutions (i.e. BEAC, COBAC and CEMAC commission) are understaffed with budgeted positions not filled. Furthermore, the political instability in the CAR has severely disrupted the activities of the CEMAC Commission, the key institution to coordinate regional policies. The commission also faces serious financial constraints. Its resources come from a regional tax, the taxe communautaire d'intégration (TCI), collected by member states and transferred to the Commission. These transfers, however, have been irregular and the collected revenue from the TCI usually remains below budget projections.

CEMAC faces one of the most challenging business environments in Africa which constrains non-oil sector growth and economic diversification. "Oil resource depletion in the somewhat near future [are] one of the greatest risks to the sustainability of the current currency board arrangement linking the CEMAC CFA franc to the euro. Also, the stagnating growth performance in CEMAC's non-oil GDP coupled with continuing volatility in global financial markets poses additional threats to the fixed exchange regime. This means that CEMAC policymakers must begin considering possible exit options from the current currency board arrangement. […] In spite of the fact that CEMAC states do not currently meet economic convergence criteria for forming an optimum currency area, a monetary union remains the first-best exit option from the current monetary arrangement. Thus, as further intraregional as well as extra-regional trade, services and asset markets integration occurs, requiring greater exchange rate flexibility, and as institutional reforms deepen, CEMAC states can proceed from a dollar peg to a basket peg and eventually to a managed floating regime" (Agbor, 2013, p, 18).

f. West African Monetary Zone (WAMZ) (planned)

WAMZ
Date of Foundation: 2000
Website: http://www.wami-imao.org/
Legal form: Agreement (WAMI, 2000, WAMZ Treaty, p. 2)
Headquarters: Accra, Ghana
Member States (year of access): Republic of the Gambia (2000), Republic of Ghana (2000), Republic of Guinea (2000), Federal Republic of Nigeria (2000), Republic of Sierra Leone (2000), Republic of Liberia (2010)
Objectives:
Establishment of a monetary zone (originally planned for 2003, currently planned for 2015). It is envisaged to merge this monetary zone with the West African Economic and Monetary Union (WAEMU) to form a single monetary zone in West Africa. (WAMI, 2014)

In 2000, those member countries of ECOWAS who are not part of the CBA in the African Financial Community (CFA), created WAMZ. It is called a “fast track initiative” that comprises all non-CFA zone countries with the eventual aim of harmonizing the two sub-regional monetary zones in West Africa, that is, the WAEMU which aims at substituting the CFA Franc, and WAMZ, into a single ECOWAS monetary zone (see below). “The rationale behind a second monetary zone is that it would be easier to merge the two currencies of WAEMU and WAMZ than the present eight currencies existing in the sub region” (Ojo, 2003, p. 142). Eventually, a common currency, the eco, shall be introduced that comprises WAEMU and WAMZ. In a way, WAMZ can be considered an expression of resentment against the little progress that has been made in the ECOWAS Monetary Co-operation Programme (EMCP) (Ebi, 2003, p. 146), on the one hand, and a reaction to the CBA in the CFA franc zone, on the other.

WAMZ aims at harmonizing the member countries’ monetary and exchange rate policies and at converging macroeconomic stances. In order to achieve the initial steps and finally the creation of a monetary union, in 2001, the West African Monetary Institute (WAMI) had been tasked with preparation of the member countries for monetary union, such as the establishment of a common central bank and the introduction of the common currency. So far, “the work programme of the Institute [WAMI] continued to be guided by its Strategic Plan (2010-2015), which is based on five pillars: Macroeconomic Convergence and Statistical Harmonization; Trade and Regional Integration; Financial Sector Integration, Payments System Development and Institutional and Capacity Building.”(WAMI, 2012, p. vii)

WAMZ established rigorous convergence criteria (cf. Sanusi, 2003, p. 2): an inflation rate of 5 per cent by 2003; a fiscal deficit GDP ratio of 4 per cent by 2002; limitation of deficit financing by the central bank to 10 percent and maintaining sufficient level of gross official foreign exchange reserves of at least 6 months of imports by 2003. Achievement of such convergence criteria, however, still lacks behind schedule. Even Nigeria, a leading economy in the region, faces difficulties in meeting the strict criteria. Also, “[…] the level of intra-regional trade continued to remain low (below 10 percent), due mainly to weak export capacity, existence of non-tariff barriers to trade as well as the poor implementation of ECOWAS protocol.” (Statement by the acting Director General of WAMI, 2012, p. vii)”

Nevertheless, several steps to achieve economic convergence have been taken already. In 2002, for example, an exchange rate mechanism has been adopted by the member states. The planned common central bank, the West African Central Bank (WACB) is supposed to concentrate its objective on price stability in an inflation targeting framework.

However, this most recent African proposal for macroeconomic co-operation in West Africa seems destined to be postponed not only by internal and intra-regional political conflicts, but also due to economic instability caused by the 2008 international financial crisis and the associated weakening of the US dollar which further increased macroeconomic divergence within the region (cf. Akinmutimi, 2013).

In all, as of yet, WAMZ includes little more than a common US dollar orientation of its member states.

g. Common Market of the South / Mercado Común del Sur (MERCOSUR) (planned)

MERCOSUR
Date of Foundation: 1991 Treaty
Website: http://www.mercosur.int/
Legal form: Treaty (MERCOSUR Treaty, 1991)
Headquarters: Montevideo, Uruguay
Member States (year of access): Argentina (1991), Brazil (1991), Paraguay[1] (1991), Uruguay (1991), Venezuela (2006, full member since 2012) and Bolivia (in accession process).
Objectives: (MERCOSUR Treaty of Asunción, 1991, Art.1). "Establishment of a customs union and free trade area and co-ordination of macroeconomic and sectorial policies of member states relating to foreign trade, agriculture, industry, taxes, monetary system, exchange and capital, services, etc., in order to ensure free competition between member states".

[1] Paraguay was suspended between 29th of June 2012 and 15th August 2013.

MERCOSUR's founding "Treaty of Asunción" (see MERCOSUR, 1991) established the MERCOSUR with the objective of forming a regional common market as a customs union until 1994. MERCOSUR is an intergovernmental regional co-operation structure whose institutional set-up is minimal. No supranational institutions exist, despite repeated announcement that a regional parliamentary structure will be established (cf. Phillips, 2003). The highly asymmetric economic interdependency of the MERCOSUR member countries frequently challenges the intergovernmental set-up, but the member countries thus far have not agreed on the institutionalization of regional co-operation (cf. Bouzas & Soltz, 2001, p. 117).

A common external tariff scheme and binding tariff preferences between the member countries were set out in the "Treaty of Ouro Preto," which became effective in 1995. However, from the beginning, MERCOSUR's largest member countries, Argentina and Brazil in particular, disturbed the intended integration path. Trade disputes challenge completion of the MERCOSUR customs union to this day. MERCOSUR currently represents no more than a half-way customs union that is limited in scope (cf. Baumann, 2008, p. 3).

Apart from economic integration through intraregional free trade, since the beginning, regional exchange rate co-ordination and macroeconomic convergence has been debated as a topic for MERCOSUR member countries. In 1993, during the fourth summit of the MERCOSUR, Brazil proposed, for the first time, to coordinate macroeconomic policies by setting exchange rate bands for intraregional real exchange rates (cf. Arnaud, 1999, p. 121). By the end of 2000, MERCOSUR member countries formally agreed on pursuing regional macroeconomic convergence.

The agreement contained rigid convergence criteria that oriented themselves according to the European Union's Maastricht treaty. Inflation rates should be brought down to less than 5 per cent, net public debt should be kept below 40 per cent of GDP, and fiscal deficit should be below 3 per cent (cf. Tansini & Vera, 2001, p. 116–7). At that time, expectations were high that the agreement of Florianópolis – dubbed "Little Maastricht" by the then Brazilian president F. H. Cardoso – would bring about much needed macroeconomic discipline and reduce distortions to intraregional trade and financial flows (cf. also, for example, Tansini/Vera, 2001, p. 117). However, shortly afterwards, MERCOSUR regional integration experienced its major setback through the unilateral devaluation of the Brazilian real in 1999. The convergence criteria were not implemented: "Conditions deteriorated in the middle of the first half of 2001, as the Argentine crisis deepened and the Brazilian devaluation accelerated. Integration was undermined after MERCOSUR's two largest members failed to set minimum macroeconomic convergence criteria. Since then, a number of measures adopted unilaterally by the two countries have paralyzed the customs union's "rules of the game". Changes that members made independently to the [...] CET, and the re-introduction of intra-sub regional tariffs [...], have seriously compromised the credibility of the sub regional integration process" (IADB, 2010, p. iv). To this day, disagreement in macroeconomic policy and divergence of exchange rate regimes plague the region (cf. Fanelli, 2007), which is characterized by repeated episodes of beggar-thy-neighbour policies (cf. Fritz, 2006).

With the aim of achieving greater regional macroeconomic convergence, the smaller members pushed forward the creation of a regional structural adjustment fund, which was established in 2004 – the Fondo para la Convergencia Estructural del Mercosur (FOCEM); in English, MERCOSUR Structural Convergence Fund. Although it was established with a rather small volume of USD 100 million per year, IADB (2010, p. 41) considers it as "one of the main achievements of MERCOSUR in the last five years." FOCEM has four programs, directed at structural convergence (primarily through infrastructure projects), development of competitiveness (primarily through research and development promotion, and integration of production chains), social cohesion (primarily through health care and education programs), and strengthening institutional structures and the integration process in MERCOSUR (cf. Vaillant, 2007). However, even for Paraguay, the fund's most important beneficiary, gains have been small. First, FOCEM's volume is too small to finance large-scale infrastructure projects. Second, the smaller MERCOSUR member countries, in particular, lack the resources to meet the requirements for project proposals and their implementation (cf. Arce, 2010). Third, FOCEM's comparatively small volume does not provide the required resources to address the large asymmetries within MERCOSUR (cf. Berrettoni/Lucángeli, 2012).

New regional monetary co-operation initiatives in the MERCOSUR have started during the last two years, largely through two major bilateral initiatives between Argentina and Brazil. First, in response to the 2008 financial crisis, the countries agreed on a bilateral swap arrangement in domestic currencies, amounting to USD 1.8 billion, that the countries may draw on in times of liquidity shortages (cf. IADB, 2010, p. 46–7). A similar agreement between Brazil and Uruguay is under negotiation. Second, after four years of planning, the SML between Argentina and Brazil was introduced in October 2008 (see above).

The member countries, in particular Argentina and Brazil, have developed disparate macroeconomic policy stances over the last two decades. This situation is particularly harmful during economic crises. Different exchange rate regimes not only disturb regional bilateral exchange rates but also increase the likelihood that one of the member countries will implement protectionist measures, because, in the case of exchange rate depreciations at different speeds, for example, one of the countries is likely to experience comparative disadvantages with regard to its trade competitiveness. Such a situation occurred when Brazil and Argentina responded differently to the 2008/2009 global financial crisis (cf. IADB, 2010, p. 73). Although intraregional trade has not yet recovered to levels achieved during the 1990s, intraregional exports and imports have recovered relatively well from the 2008/2009 global financial crisis. Despite increasing protectionist measures, particularly by Brazil and Argentina (see below), intraregional exports reached 15.7 per cent (as share of total exports) and imports 17.2 per cent (as share of total imports) at the beginning of 2011 (IADB, 2011, p. 35).

h. CARICOM Single Market and Economy (CSME) (planned)

CARICOM CSME
Date of Foundation: 1989 Grande Anse Declaration; 2001 Treaty Revision
Website: http://www.csmeonline.org/; http://www.caricom.org
Legal form: Treaty (Treaty of Chaguaramas, 2001).
Headquarters: St. Michael, Barbados
Member States (year of access): Antigua and Barbuda (2001), Barbados (2001), Belize (2001), Dominica (2001), Grenada (2001), Guyana (2001), Jamaica (2001), St Kitts and Nevis (2001), St Lucia (2001), St Vincent and the Grenadines (2001), Suriname (2001), and Trinidad and Tobago (2001)
Objectives: "To accelerate, co-ordinate and sustain economic development and convergence; to enhance co-ordination of Member States' foreign and economic policies; and to enhance functional co-operation" (Treaty of Chaguaramas, 2001, Art. 6).

The CARICOM Single Market and Economy initiative aims at integrating goods, labour, and financial markets and introducing fully convertible regional exchange rates, thereby creating a currency union (cf. Worrell, 2003; Titelman, 2006; Girvan, 2007). CSME was founded in 1989 as a development strategy for a common market by the Caribbean Community (CARICOM). As a first step, the Caribbean Single Market (CSM) was implemented in 2006 by the 12 CARICOM member states. In terms of regional monetary co-operation, CSME incorporates several ambitious projects, such as the establishment of a regional development fund and the creation of a regional stock exchange (see CARICOM, 2003). Furthermore, it is planned to introduce the Caribbean Monetary Union (CMU) in 2015. The original implementation plan envisaged the establishment of a framework for the completion of the CMU and an agreement on the adoption of a numeraire CARICOM currency unit as well as the beginning of the CMU with those member countries that already satisfied the convergence criteria for the CMU until 2010. A second phase should enlarge the number of member countries until 2015.

However, "[s]ignificant obstacles to an early monetary union are wide differences among member states in macroeconomic conditions, in fiscal and monetary conditions, in exchange rates and exchange rate regimes and in banking and finance legislation; the existence of capital controls by some members states; the differential susceptibilities of member states to exogenous shocks, the desire to retain national monetary sovereignty and seignorage revenues; and the substantial costs of converting accounting systems that would be incurred by some trans-Caribbean corporations." (Girvan, 2007, p. 36). This is also reflected in the variation of inflation rates and public debt levels reported in the annexed key data for the member countries.

Since the global financial crisis 2008/2009, the implementation seems to be put on hold. The region's strong US dollar orientation in its preparation for a currency union may have caused a too volatile macroeconomic environment for further continuing the envisaged implementation plan. "[…] it is observed that the global financial and economic crisis that started in 2008 has made governments turn inward; and taken up their time with crisis management" (Girvan, 2013, p. 12).

Furthermore, political developments counter further steps towards regional integration (cf. Girvan, 2013, p. 7): Jamaica articulated intentions to withdraw from CARICOM or to ban imports from Trinidad and Tobago. In addition, four CARICOM member states have joined ALBA (Bolivarian Alliance of the Peoples of Our America), while three others have become ALBA observers. "Although ALBA membership is not legally incompatible with Caricom, it is apparent that these countries see greater immediate economic benefits accruing from ALBA compared to Caricom" (ibid.).

Further reasons for the standstill of the CSME are put forward by Girvan, 2013. First and foremost, a strong governance system seems to be missing in CARICOM to forcefully support implementation of CSME, such as an executive body for the implementation of the latter. Thus, decisions are made on a national level and delay is caused by dependence on national implementation speed. "It is noticeable, for instance, that the Revised Treaty leaves many of the details of the CSME to be negotiated and implemented after the Treaty itself comes into effect. This has the advantage of flexibility; but it has the disadvantage of seeming to allow governments a wide degree of latitude in the pace and extent of implementation" (Girvan, 2013 p. 13).

This hesitant approach may reflect the fact that member countries have divergent concepts of regional (monetary) integration in mind: some are inclined towards a more free market oriented approach, reflecting also the strong economic ties with the US, while others do expect to have higher gains from regional integration as a counter proposal to liberalized markets and US-dominance, as proposed by ALBA.

i. Gulf Cooperation Council (GCC) (planned)

GCC
Date of Foundation: 1981 (Riyadh, Saudi Arabia)
Website: http://www.gcc-sg.org/eng/
Legal form: Charter (GCC, 2012)
Headquarters: Riyadh, Saudi Arabia
Member States: United Arab Emirates, Kingdom of Bahrain, Kuwait, Sultanate of Oman, Qatar, Kingdom of Saudi Arabia, Jordan, Morocco (in accession), Yemen (in negotiation)
Objectives: "For the purpose of achieving a monetary and economic union between Member States, including currency unification, Member States shall undertake, according to a specified timetable, to achieve the requirements of this union. These include the achievement of a high level of harmonization between Member States in all economic policies, especially fiscal and monetary policies, banking legislation, setting criteria to approximate rates of economic performance related to fiscal and monetary stability, such as rates of budgetary deficit, indebtedness, and price levels" (GCC Economic Agreement, 2001).

The Cooperation Council for the Arab States of the Gulf, as it is officially named, was established in 1981 by Bahrain, Kuwait, Oman, Qatar, United Arab Emirates, and Saudi Arabia (cf. Al-Bassam, 2003; Al-Jasser and Al-Hamidy, 2003; Al-Thani, 2003; Sturm and Siegfried, 2005; UNCTAD, 2007: 157; since 2011, Jordan and Morocco have been in the process of accession to GCC, and Yemen has started negotiations to join GCC). Despite far-reaching objectives, including a common currency, the GCC, so far, consists of only a customs union, which was established in 2003. Low intraregional trade levels persist, however, not least due to diversity in standards and a large number of non-tariff barriers to trade employed by the member states. Apart from creating a currency union, the list of objectives that are already partly implemented includes free movement of labour, integration of stock markets, and a joint investment policy. At the same time, GCC has a long history of intraregional exchange rate stability based on an implicitly pursued common extra-regional exchange rate peg to the US dollar since 2003, paving the way for a common currency, the Gulf dinar. With regard to the extra-regional exchange rate regime of the latter, a US dollar peg is being discussed, as well as a currency basket peg (cf. IMF, 2008: 33).

Despite four of the member states, Bahrain, Kuwait, Qatar, and Saudi Arabia, created a monetary council as a preparation for a common central bank, plans to implement a common currency do not seem to be materializing in the near future (see Dokoupil, 2012; cf. Mortished, 2009). Volatile movements in the US dollar exchange rate have recently put the arrangement under pressure: for the non-oil-manufacturing sector, real overvaluation could become a problem that might lead to a stronger orientation towards the euro zone. In other words, the weakening of the US dollar has led to a substantial turnaround in the thus-far promising integration process in the GCC region. First, Oman opted out of the currency union in 2006, with a plea to postpone its introduction; second, Kuwait decoupled its currency from the US dollar by introducing an exchange rate peg to a basket of currencies; third, the largest economy in the region, the United Arab Emirates, officially left the planned currency union due to political considerations of its central bank location.

In terms of macroeconomic harmonisation, GCC member countries show a similarly low level of inflation rates. However, in terms of GDP and debt levels, the region appears heterogeneous. Most member countries, in particular Saudi Arabia, unilaterally stock piled large amounts of foreign exchange reserves that are employed to buffer against external shocks and maintain macroeconomic stability. “The financial crisis that began in 2008 delivered a short, sharp shock to the region, from which it has largely recovered. Similarly the Arab Spring, which brought unrest to Bahrain and to a lesser extent to Oman and parts of Saudi Arabia, has had only a minor impact in the GCC. In large part this is due to heavy spending by GCC states to ensure stability. This raises questions about the economic viability of this strategy, and increases pressures to create more diverse, self-sustaining economies” (EIU, 2014). However, a joint GCC strategy to respond to such external shocks seems to be missing so far.

IV. Evaluation of South-South regional monetary co-operation mechanisms

1. Liquidity sharing arrangements

Emerging markets stock piling of foreign exchange reserves in reaction to financial and currency crises as well as to the euro and the global financial crisis have given new impetus to liquidity sharing mechanisms that are partly planned as substitute, but hitherto mostly complementary to IMF funding. Also, regional development banks such as the Development Bank for Latin America (CAF) (not developed further in this paper) entered into the provision of very flexible short term liquidity provision, not to mention the IMF and the World Bank's increasing provision of contingent lending facilities, and more flexible lending with ex-ante conditionality and access criteria.

We can identify three waves of regional liquidity sharing arrangements. They all share a perception of the imperfections of multilateral institutions such as the IMF with regard to developing countries' needs in terms of governance structure and short-term liquidity provision in the case of balance of payments stress: first, in face of the evolving Latin American debt crises of the 1980s, the former Andean and now Latin American Reserve Fund (FLAR) was founded as a regional self-insurance mechanism. Within this first wave of regional liquidity sharing arrangements, but with excess liquidity due the oil-price boom in the early 1970s at least in the oil-rich member countries, the Arab Monetary Fund (AMF) was created with the aim to redistribute wealth in the region through a shared liquidity reserve that would provide loans to less well-off countries. Second, the series of financial crises in emerging economies led to the perception that independent regional crisis prevention would be needed in order to avoid inadequate conditionality by IMF programs. It is in this context, that the Chiang Mai Initiative (CMI) was launched. In face of the volatility caused by the global financial crisis 2008/2009, the initiative was multilateralized and strengthened in terms of volume and institutional design to todays, Chiang Mai Initiative Multilateralization (CMIM). Third, precisely the same experience of global financial volatility and a missing international multilateral framework for short-term liquidity provision also led to the development of new liquidity sharing initiatives, such as the Eurasian Anti-Crisis Fund (ACM).

As mentioned above, in each of these periods, the countries were discontent with the ruling global monetary and financial order. Especially since financial liberalization has spread to emerging market economies, the IMF has been criticized for being too slow in disbursing emergency funds. Second, a heated debate is still under way about how appropriate the (ex ante and ex post) conditionality criteria attached to IMF lending are. Third, its governance structure, which links countries' voting rights to the shares they hold in the Fund, is considered to be dominated by industrialized countries. As a result, developing countries and emerging markets perceive a lack of adequate short-term liquidity provision on the international level. In this vein, Eichengreen (2006, p.9) suggests that, "in the absence of a global fund, the insurance in question could be provided by a regional pool of reserves."

An additional argument in favour of regional arrangements of liquidity sharing or even deeper forms of regional monetary co-operation is based on the fact that regional arrangements allow regionally adapted means of policy response rather than "one size fits all" solutions. Rules for mutual financial support can be adapted during the course of the co-operation, in terms of participating parties, volume, maturity, and conditionality involved (Birdsall/Rojas-Suarez, 2004; Ocampo/Titelman, 2010).

A topical issue is the question of how such regionally funded and owned initiatives implement and enforce conditionality criteria for borrowing member countries. While AMF developed its own lines of credit with different lending terms, FLAR does not impose conditionality at all. So far, FLAR shows a redemption rate of 100 percent. In contrast, CMIM linked its liquidity disbursement to the IMF for withdrawal of funds of initially above 20 percent of the available quota per country that was raised to 30 percent with a perspective to allow up to 40 percent without such IMF link. So far, CMIM has not been used by its member countries, not even during the global financial crisis. Rather, member countries turned to extra- and intraregional bilateral swap arrangements to counter balance of payment stress and at the same time to circumvent the stigma associated with IMF involvement.

Regional liquidity sharing arrangements come with a dilemma: on the one hand, a heterogeneous group of countries qualifies for a funding arrangement whose appeal is based on the expectation that not all member countries make use of the funds at the same time. On the other hand, a highly heterogeneous region will not easily be able to take further steps towards regional monetary co-operation that requires a converging macroeconomic policy stance. Whether pooled liquidity is drawn simultaneously or not depends on whether simultaneously hitting shocks and related contagion effects impact member countries symmetrically or asymmetrically. In relation to the simultaneity of external shocks, several aspects need to be considered. On the one hand, regional reserve pooling is rendered problematic if variations in national reserve holdings are, indeed, highly correlated. On the other hand, even for highly similar member countries in terms of economic structures, Eichengreen (2006) finds that regional liquidity pooling may still be an adequate mechanism of self-insurance because a shock may affect the participating countries with varying degrees of severity. This is the case in FLAR, where member countries benefit from the ease and speed of liquidity provision of rather small volumes for rather small economies at different times in reactions to different national or global shocks.

At the same time, member countries need to be highly committed to joint enforcement of the agreed-upon conditionality criteria: "[R]isk sharing may be limited not because the gains it affords are too small to matter, but rather because contract enforcement may be difficult exactly where risk sharing gains would be largest" (Imbs/Mauro, 2007 p. 40). In addition, a liquidity sharing arrangement needs to avoid problems of moral hazard occurring with regional reserves pooling through a strong surveillance mechanism and enforceable conditionality on emergency lending. For the case of the CMIM, the diversity in terms of contributions and borrowing capacities seems to play an important role for explaining the problems to find institutional solutions for mutual surveillance and conditionality.

Associated with the question of regional asymmetries and conditionality criteria, a final open question is the appropriate size of liquidity sharing mechanisms: on the one hand, the involvement of larger and more financially developed member countries is needed to sufficiently finance the mechanism; on the other hand, in most cases, those larger member countries will not be able to draw on the fund since it would not provide sufficient financial volumes in a sustainable manner. In particular, a debate about a possible expansion of FLAR to further member countries is fuelled by new proposals for enlargement criteria, potential new member countries, distribution of shares and checks and balances to provide adequate incentives for small and large member countries alike and an appropriate checks and balances mechanism to avoid moral hazard (cf. for example Titelman et al., 2014).

2. Regional payment systems

The overview shows that especially within regional payments systems, variation both in terms of development goals and mechanisms is diverse. The mechanisms range from rather simple versions with a focus on the reduction of transaction costs in regional trade to highly ambitious and complex regional arrangements, including temporary credit provision to intra-regional net importers, and even compensation mechanisms for intra-regional trade imbalances. Such complex mechanisms partly resemble the famous Keynes Plan of a global payment system as an alternative to the Bretton Woods order established in 1948 (see Fritz et al. 2014).

The overview on the arrangements shows that on the one hand, one finds long standing mechanisms between developing countries, such as the Latin American wide Agreement on Reciprocal Payments (CPCR-LAIA), that was founded in the context of severe economic volatility and debt crises in the 1970s and 1980s. On the other hand, a new wave of mechanisms emerged especially in Latin America in the context of global financial instability and regional block building: the Southern American System of Payment in Local Currency (SML) between some of the MERCOSUR member countries; the Central American regional interlinked payment system (SIP); and the Unified System for Regional Compensation (SUCRE) between some of the ALBA member countries. These mechanisms are regionally overlapping in part with the older CPCR-LAIA.

As an outcome of the diversity of Latin American regionalism, these mechanisms come along with a high diversity of development aims, goals, and instruments. The Central American SIP is the simplest mechanism among them, dedicated mainly at harmonizing regional payment systems in order to technically facilitate intra-regional financial transactions and to decrease their costs. While not aiming at monetary co-operation or integration, the mechanism adjusts to the regional reality by including remittances transfers of intra-regional migrants into this system. SML seeks to enable transnational transactions between Argentina and Brazil, and potentially between other MERCOSUR member countries, without having to resort to US dollars, which seems to be especially relevant for small and medium enterprises in Argentina. The mechanism thus shows a high number of transactions, but at the same time accounts for a rather low share in intra-regional trade. The SUCRE, while ambitiously aiming at substituting the US dollar in intraregional transactions in the long term, so far operates as a regional payment system which resorts to the sucre only as an accounting unit. It is so far used highly asymmetrically, in fact, mainly by one member country, Venezuela, for its imports from neighbouring countries, especially Ecuador. Such asymmetries reflect not least different incentives to use the mechanism due to highly diverse macroeconomic stances in the member countries, especially regarding exchange rate policies and incentives for economic actors to hold the domestic currency.

Technical issues as rules for clearance, adjustment of the unit of account, of exchange rate mechanisms and other technical details are highly relevant for the incentives to use and these mechanisms and their impact. For instance, an issue which seems to significantly dampen the effectiveness of the Latin American wide payment system CPC-LAIA is the fact that deficits at the central bank level, caused by private trade operations, are covered public guarantees which may have been appropriate in times of severe external debt crisis, but currently do give way to the socialization of private risks, making central banks unwilling to participate. Hence, hitherto existing regional payments systems show that proper adjustment to changing regional and global circumstances over time is crucial for sustained use of the mechanism.

There are a series of regional efforts under way for the harmonization of national payment systems in order to facilitate financial transactions within the region. While in many cases the efforts are limited to facilitate market relations, in other cases these seem to be at least open for the establishment of regional clearing mechanisms to provide liquidity and enable the use of regional currencies in the future, linked to long term plans of establishing a common regional currency, as is the case in the South African Development Community (SADC), the West African Monetary Union (WAMZ), the East African Community (EAC), or the above mentioned SIP.

3. Macroeconomic co-ordination and monetary integration arrangements

Macroeconomic co-ordination agreements and plans to implement currency unions have recently gained new momentum, in particular in response to volatile global financial markets. Most of the plans to implement fully-fledged currency unions can be found in West and East Africa, while the longest standing macroeconomic co-ordination arrangement in the form of exchange rate co-ordination exists in Southern Africa with the Common Monetary Area (CMA). The CMA however is different from all other regional integration initiatives as South Africa dominates the region and hence takes on an anchor role for the CMA arrangement that would not be present in any other planned initiative. In contrast, in other planned – partly overlapping – initiatives, for example in SADC, such South African dominance is regarded fearfully by smaller member countries and hence, such asymmetry can also be regarded as a challenge for their further development.

Of the numerous ambitious monetary integration plans, most implementation roadmaps seem to draw on the idea of the sequencing of the European integration process from trade to monetary integration, including first and foremost the establishment of rigorous convergence criteria that hardly any member country is able to meet in the self-imposed time frames. Hence, such route seems to be overly challenging, since problems of developing economies and emerging markets basically root in vulnerability towards external (trade and financial) shocks (see above).

Linked to the motivation of shielding against international financial volatility is another initiating moment observable in Africa based on the ambivalence of colonial roots is the presence of asymmetric co-operation with a northern key currency, such as the former franc an now euro in the CFA franc zone. The latter has, for example, provoked the appearance of new regional monetary integration proposals in West and Central Africa as a southern response in order to delink and form an independent regional currency. In addition to the afore mentioned historical and political reasons for the initiation of independent regional monetary arrangements, in the case of the CFA franc zone, economic reasons also play a role that are linked to the afore mentioned economic motivation: member countries economically suffered from the currency board arrangement due to exchange rate overvaluation and economic crisis, particularly in the 1980s and 1990s. Such vulnerability of the arrangement is inherent to unilateral co-operation with a peg to a key currency since the pegging economies cannot keep up with the strength of the anchor economy, for example due to reduced export earnings from declining export prices, expansionary fiscal policies etc.

The overview on the planned mechanisms shows that most of these initiatives are being postponed or are lacking behind their time schedule for implementation. This is partly due to the instabilities caused by the global financial crisis, and partly to intra-regional problems.

The observed detrimental and ambivalent processes demonstrate the inadequateness of conventional concepts of a linear approach to regional monetary co-operation. A linear approach follows the European example, and aims at sequencing integration from trade towards financial and monetary integration. The idea behind this concept is to improve real sector allocation by market harmonization, and to bring this to perfection by the abolishment of intra-regional exchange rates through monetary integration. However, this seems to be even less adequate for developing countries than it is for advanced economies. The current Euro crisis shows that regional integration of the real economy and a common currency cannot substitute region wide financial regulation and surveillance mechanisms, and that intra-regional imbalances in real and financial terms may create fundamental instability that may disturb further steps towards regional monetary integration.

Common to those ambitious initiatives is the establishment of a very detailed roadmap for, first, economic, and second, monetary integration with a very tight time table that is, in fact, in all cases, delayed as of yet. Most arrangements hit on their ambitious and rigorous convergence targets that mostly do not resemble the regional economic conditions, such as inflation rate levels or fiscal deficits. All planned co-operation arrangements stagnate at this point even though most of them successfully implemented different working groups on different policy areas to speed up the process.

Apart from the inability to meet such initially set targets, in most regions, reluctance to further share policy sovereignty at a regional level can be observed, often linked to uncertainty about the potential gains of regional monetary integration. Hence, national economic, monetary and exchange rate policy stands in the way of a further and deeper co-operation in monetary terms. In fact, such challenges can be observed in the Euro zone until today and form part of the ongoing Euro crisis. In addition, specifically African plans for regional monetary co-operation are mostly set back by violent conflicts or war on the national or transnational level. In all, precisely most of those trade-first integration initiatives stuck along the way to any form of monetary co-operation.

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Annex: Key data for regional monetary co-operation mechanisms

Definitions and Sources

- GDP: gross domestic product (GDP) at purchaser's prices, Data are in current USD.
  Source: World Bank, World Development Indicators (WDI), 2012
- Inflation: Inflation, consumer prices (annual %).
  Source: World Bank, World Development Indicators (WDI), 2012
- Public Debt: General government gross debt
  Source: International Monetary Fund, World Economic Outlook Database (WEO), 2012
- External Debt: Total external debt stocks to gross national income (GNI).
  Source: World Bank, World Development Indicators (WDI), 2012
- Official Reserve Assets in current USD
  Source: International Monetary Fund, International Financial Statistics (IFS), 2012
- Intra-regional trade: Intra-trade of regional and trade groups by product, annual (% by destitation)
  Source: United Nations Conference on Trade and Development, UNCTADstat, 2012

Notes:
* IMF IFS, 2012 (estimates).
** UNSTATS, 2012.
† World Bank WDI, 2011.
†† IMF IFS, 2011.

1. Liquidity sharing mechanisms

Fondo Latinoamericano de Reservas (FLAR)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Bolivia	27,04	4.59	33.42	27.20	11,73
Colombia	369,61	3.18	32.56	22.39	36,46
Costa Rica	45,10	4.50	35.33	32.95	6,86
Ecuador	84,04	5.10	22.19	20.34	1,13
Peru	203,79	3.65	20.52	29.36	62,36
Uruguay*	49,92	8.10	59.57		13,59
Venezuela, RB*	381,29	21.07	45.96	19.36	10,53
Intra-regional trade					14.89

Chiang Mai Multilateralization Initiative (CMIM)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)

Brunei	16,95	0.46	2.360	..	3,29
Myanmar**	59,44	1.47		..	
Philippines	250,18	3.17	40.595	24.62	73,81
Cambodia	14,04	2.93	28.755	42.89	4,29
China	8.227,10	2.65	26.079	9.19	3.332,94
Hong Kong	263,26	4.06	34.191	..	317,25
Indonesia	878,04	4.28	24.032	29.90	108,97
Japan	5.961,07	-0.03	237.345	..	1.228,47
Korea	1.129,60	2.20	34.982	..	323,35
Lao PDR	9,42	4.26	61.529	73.44	0,80
Malaysia	305,03	1.66	55.981	35.52	137,85
Singapore	276,52	4.53	107.881	..	259,09
Thailand,	365,97	3.01	45.440	38.20	173,59
Vietnam	155,82	9.09	49.953	44.08	
Intra-regional trade					36.19

Arab Monetary Fund (AMF)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Algeria[†]	205,79	8.89	10.501	..	191,60
Bahrain**	30,36	2.75	33.62	..	5,21
Comoros	0,60	1.77	42.545	42.19	0,19
Djibouti**	1,36	7.88	42.914	..	0,25
Egypt, Arab Rep.	262,83	7.12	80.598	15.73	11,76
Iraq*	210,28	5.81 (2011)	34.148	..	68,78
Jordan	31,02	4.77	79.586	59.77	8,11
Kuwait**	183,22	2.92	6.428	..	29,02
Lebanon	42,95	5.11 (2011)	139.525	68.40	37,68
Libya**	95,80	6.07	..	..	118,61
Mauritania	4,20	4.94	98.51	82.34	0,95
Morocco	95,98	1.28	60.454	36.04	16,39
Oman**	78,11	2.91	5.979	..	14,40
Palestine					
Qatar**	192,40	1.87	35.824	..	32,54
Saudi Arabia	711,05	2.89	3.705	..	657,02
Somalia**	1,31	-2.35			
Sudan*	58,77	37.39	95.664	40.28	0,19

Syrian Arab Republic	73,67	36.70	..	6.72	..
Tunisia	45,66	5.50	44.045	58.38	8,37
United Arab Emirates**	383,80	1.85	16.477	..	47,04
Yemen, Rep.*	35,65	17.29	47.793	22.45	6,07
Intra-regional trade: League of Arab States (incl. Palestine, Somalia)					8.62

EURASEC Anti-Crisis Fund (ACF)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Armenia	9,95	2.56	38.931	72.93	1,80
Belarus	63,27	59.22	38.462	55.34	5,88
Kazakhstan	203,52	5.11	12.392	78.98	22,33
Kyrgyz Republic	6,47	2.69	48.975	99.05	1,91
Russia	2.014,77	5.07	12.741	..	488,23
Tajikistan	7,63	5.83	32.330	52.73	0,31

2. Regional payment systems

Latin American Agreement on Reciprocal Payments and Credits (CPCR- LAIA)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Argentina	1,13	3.38	47.73	26.28	40,03
Bolivia	27,04	4.59	33.42	27.20	11,73
Brazil	2.252,66	5.40	68.02	19.86	369,68
Chile	269,87	3.01	11.89		41,64
Colombia	369,61	3.18	32.56	22.39	36,46
Ecuador	84,04	5.10	22.19	20.34	1,13
Mexico	1.178,13	4.11	43.51	30.65	160,63
Nicaragua	10,51	7.19	42.70	86.71	1,89
Panamá	36,25	5.70	42.25		2,47
Paraguay	25,50	3.68	11.60	27.15	4,57
Peru	203,79	3.65	20.52	29.36	62,36
Uruguay*	49,92	8.10	59.57		13,59
Venezuela, RB*	381,29	21.07	45.96	19.36	10,53
Intra-regional trade					16.48

Payment system in local currencies/Sistema de Pagos en Monedas Locales (SML)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)
Argentina	1,13	3.38	47.73	26.28	40,03
Brazil	2.252,66	5.40	68.02	19.86	369,68
Intra-regional trade (for Mercosur)					16,9

Unified System for Regional Compensation (Sistema Unitario de Compensación Regional de Pagos) (SUCRE)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)
Bolivia	27,04	4.59	33.42	27.20	11,73
Cuba	71,02				
Honduras	17,59	6.76	34.42	26.67	
Ecuador	84,04	5.10	18.77	20.34	1,13
Nicaragua	10,51	7.19	42.70	86.71	1,89
Uruguay*	49,92	8.10	59.57		13,59
Venezuela, RB*	381,29	21.07	45.96	19.36	10,53
Intra-regional trade					4.35

The regional interlinked payment system in Central America / Sistema de Interconexión de Pagos (SIP)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)
El Salvador	23,14	5.13	55.44	53.40	
Guatemala*	47,69	6.22	24.39	35.93	
Honduras	17,59	6.76	34.42	26.67	
Nicaragua	10,51	7.19	42.70	86.71	1,89
República Dominicana	59,05	3.69	33.47	29.69	3,55
Intra-regional trade: Central America and Greater Caribbean Islands excluding Mexico and Puerto Rico.					18.08

3. Regional macroeconomic co-ordination

Common Monetary Area (CMA)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)
Lesotho*	2,45	6.10	38.855	31.26	1,03
Namibia*	13,07	6.54	26.928	..	1,75
South Africa	384,31	5.41	42.282	36.59	44,21
Swaziland*	3,74	8.94	19.050	13.32	0,74
Intra-regional trade (for SADC)					11.7

Southern African Development Community (SADC)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)
Angola	114,15	10.29	30.183	21.60	33,41
Botswana*	14,50	7.54	18.131	17.75	7,63
Congo, Dem. Rep.	17,20	9.72	35.418	35.76	1,63
Lesotho*	2,45	6.10	38.855	31.26	1,03
Madagascar	9,98	6.36	38.145	29.90	1,19
Malawi	4,26	21.27	54.913	31.74	0,22
Mauritius	10,49	3.85	50.290	42.05	2,84
Mozambique	14,24	2.09	42.204	32.93	2,78
Namibia*	13,07	6.54	26.928	..	1,75
Seychelles	1,13	7.11	82.743	205.58	0,31
South Africa	384,31	5.41	42.282	36.59	44,21
Swaziland*	3,74	8.94	19.050	13.32	0,74
Tanzania*	28,24	16.00	40.784	41.38	4,05
Zambia	20,68	6.59	32.353	27.56	3,04
Zimbabwe	9,80	3.72	59.681	75.54	0,57
Intra-regional trade					11.7

Common Market for Eastern and Southern Africa (COMESA)

Country Name	GDP (bn. USD)	Inflation (annual %)	Public Debt (% of GDP)	External Debt (% of GNI)	Official Reserve Assets (bn. USD)

Angola	114,15	10.29	30.183	21.60	33,41
Burundi	2,47	18.01	35.719	26.99	0,31
Comoros	0,60	1.77	42.545	42.19	0,19
Congo, Dem. Rep.	17,20	9.72	35.418	35.76	1,63
Djibouti**	1,36	7.88	42.914	..	0,25
Egypt, Arab Rep.	262,83	7.12	80.598	15.73	11,76
Eritrea*[††]	3,09	12.26	125.778	32.45	0,11
Ethiopia	41,61	22.77	21.241	24.31	..
Kenya	40,70	9.38	48.688	31.06	5,71
Libya**	95,80	6.07	0.000	..	118,61
Madagascar	9,98	6.36	38.145	29.90	1,19
Malawi	4,26	21.27	54.913	31.74	0,22
Mauritius	10,49	3.85	50.290	42.05	2,84
Rwanda[†]	7,10	6.27	24.106	17.51	0,85
Seychelles	1,13	7.11	82.743	205.58	0,31
Sudan*	58,77	37.39	95.664	40.28	0,19
Swaziland*	3,74	8.94	19.050	13.32	0,74
Tunisia	45,66	5.50	44.045	58.38	8,37
Uganda	19,88	14.02	29.720	22.49	3,17
Zambia	20,68	6.59	32.353	27.56	3,04
Zimbabwe	9,80	3.72	59.681	75.54	0,57
Intra-regional trade					6.93

East African Monetary Union (EAMU)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Burundi	2,47	18.01	35.719	26.99	0,31
Kenya	40,70	9.38	48.688	31.06	5,71
Rwanda[†]	7,10	6.27	24.106	17.51	0,85
Tanzania*	28,24	16.00	40.784	41.38	4,05
Uganda	19,88	14.02	29.720	22.49	3,17
Intra-regional trade					20.92

Economic and Monetary Community of Central Africa (CEMAC)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Cameroon	25,32	2.94	16.207	14.84	3,38
Central African Republic	2,18	5.77	30.543	25.81	0,16
Chad	12,89	10.25	27.816	18.77	1,16
Congo, Rep.*	13,68	3.89	26.178	26.12	5,55
Equatorial Guinea	17,70	6.15	9.948	..	4,40
Gabon	18,38	2.66	21.328	17.31	2,35
Intra-regional trade					1.58

West African Monetary Zone (WAMZ)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Gambia, The[†]	0,92	4.80	79.212	58.65	0,24
Ghana*	40,71	9.16	50.185	32.25	5,38
Guinea* [††]	5,63	15.21	35.432	17.58	0,10
Liberia	1,73	6.83	29.103	30.16	0,50
Nigeria	262,60	12.22	18.335	4.21	46,44
Sierra Leone	3,80	12.87	36.673	29.54	0,48
Intra-regional trade (for ECOWAS)					7.52

Common Market of the South (MERCOSUR)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Argentina	1,13	3.38	47.73	26.28	40,03
Bolivia	27,04	4.59	33.42	27.20	11,73
Brazil	2.252,66	5.40	68.02	19.86	369,68
Paraguay	25,50	3.68	11.60	27.15	4,57
Uruguay*	49,92	8.10	59.57		13,59
Venezuela, RB*	381,29	21.07	45.96	19.36	10,53
Intra-regional trade					16.9

CARICOM Single Market and Economy (CSME)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Antigua and Barbuda	1,13	3.38	89.137		0,16
Barbados	4,22	4.53	85.798	..	0,001
Belize	..	1.32	75.424	..	0,0003
Dominica	0,48	1.44	74.809	61.47	0,09
Grenada	0,77	2.41	108.526	78.61	0,0001
Guyana	2,85	2.39	64.273	69.28	0,0009
Jamaica	14,76	6.90	74.809	99.49	2,00
St Kitts and Nevis	0,77	1.41	137.011	..	0,0003
St. Lucia	1,24	4.18	71.689	40.33	0,0002
St. Vincent and the Grenadines	0,71	2.60	70.076	38.08	0,11
Suriname	5,01	5.01	22.139	..	0,001
Trinidad and Tobago	23,32	9.26	36.860	..	0,01
Intra-regional trade					14.49

Gulf Cooperation Council (GCC)

Country Name	**GDP (bn. USD)**	**Inflation** (annual %)	**Public Debt** (% of GDP)	**External Debt** (% of GNI)	**Official Reserve Assets** (bn. USD)
Bahrain**	30,36	2.75	33.62	..	5,21
Kuwait**	183,22	2.92	6.428	..	29,02
Oman**	78,11	2.91	5.979	..	14,40
Qatar**	192,40	1.87	35.824	..	32,54
Saudi Arabia	711,05	2.89	3.705	..	657,02
United Arab Emirates**	383,80	1.85	16.477	..	47,04
Intra-regional trade					4.96