







Building up a
truly Latin
American
Reserve Fund

Cooperación e Integración Financiera Regional
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Outline

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What does FLAR do?

- **Main objectives, institutional framework, size/coverage of RFA**
- **Our comparative advantage**
- **Surveillance, lending, conditionality and focus.**



Objectives and perspectives

- FLAR started in 1978 as a RFA for Andean countries which had a weak financial position. Today, the region has made a turnaround and many countries in the region have a solid financial standing.
- The governing structure consists of the Board (central bank governors), the Assembly (Finance Ministries) and the Executive Presidency. Voting rights are one for each country, not related to capital contribution.
- Our paid-in capital is USD 2,4 billion (May 2014).
- We have the best credit rating in the region (AA).
- Assets under management USD 6,4 billion (May 2014).



Objectives and perspectives

- We grant loans to central banks of our 8 member countries. We have done 38 credit operations in the last 35 years. We were very active in the 80s.
- We see ourselves as the first external line of defense in case of external liquidity problems, hence avoiding contagion. We offer a quick assistance to our members.
- Even though our loans are granted without conditionality, we have a surveillance program and discuss within the Board the state of each economy.
- There is a strong sense of ownership among members. We have never been defaulted, nor has any credit operation been refinanced.



Objectives and perspectives

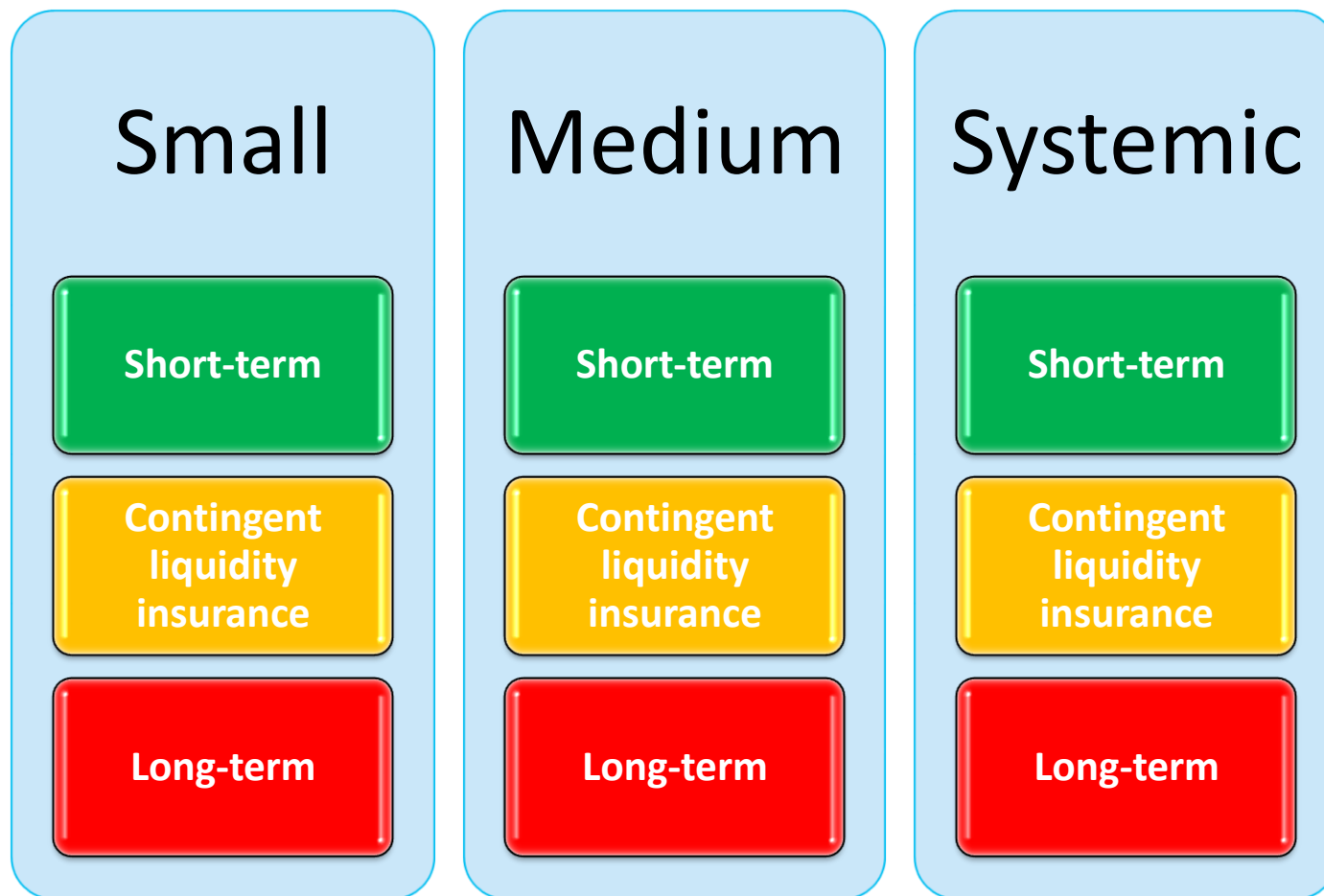
- FLAR wants to have a full LATAM membership. It is key to have regional systemic countries (Brazil and Mexico) as members in order to have a strong presence in the international financial architecture.
- We want to grow in size and relevance.
- The region is increasing its interconnectedness in an unprecedented way and we want to offer the financial umbrella to foster a sustainable development.
- We offer a top-notch service of reserve administration for member countries and also to LATAM sovereign institutions. We are a safe haven to sovereign LATAM investors.



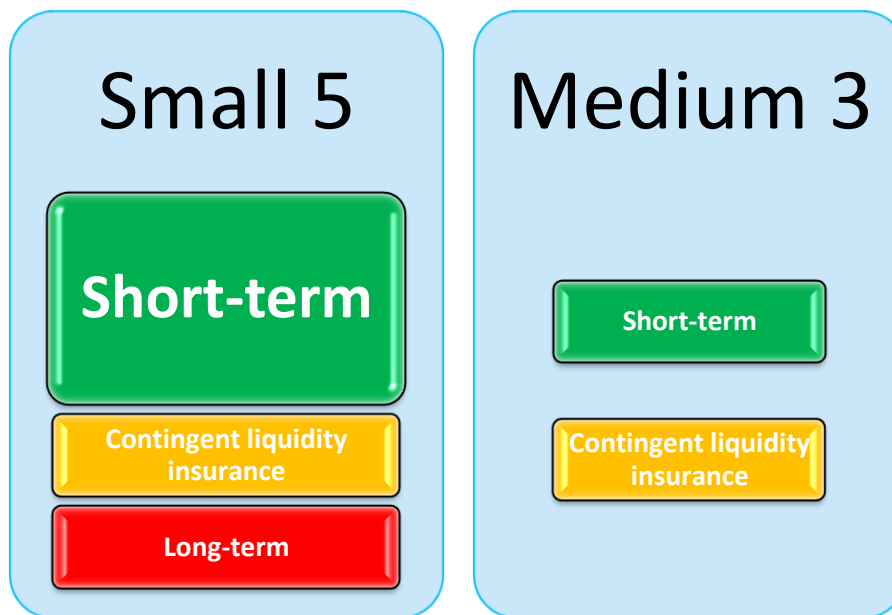
The process of building up a larger FLAR



The region has countries of 3 sizes and 3 types of potential financial needs



Currently, FLAR members are either small or medium and we only partially cover their potential financial needs



We must keep in mind 3 Principles in this effort to increase FLAR membership

1

The new FLAR could not change current benefits to its current members

2

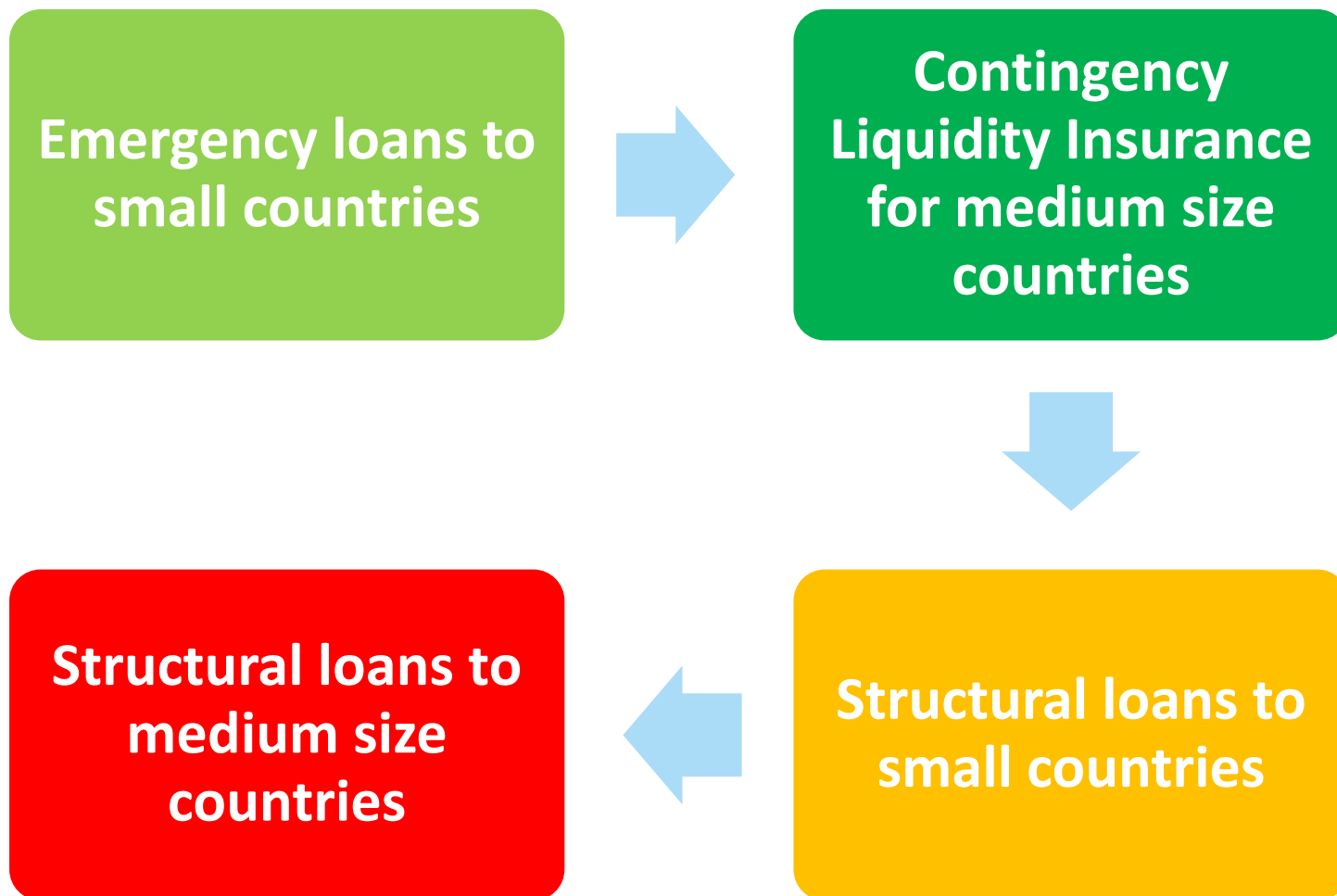
Members should receive in direct proportion to their contribution effort

3

The more capital we compromise, the larger should be the guarantees demanded/offered



Potential services in defining FLAR's expansion strategy



Reality check

There is no way to offer something substantial to attract systemic countries.

The UNASUR debate about creating a new Latin American Reserve Fund are over. ECLAC recommendation: use FLAR as a stepping stone

Smaller countries with low levels of international reserves should take join, besides the inflexibility of IMF accounting rules

Structural loans to medium size economies is IMF territory

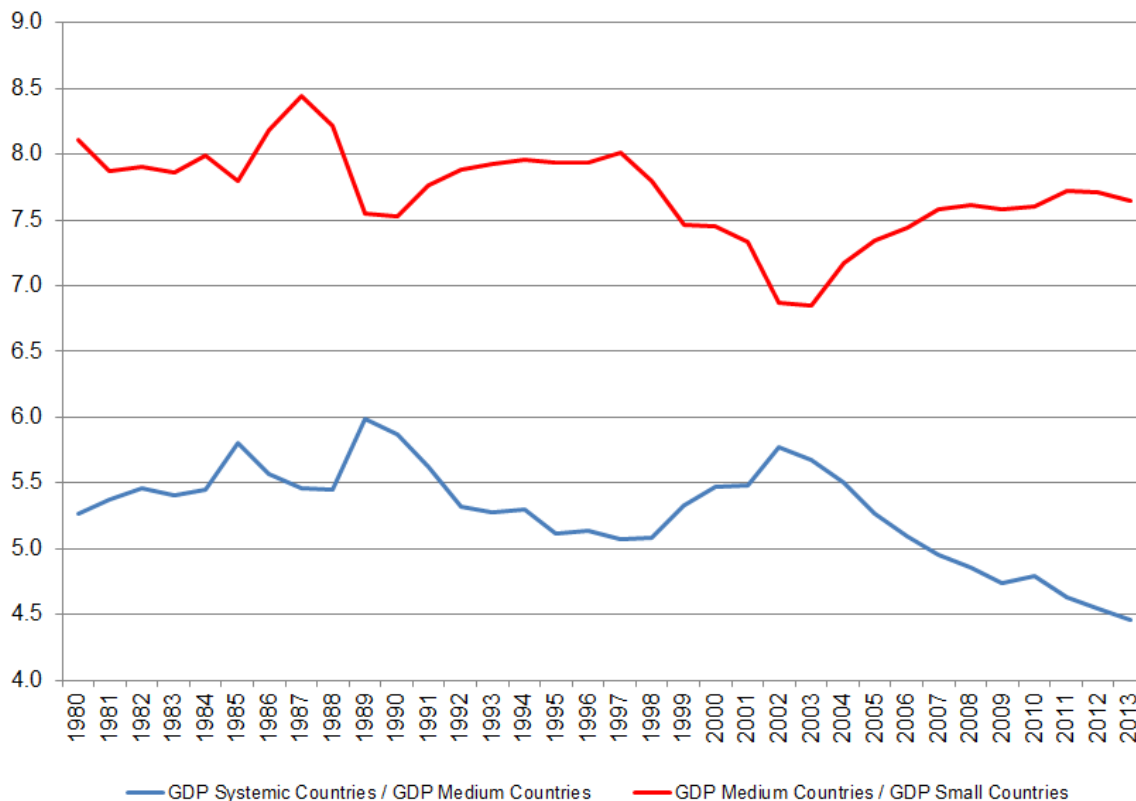


**Our proposal
for a truly Latin
American
Reserve Fund**



How much capital should we ask to each country to join FLAR?

Relative GDP across country categories



Currently is 2

Source: FMI-WEO. Own calculations. **Systemic countries:** Brasil and México. **Medium countries:** Argentina, Chile, Colombia, Perú and Venezuela. **Small countries:** Bolivia, Costa Rica, República Dominicana, Ecuador, El Salvador, Guatemala, Honduras, Panamá, Paraguay, Surinam, Trinidad y Tobago and Uruguay.



Our initial proposal was to create 3 -very different- country categories

Country category	Number of countries	Relative GDP	Relative contribution	Capital contribution	Total by country Group
				USD Millions	USD Millions
Systemic	2	34.1	6	1968.6	3937.2
Medium	5	7.6	3	984.3	4921.5
Small	12	1	1	328.1	3937.2
Total	19				12795.9



The consensus among our Board of Directors was to promote entry

Country category	Number of countries	Relative GDP	Relative contribution	Capital contribution	Total by country Group
				USD Millions	USD Millions
Systemic	2	34.1	2	656.2	1312.4
Medium	5	7.6	2	656.2	3281
Small	12	1	1	328.1	3937.2
Total	19				8530.6

According to Principle 2, the smaller countries are doing the larger effort in terms of relative capital contribution as they are who will get a larger benefit of being part of FLAR.



What can we offer to each country?

Emergency loans

- Small
 - Medium
 - Systemic
-
- 2.5 times the paid-in capital
 - One country = One vote

Contingent Liquidity Insurance

- Small
 - Medium
-
- 2 times the paid-in capital
 - One country = One vote

High-leveraged loans

- Small
-
- > 2,5 times the paid-in capital
 - Weighted vote according to paid-in capital

Following Principle 1, we are still delivering the same as before, small but quick access to emergency loans.

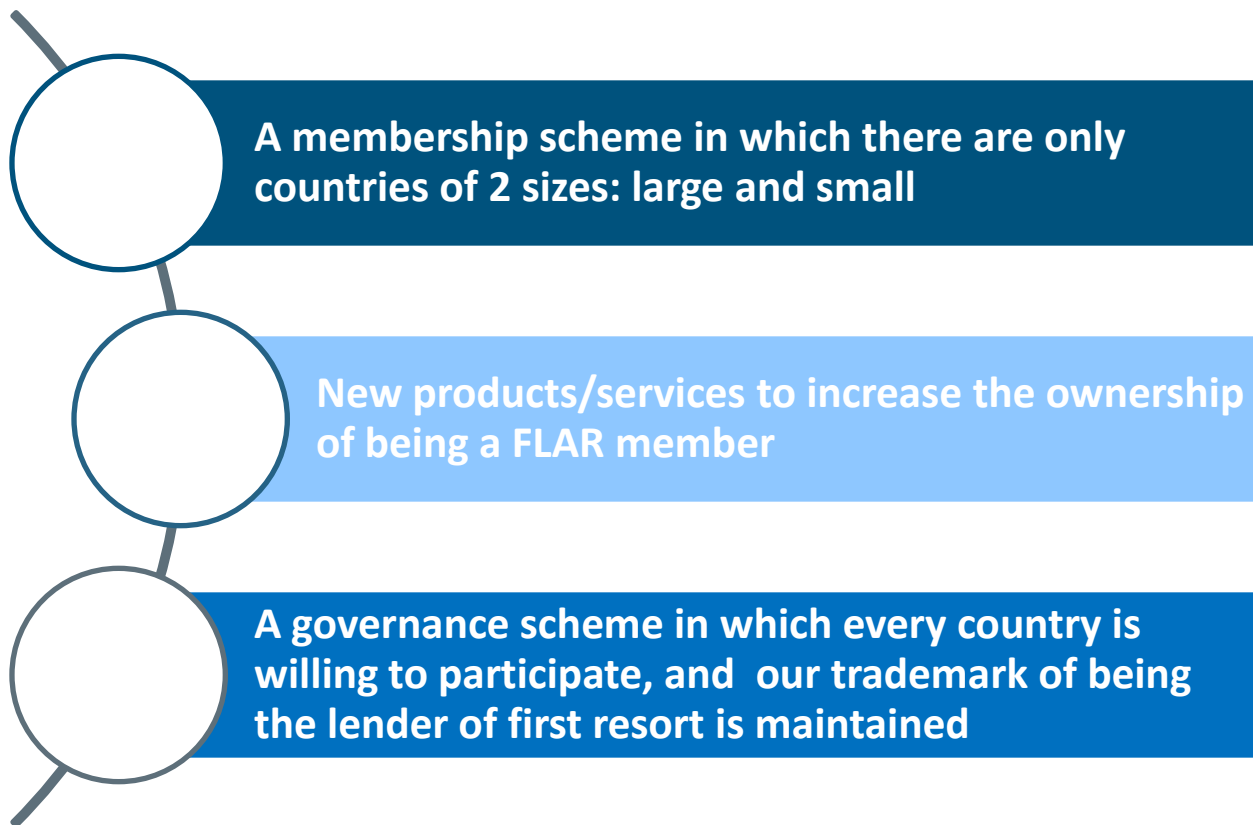
Following Principle 3, once more capital is committed, the Board requires more guarantees.



Group of countries	Percentage of total vote in top leverage financial assistance
<u>Group of systemic countries</u>	15,4%
Each country	7,7%
<u>Group of medium countries</u>	38,5%
Each country	7,7%
<u>Group of small countries</u>	46,2%
Each country	3,8%



Summary of our proposal



Governance Proposal



Governance Proposal, currently under discussion within our Board

Type of decision	Transition	Final
Ordinary	As nowadays (affirmative vote of at least seventy-five percent of the number of representatives or Directors attending)	As nowadays (affirmative vote of at least seventy-five percent of the number of representatives or Directors attending)
Credit \leq 2,5 times paid-in capital	As nowadays (affirmative vote of at least seventy-five percent of the number of representatives or Directors attending)	As nowadays (affirmative vote of at least seventy-five percent of the number of representatives or Directors attending)
Credit $>$ 2,5 times paid-in capital	By simple majority Vote power according to paid-in capital	By simple majority Vote power according to paid-in capital
Veto power	Credit modifications: 20% of votes Credit approval $>$ 2,5 times paid-in capital: 20% of total votes	Credit modifications: 20% of votes Credit approval $>$ 2,5 times paid-in capital: 20% of total votes





FLAR

Fondo Latinoamericano
de Reservas

www.flar.net