

The Role of the International Monetary Fund and the World Bank in Supporting Public Sector Reform in the Western

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Abstract

The International Monetary Fund, although the main focus has the financial and technical support in the monetary sectors and trade balance for member countries, it has long provided advice and technical assistance to promote good governance, such as promoting transparency of public sector and accountability. Also, the World Bank leverages lending instruments, helps and supports the member countries in need to carry out public reforms. Given the fact that the penitentiary Balkan countries started transition reforms from multiparty to multi-party systems in the 1990s, the role of international financial institutions was important in the field of structural reforms of these countries. The purpose of the paper is to examine and analyze the World Bank's lending and financial support instruments dedicated to public sector reform in Kosovo, Macedonia and Albania, in the period of membership in these institutions, using the analysis and comparative method until 2016. The research focuses on the lending and technical assistance provided by these institutions in the area of financial management, revenue management, transparency, administrative and civil services and institutional capacity building.

Keywords: International Monetary Fund, World Bank, lending, public sector, technical assistance

DOI: 10.7176/JESD/10-4-13

1. Introduction

The International Monetary Fund (IMF) was established at a UN conference in Bretton Woods, New Hampshire, USA, in July 1944. Representatives of the 44 countries at that conference tried to build a framework for economic co-operation to avoid repetition of devaluations that contributed to the emergence of the Great Depression of the 1930s. Two international monetary and financial cooperation organizations were established: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)

The Fund was established in order to provide co-operation in the area of international payments and foreign exchange policies and to approve loans for balance of payments reconciliation, while the Bank has been tasked with long-term loans to enable the reconstruction and development of member countries. Thus, the IMF's fundamental mission (Issues Special Report, IMF, 2014), is to ensure the stability of the international monetary system, this Fund realizes through three main pillars: 1) overseeing the global economy and the economies of member states; 2) lending to countries with difficulties in payment balances; and 3) providing assistance and assistance to member states. The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member states. The IMF highlights potential dangers to stability and advises on the necessary policy adjustments. Today, the IMF has the mandate to oversee the international monetary and financial system and monitor the economic and financial policies of its member states.

The World Bank Group provides assistance to increase the standard of living of the citizens of the Balkan countries. By helping to promote sustainable development, job creation, public sector advancement, easier access to capital and services, and small and medium-sized enterprises development, it in a way contributes to the enhancement of quality of life. The Bank operates in partnership with the ruling power, with the local self-government units and with the international community dealing with development, in order for the citizens of Balkan to provide you with a sustainable development.

From the outset, the IMF has been involved in the transition process of Southeast European countries. According to Roafet et.al (2014), after the collapse of communism in 1989, the main expansion of the membership and activities of the Fund was developed, whereby 25 new members of the former Socialist bloc became members at the end of 1993. These countries were almost all in difficult economic conditions and in need desperate for funding and foreign advice.

In the recent study of IMF working paper (Zsoka Koczan, 2016) the transition path to the Western Balkans, however, has been particularly uneven and more complicated than in the rest of Europe's transitional countries. Analyzing the "hot" political and economic developments of the Western Balkans region, beginning in the 1990s, characterized as a period of political and economic transition, followed by riots and armed conflicts in some countries and up to present, we can estimate that the assistance and presence of the IMF and the World Bank Group in the countries of the region, in the transition process and structural reforms has been more than necessary and has had a positive role in overcoming the processes reform in all spheres.

Since the beginning, the IMF has been actively involved in the economic transformation of the Western Balkans. By providing advice on economic issues, there have been some financial agreements with almost all countries in the region. Arrangements have been usually focused in maintaining macroeconomic stability in the

context of the great economic transformation, which the Fund has been trying to advance. In addition, the IMF has provided significant technical assistance and training to the region, along with other donor efforts, is committed to assisting the region in the gradual development and improvement of key institutions that are the cornerstones of economic policy.

2. International Monetary Fund, forms of lending and financial support

IMF loans are intended to help member states resolve balance of payments problems, stabilize their economies, and restore sustainable economic growth. This role of crisis resolution is basically IMF lending. At the same time, the recent global financial crisis has highlighted the need for effective global financial security networks to help countries withstand unwanted shocks. A key objective of recent lending reforms has been to complement the traditional role of the IMF crisis resolution with additional means of preventing crises. Unlike developing banks, the IMF does not lend to specific projects (IMF Annual Report, 2015, p.42). The IMF does not seek collateral from credit-securing countries, but it requires governments to correct their macroeconomic inequalities in the form of policy reform. If the state does not meet the conditions set by the IMF, then in such cases the credit is refused. Conditioning is probably the most vulnerable and controversial aspect of IMF policies. Some of the structural adjustment conditions may be: cost reduction, also known as saving; focus on economic productivity that promotes direct exports and resource utilization; currency stabilization; trade liberalization, or abolition of import and export restrictions; increasing investment stability (by complementing foreign direct investment with the opening of domestic markets shares); balancing budgets and stopping excessive spending; the abolition of price control and state subsidies; privatization, or substantial diversification of state-owned enterprises; increasing the rights of foreign investors through national laws; improving governance and fighting corruption.

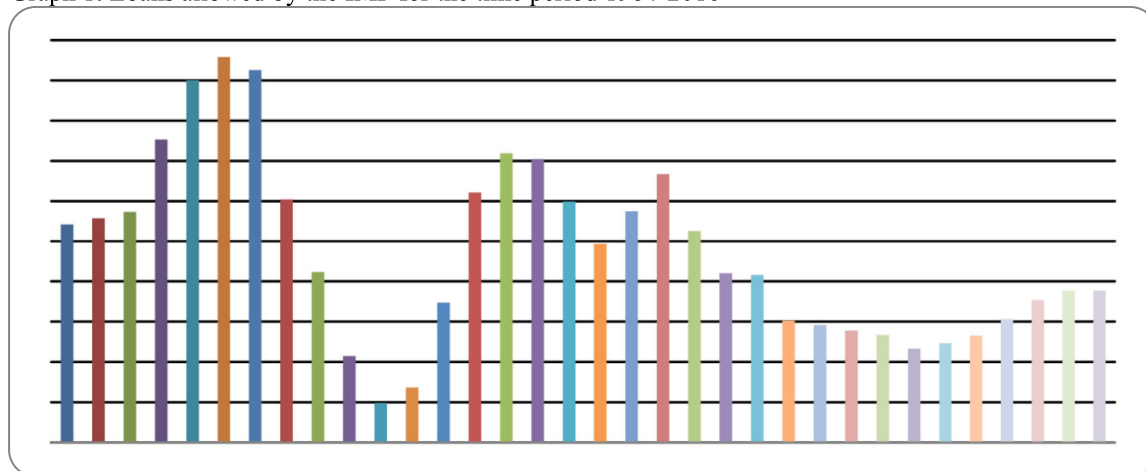
A member country may seek IMF financial assistance if it has a deficit in the balance of payments, ie if there is insufficient funding with favorable terms to meet international net payments (eg, imports, public debt external, etc.).

At the request of a member country, the IMF resources are available under an "agreement" lending, which may, depending on the lending instrument used, determine the economic policies and measures the country has agreed to solve the problems with balance of payments. The underlying economic policy program is the signing of an agreement formulated by the country in consultation with the IMF, most of the cases presented to the Executive Board of the Fund in a "Letter of Interest" and further detailed in an annex "Memorandum of Understanding". Once an agreement has been approved by the Board, resources are usually allowed in installments, as the reform program has been implemented.

IMF usually allows groups of credit forms including: concessional loans where the most frequent are: Stand-By Arrangements (Stand By Arrangements -SBA); Flexible Credit Line (FCL); Extended Fund Facility (EFF); Prevention and Liquidity Line (PLL); and Immediate Assistance to Members Affecting Acute Balance of Payments - Rapid Financing Instrument (RFI).

Concessional loans are dedicated to low-income countries with the need to balance the bill of exchange. Loans do not carry interest rates; the purpose of lending is to support the country's programs aimed at achieving a stable macroeconomic position consistent with a strong and sustainable reduction of poverty and economic growth. Concession credits are: Extended Credit Facility (ECF); Standby Credit Facility; The Rapid Credit Facility (RCF)

Graph 1: Loans allowed by the IMF for the time period 1984-2016



Source: IMF data, <http://www.imf.org/external/np/fin/tad/extcred1.aspx>, April 2017, processed by the author.

The volume of loans offered by the IMF has changed considerably over time. The oil shock of the 1970s and the debt crisis of the 1980s were also followed by rising credit from the IMF. In the 1990s, the transition process

in Central and Eastern Europe and the crisis in emerging economies led to increased demand for IMF resources. The deep crisis in Latin America and Turkey has maintained the demand for IMF resources at high levels in the early 2000s. IMF lending rose again since late 2008 on the eve of the global financial crisis.

3. Use of IMF credit arrangements and their destination in Albania, Kosovo and Macedonia

The IMF lends concessional and non-concessional funds. A credit agreement, which is similar to a credit line, is approved by the IMF Executive Board to support a country's adjustment program. The agreement requires a member to comply with the specific conditions and subject to periodic reviews in order to continue to deal with it.

3.1 Albania

The Republic of Albania is a member of the International Monetary Fund since 15 October 1991. According to IMF data, its quota increased to 139.3 million SDRs (Special Drawing Rights) in February 2016 as a result of the entry into force of the 2010 reform on the overall revision of the quotes and reform of the IMF Executive Board. Already with the increase in its quota, Albania owns 2,847 votes (or 0.06% of the total votes of all IMF members). The Albanian government's relations with the IMF have had their ups and downs over the years. Until 2005, this institution has had a monitoring role for public finances and public policies undertaken by the government of that time. In 2013, when the government stated that public finances were in a very difficult situation, forced the executive to sign a new agreement with the IMF, this agreement marked the greatest value that this institution owed to Albania in years in the amount of 295.42 million SDRs. Funds from this agreement will be deployed in three years, according to the parameters and performance of the country's economic and financial indicators. The IMF's condition for using this loan was to reduce public spending. According to IMF article (2017) on February 24, 2017, Albania withdrew the last installment of funds from this agreement, successfully completing its three-year program aimed at restoring economic growth and controlling public debt threatening the stability of the economy.

The role of international financial institutions has been quite present and sensitive during the transition period. According to official data of the International Monetary Fund, Albania's debt to this institution has increased, almost 25 from 1992 to 2016. IMF assistance in managing public finances and revenues will continue, but conditions and requirements of the new agreement will be determined by the government that will emerge after the June elections.

3.2 Kosovo

On June 19, 2009, Kosovo became a member of the IMF. Membership was important for Kosovo's economic recovery, which faced high rates of unemployment and poverty. From this period until 2015, Kosovo has signed three Stand-By Agreements with the IMF with a total of 331 million DST (special drawing rights), of which 70% of the funds have been withdrawn.

In 2010, the first agreement with the IMF was signed in the amount of 92.6 million SDRs aimed at restoring fiscal sustainability and preserving financial sustainability by exerting spending constraints and increasing government deposits at the Central Bank of Kosovo. But in June 2011, the International Monetary Fund announced that the July agreement had been terminated. The disagreements have been deepened due to the government's decision to increase salaries to public sector employees by up to 50 percent.

Table1: Agreements between the IMF, Albania, Kosovo and Macedonia (in thousand SDRs)

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
Albania					
Extended Fund Facility	Feb 28, 2014	Feb 24, 2017	295,420	295,420	295,420
Extended Credit Facility	Feb 01, 2006	Jan 31, 2009	8,523	8,523	1,218
Extended Fund Facility	Feb 01, 2006	Jan 31, 2009	8,523	8,523	1,015
Extended Credit Facility	Jun 21, 2002	Nov 20, 2005	28,000	28,000	0
Extended Credit Facility	May 13, 1998	Jul 31, 2001	45,040	45,040	0
Extended Credit Facility	Jul 14, 1993	Jul 13, 1996	42,360	31,060	0
Standby Arrangement	Aug 26, 1992	Jul 14, 1993	20,000	13,125	0
Total			447,865	429,690	297,653
Kosovo					
Standby Arrangement	Jul 29, 2015	Aug 04, 2017	147,500	135,400	135,400
Standby Arrangement	Apr 27, 2012	Dec 26, 2013	90,968	78,216	17,960
Standby Arrangement	Jul 21, 2010	Jan 20, 2012	92,656	18,760	0
Total			331,124	232,376	153,360
Macedonia					
Precautionary and Liquidity Line	Jan 19, 2011	Jan 18, 2013	413,400	197,000	0
Standby Arrangement	Aug 31, 2005	Aug 30, 2008	51,675	10,500	0
Standby Arrangement	Apr 30, 2003	Aug 15, 2004	20,000	20,000	0
Extended Credit Facility	Dec 18, 2000	Nov 22, 2001	10,335	1,723	0
Extended Fund Facility	Nov 29, 2000	Nov 22, 2001	24,115	1,148	0
Extended Credit Facility	Apr 11, 1997	Apr 10, 2000	54,560	27,281	0
Standby Arrangement	May 05, 1995	Jun 04, 1996	22,300	22,300	0
Total			596,385	279,952	0

Source: IMF reports and publications by contry (<http://www.imf.org/external/country/index.htm>), April 2017, processed by the author

At the end of 2013, the Government of Kosovo successfully completed the agreement with the IMF in the amount of DKK 78 million, which was support in restoring fiscal sustainability and maintaining financial stability.

In July 2015, authorities and the IMF signed the Stand-By Standards Program (PSB) for a period of 22 months in the amount of 147 million DST. This program has three main objectives: 1) maintaining the deficit and low public debt through checking current spending, and creating fiscal space for capital expenditures that impact on development; 2) removing the main structural obstacles to development, including the creation of a more favorable environment for private sector development and investment, and improving Kosovo's infrastructure and strengthening banking intermediation; and 3) encouraging support from other multilateral and bilateral creditors.

In January 2016, the IMF Executive Board completed the first review of this program and estimated that the program is on track to help authorities maintain favorable fiscal indicators. According to First Review under the Stand-By Arrangement for Republic of Kosovo (2010), public debt levels are low according to regional standards (public debt law has set the maximum debt ratio with GDP at 40 percent) and, according to an investment clause in the PSB; Kosovo has 450 million Euros for capital spending.

3.3 Macedonia

After independence Macedonia was unlucky in terms of economic, monetary and political conditions under severe economic conditions and the Central Bank's inability to refinance a large fiscal imbalance due to high taxes and the need for social transfers this period of unemployment marked high and increasing trends, Macedonia needed assistance from the IMF. The first Stand-By Agreement, the IMF approved on May 5, 1995. The duration of this agreement was thirteen months in the amount of DEM 22.3 million. This agreement aimed at stabilizing fiscal and reforming economic policies. Namely, the main objective of this agreement was the reduction of infancy; the increase of foreign exchange reserves; normalization of relations with bilateral and multilateral official creditors; GDP growth by 1% after the expiry of the 1995 agreement.

Macedonia has used IMF arrangements during the crisis period (1993-2008) to overcome the consequences of the crisis to support the European integration process, as was the experience of using Stand-By Arrangements and the ESAF agreement, as in 2011, the existence of a crisis transmission opportunity through a domino effect on the environment, such as the Precautionary and Liquidity Line-PCL agreement. From what was said above, referring to agreements designed to reduce the consequences of the crisis, it can be concluded that cooperation with the IMF has helped the Republic of Macedonia. Arrangements have been made with the greatest contribution in the field of: fiscal regulation, maintaining the exchange rate and maintaining a relatively low level of inflation; balance sheet and structural adjustment.

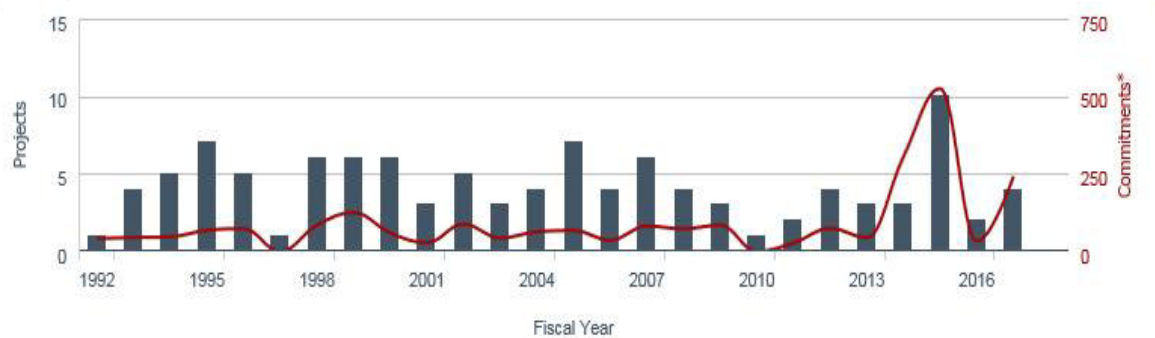
4. The World Bank and its relations with some Western Balkan countries

The World Bank Group is a key development partner in the Western Balkans and has supported the countries of the Western Balkans during the period of economic transition and early reforms. The World Bank Group also conducts post-conflict reconstruction in Bosnia and Herzegovina and Kosovo.

Finally, the World Bank Group supports the path of accession to the European Union of Western Balkan countries and helps them address their key developmental constraints. The World Bank Group program currently supports reforms in key areas such as: macroeconomic, fiscal and financial sustainability; governance, institutions and public sector reform; business environment, private sector development and competition; employment, regional cooperation and climate change.

4.1 World Bank cooperation and projects with Albania

Albania's most intensive co-operation with the World Bank dates back to 1992, in this time frame, Albania has provided 86 projects with world bank financial institutions (IDA, IBRD and others), and 23 projects have been attracted there are 8 projects, for pipeline 2, thus a total of 119 projects with a total value of \$ 2,619.73 million (In the value of \$ 2,619.73 million is included the value of drawn projects \$ 261.6 million and gas pipeline \$ 45 million).



Graph 2: World Bank Loans and Projects for Albania (1992- April 2017)

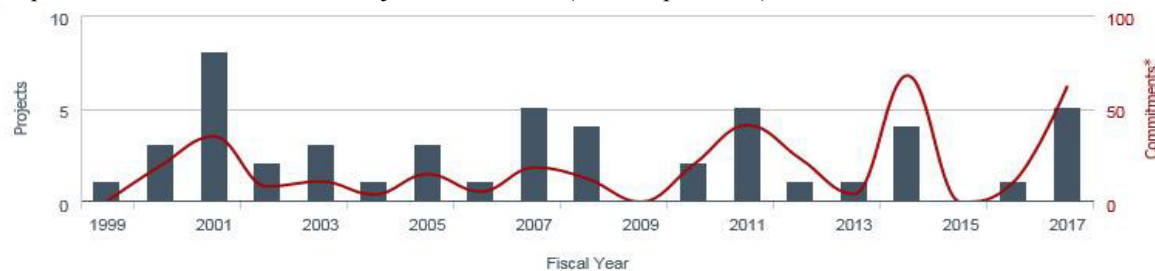
Source: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=AL, April 2017

Funds provided by the projects were mostly targeted in the sphere of: infrastructure services for private sector development, followed by rural and infrastructural services; legal regulation; administrative and civil service reform; land management and administration; for the privatization of state-owned enterprises; civic participation and engagement; public spending, financial management and prosecution; etc.

4.2 World Bank Cooperation and Projects with Kosovo

The World Bank Group is committed to continue to assist Kosovo in maintaining macroeconomic stability, improving infrastructure and business environment networks, improving the management of natural resources and building human capital in order to achieve the long-term goal of EU accession and building a prosperous country.

Graph 3: World Bank Loans and Projects for Kosovo (1992- April 2017)



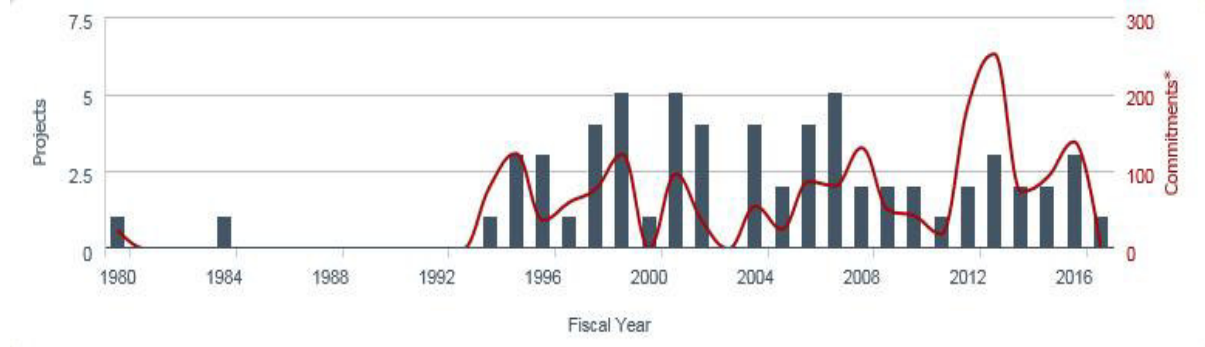
Source: World Bank, http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=XK, April 2017

From the membership period until May 18, 2017, Kosovo by the World Bank (IDA and other group institutions has signed and implemented 52 projects out of which 12 are active, 38 implemented, one withdrawn and one in pipeline, with a value total of \$ 404.30 million \$ (in the amount of \$ 404.30 million is included the value of projects drawn in the amount of \$ 5 million and gas pipeline in the amount of \$ 55.27 million), with 53.8% of projects being oriented to the sphere of central government and local government and public institutions, while other projects have been oriented to health, social protection, energy, education, financial institutions, etc.

4.3 World Bank Cooperation and Projects with Macedonia

Macedonia's co-operation with the World Bank dates back to the 1980s, but more intense is the post-independence period after 1992, from that time until 2017, Macedonia has signed and implemented 68 projects out of which 10 are active, 54 have been implemented, 4 drawn, with a total value of \$ 1,993.46 million (the value of \$ 1,993.26 million is included in the value of projects drawn in the amount of \$ 106.53 million).

Graph 4: World Bank Loans and Projects for Macedonia (1992-April 2017)



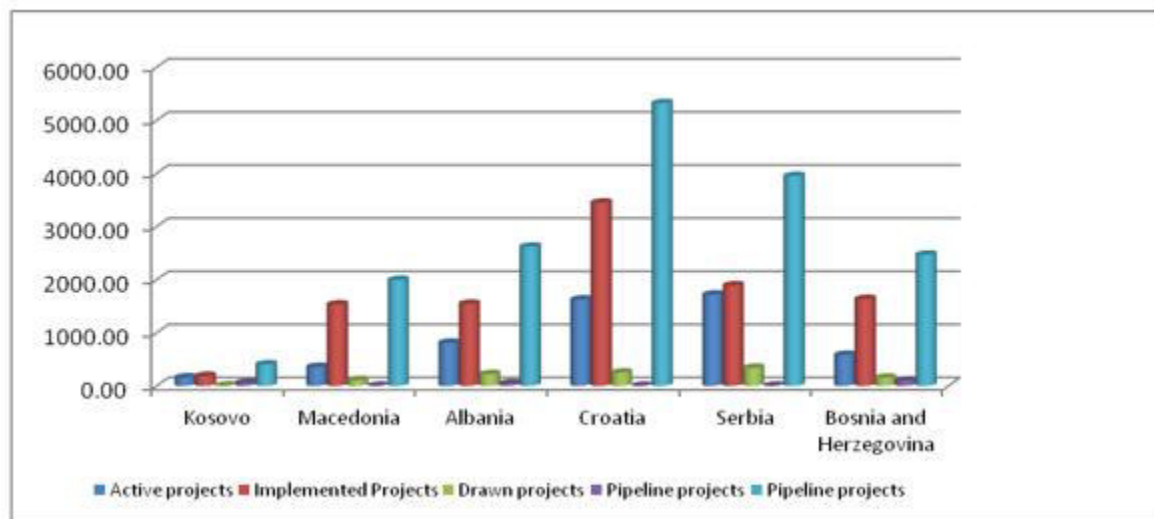
Source: World Bank,

http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=MK, April 2017.

The funds provided by the projects have been mostly targeted in the sphere of: legal regulation; health system performance; infrastructure services for private sector development; improving the labor market; public spending, financial management and prosecution; administrative and civil service reform; rural development and infrastructure; social services; trade assistance and market access and regional integration.

Table 2: The overall value of World Bank projects for Western Balkan countries by membership until May 2017

Western Balkan Countries	WORLD BANK				
	Active Projects	Implemented Projects	Drawn Projects	Pipeline Projects	Total value of WB Projects
Kosovo	158,11	185,9	5,00	55,27	404,28
Macedonia	355,00	1531,93	106,53		1993,46
Albania	810,01	1544,22	220,5	45,00	2619,73
Croatia	1624,27	3448,61	249,7	-	5322,58
Serbia	1718,45	1890,87	339,00	2,06	3950,38
Bosnia and Herzegovina	581,94	1634,88	152,5	100,25	2469,57



Source: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=AL (last seen: April 2017); http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=XK, (last seen: April 2017); http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=MK (last seen: April 2017), processed by the author.

From the above data expressed in graphs and charts, it is clear that the largest beneficiary of loans from the Bank is Croatia with a total project value realized and in realization of 5.322 million DST, rich in Serbia with 3.950 million DST, as well as Bosnia and Herzegovina in this analyzed period, withdrew a considerable amount of funds in the amount of 2.469 million, followed by Macedonia with 1.993 million DST. In the countries of the

region there is considerable withdrawal of funds in Kosovo, where by April 2017 realization and implementation of projects worth 404 million DST. This situation implies that the Kosovo government should make greater efforts in terms of attracting funds and meeting the criteria and conditions required by the Bank, with concrete projects in the areas in which the focus of the Bank is as transport, energy, development of small and medium enterprises, infrastructure, etc.

5. Conclusion

The purpose of cooperation with the IMF in fact means creating a sustainable development framework that would attract foreign investment and help the economic development of the Balkan region. IMF's important assistance is also in terms of attracting foreign direct investments which, in the absence of local capital accumulation, are supportive of the country's economic development, structural changes and export growth. Apart from the financial funds provided by the IMF in the form of loans, loans and financial assistance, the advisory and information aid for regional developments in the region and beyond, the orientation of the countries in the areas most contribute to economic development, poverty reduction and employment growth, country orientation towards safer partners, etc.

The cooperation of the Balkan countries with the IMF and international financial institutions requires the development of medium-term development strategies based on the real and priority needs of the country, in line with the IMF's priority objectives and priorities and the World Bank Group.

From the paperwork it is evident that Kosovo, compared to other Balkan countries, could attract far less financial resources compared to the region. This situation leaves us in the hope that in the future the commitment to link the relations with these institutions will be at a higher level given the fact that the country needs financial assistance for reform and sustainable economic development, for opening new ones work, development of small and medium enterprises, building and strengthening of public institutional capacities, infrastructure and energy development etc.

But it should also be borne in mind that the cooperation also generates major obligations, fulfillment of the criteria and conditions set by the IMF and the World Bank, measures which are sometimes unpopular and difficult to realize, but, at the same time, the cooperation also creates space for exploitation of the experience of the long-term experience of the Fund for economic development in the future.

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