

## **Financial Economics**

### **The Impact of International Financial Institutions Investments in the Countries of the Region, with Particular Emphasis on Kosovo**

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**Abstract:** The purpose of this study is that has to do with giving a mirror effect of the international financial institutions in investments in the country and the region. Almost all countries in the region, as well as international financial institutions in the country play an important role in investment within the country. Institutions in the country play an important role in investment within the country. Also it is important to examine the impact of these institutions on the development of the country's economic progress as well as in the region, as well as these institutions have an impact in terms of advancing the process of production, optimum utilization of production capacities, as well as end as have an impact on employment.

**Keywords:** development; investments; economic growth; Kosovo; remittances

**JEL Classification:** E22; F21; F27; F33

#### **1. Introduction**

Paper scientific title “Impact of International Financial Institutions in countries in the region investments with particular emphasis Kosovo”, aims research and analysis of events, the impact of the IMF, World Bank, EBRD and the WTO in economic integration of Kosovo. With this work we aim to understand the positive achievements in terms of economic development in the country also in the region, trying to uniquely identify the negative aspects that have had and continue to have these institutions in this field. We will concentrate especially on the development of recent years.

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As well as countries in the region, Kosovo is part in these institutions in order to realize their economic goals. But, after so many years of their membership cannot be said that we have many improvements, especially in economic terms. It can be said considering the regional economic crisis.

In the first part of this paper our aim is to present the history of the creation of these institutions, which were circumstances that were created these institutions as well as the need to create them. Continuing then with the importance of these financial institutions in the economic development of Kosovo and the region like Albania, Macedonia etc. In this paper we will pay special attention to the case of Kosovo as a new state that has not yet passed the transition. By, not mentioning, the impact of remittances, which play an important role in the economy of Kosovo.

### **1.1. The Impact of International Financial Institutions in Investments in the Countries of the Region with Particular Emphasis on Kosovo**

Kosovo's membership in international financial institutions is seen as the best opportunity for economic development and has the aim of increasing confidence among investors that Kosovo is a safe place to invest. Kosovo since 2009 is a member of the International Monetary Fund and World Bank and in 2012 became a member of the Bank for Reconstruction and Development. While the terms of WTO membership is still making efforts in this direction, but must fulfill certain criteria. What is worth mentioning in this paper is that Kosovo's membership in this institution has strengths and its benefits not forgetting that there is also its shortcomings.

International financial institutions have a significant impact in the region as in Macedonia, Albania, Montenegro, Serbia etc. Kosovo and these countries have seen the positive and negative sides of the membership in these institutions. Given that these institutions play an important role especially in the economy of the Member States, it is important to talk and because of their establishment.

### **1.2 The influence of the International Monetary Fund in the Economy of the Region as well as Kosovo**

The International Monetary Fund is an international organization headquartered in Washington DC H1: *The primary purpose of establishing the Fund was to create a monetary cooperation to speed growth, to raise the level of employment, reduce unemployment and create temporary assistance to poor countries to offset the payment level.*

The work of the IMF is of three types. Supervision includes monitoring of financial and economic developments, in giving advice on the policies pursued that aim to avoid economic crises.

*H2: The IMF also lends money to countries that have difficulties with balance of payments, provide temporary funding and support to correct the economy problems, loans for countries with low incomes are given to reduce poverty.*

*H3: Thirdly, the IMF provides technical assistance and training in its areas of expertise (International Monetary Fund).*

Countries in the region as well as Kosovo have a new and dynamic economy, so it is welcome that these countries are affiliated with the IMF, because the IMF surveillance provides specialized assessment of economic developments and regional financial that has a great importance for the economy of these countries.

According to Joseph E. Stiglitz, the IMF's primary purpose is to obstruct the presentation of a global economic depression. The basic task of the IMF since its establishment was that giving loans provide liquidity in those countries that had economic decline and there were no economic skills and sufficient means to stimulate aggregate demand. In a crisis, the IMF is committed to applying a restrictive monetary and fiscal policy, particularly through increased interest rates (interest), sometimes up to 20%, sometimes 50% and sometimes up to 100%, these rates (Stiglitz, 2009).

While author Salman S, stresses that the IMF is a public institution, which is funded under the taxpayers' money around the world. This has a special importance, because the steps undertaken by the institution in its SCOPE not inform either the citizens who finance it or those citizens, whose lives depend on the steps and decisions of this institution. Instead, the IMF informs primarily finance ministries and central banks of the state. Therefore, all the time of its existence the Fund has changed diametrically original ideas and goals of its operation, giving absolute priority market. Here we see the lack of transparency of this institution. IMF in most cases took steps wrong due to the lack of transparency in terms of economic development, both in terms of overcoming the recession special economies, as well as overcoming the global recession (Selman, 2009).

First we treated the role of the International Monetary Fund in general, to carry on what we care more, so the impact that the IMF on the economic development of Kosovo.

Given that Kosovo as a new country and small in almost all aspects including economy, its long-term objectives intended to be done with the help of international financial institutions like the IMF and the WB, EBRD the etc. Kosovo became members immediately after independence in the IMF and WB, bringing optimism for economic development. But even after several years of membership in the Fund, it is hard to say that something has changed positively in the economy of Kosovo, taking into account the regional economic crisis, European and global.

Kosovo as a member of the Fund as well as the other Member States shall have the rights and obligations. It pays membership quota as any other member country, while in relation to this quota, there is the percentage of the vote. It pays 00:03% of the Fund and 0.05% of the votes in the Fund.

Given Kosovo as a new state, the importance of the IMF for financial and economic stability, trade balance Kosovo, shortcomings or criticisms of the IMF, in Kosovo during these years that is a member of the IMF is difficult to make a proper analysis, but it can be said that the IMF loan contributed to the macroeconomic stability of Kosovo, regarding this period, however, should be viewed with caution and experiences of other countries.

## **2. Literature Review and Hypotheses**

It is difficult to predict how it will help in the long term to reduce unemployment and poverty and thus overall economic growth of the country, after returning back credits received from quotas paid by Kosovo to be part of the Fund and country They should strictly implement the Fund's policy to prevent the repetition of the situation that happened several years ago (*International Monetary Fund*). Kosovo is a member of this fund in order to receive credit. These loans should be used for serious purposes, not for other purposes as are being used.

Thus not helping our country's economy Kosovo is a member of this fund in order to receive credit. These loans should be used for serious purposes, not for other purposes as are being used.

### **2.1 World Bank Role in the Economic Development of the Region and Kosovo**

Another important institution which also has a great impact, especially in the economic development of Kosovo and the region is the World Bank. The World Bank is one of the world's leading institutions in the fight against poverty and improving standards of people in developing countries. This is a development bank that provides loans, supports and advises regarding political assistance, technical services related to the exchange of knowledge. World Bank develops and finances projects at the request of the government in the country concerned (*worldbank.org*).

Therefore, based on their function and purpose of granting loans, the World Bank insists to control and govern the economy of these countries.

World Bank and International Monetary Fund are interrelated responsibilities of the IMF have changed from those that were from the watchdog guardian of 188 of its members. When we say supervising we means help, which is mentioned above for member countries. IMF also has gold which means that the holder remains the third largest in the world, with a total amount of 3,217 tons of gold.

### 3. Research Goal

From everything that was said, it is worth noting the assistance of the World Bank's first budget on Kosovo which has been in the amount of 24.3 million euros, as a result of this has been positive assessment of the situation in Kosovo macro, also had the support of other. However, Kosovo remains the poorest economies in the region and face higher levels of poverty, massive unemployment (which on average is estimated to be 45% in contrast to the example of Macedonia with 37% and Albania 14%) heavy dependence on imports and with very small sector of export, and lack of energy. Gross national income (GNI) per capita estimated at \$ 3,520 and so Kosovo is ranked 93 in the world, behind Macedonia, Albania, Serbia and Bosnia and Herzegovina (World Bank - World Development Indicators 2012).

The World Bank estimates that Kosovo will have to at least double the growth rate and achieve at least 12% growth per year for a decade to reach the current level of Gross Domestic Product (GDP) of Montenegro to head resident. In short, the gap in income between Kosovo and other countries of Eastern Europe are likely to remain deeply opposed to greater growth (World Bank, Department for Poverty Reduction and Economic Management).

#### 3.1. EBRD - the Economy of the Countries in the Region and Kosovo

Besides significant influence IMF and World Bank for economic development in the region and our country is the European Bank for Reconstruction and Development.

European Bank for Reconstruction and Development (EBRD) is the financial institution that supports projects in countries of Europe and Central Asia. Agreement on the establishment of the EBRD was signed in Paris on 29 May 1990, and has started to operate on 15 January 1991. Pursuant to Article 1 of the agreement on establishment, the purpose of the Bank is to contribute to the development and reconstruction, encourages countries. (Dumi, 2015)

The transition to a market economy and promote private sector in the countries of Central and Eastern Europe. The aim is to promote a functioning market economy, where businesses compete with each other, which encourages innovation and revenues reflect the increased employment and productivity. Bank financed from 64 countries from around the world including two intergovernmental institutions, the European Union and the European Investment Bank.

*The EBRD is the largest investor in the region. By decision of the Board of Governors dated 16 November 2012, Kosovo became a member of the 66 th recipient of EBRD funds. The decision entered into force on 17 December 2012 and the EBRD is expected to help the private sector as well as the public in Kosovo (European Development Bank).*

European Bank for Reconstruction and Development has already signed about 37 projects in Kosovo, the amount reached up to 89 million euros. Also, small and medium enterprises have benefited from EBRD advisory services, to create new work places and to development the businesses.

It is important to note the report of the EBRD, which according to the report, Kosovo and Macedonia are for 2014 and 2015 have the highest economic growth in the region. While Serbia and Cyprus, have had economic downturn in 2014 and is forecast to have a slight increase for 2015. Regarding Albania's economic growth for 2014 was 1.5% while for 2015 is projected to be 2.5%. *This is the rating for our country by the EBRD, which is reflected in a report on economic growth in the countries of Europe (the European Bank for Reconstruction and Development).*

Given that businesses in Kosovo are mostly small, EBRD finances projects ranging from the amount of 1 million euros. EBRD makes efforts to help small businesses, especially those for expansion.

From everything that has been said we can come to the conclusion that membership in these financial institutions is very important for our country, and Kosovo can benefit too. But it will also have positive and negative side. Kosovo's membership in the IMF, World Bank and EBRD remains to be seen in the coming years, because until now we have not any benefit and so great. All this may be due to bad governance by our institutions, because it is very important that these institutions have made in the legal protection of investments. If there is legal protection of investment we will definitely have investor in our country.

#### **4. Remittances and their Role in the Economy of Kosovo**

Remittances play an important role in the economy of Kosovo, contributing to economic growth and being extra income for people who are in need. So they have a very significant impact in improving the lives of people considering that the average salary in Kosovo is very low.

Poverty through remittances in Kosovo has significantly eased, which have contributed to increased income of poor families.

Remittances in Kosovo are an important element in fighting poverty.

Despite the improved economic situation during the last decade, Kosovo still faces very difficult economic conditions. This situation is being faced with a high rate of unemployment and low level of domestic production compared with other countries in the Western Balkans. By this we mean that remittances from abroad have been and continue to be a major contributor to the welfare of Kosovar families.

The contribution of Diaspora in Kosovo is very important and significant, considering that approximately 70% of immigrants send remittances to their families in Kosovo. This means that less than a fifth of all Kosovar households receive remittances from abroad. Families that have received remittances were mainly in textile, automobiles, electronic equipment. We have made efforts to investigate approximately a percentage of revenues as discussed above. So these families have received 48% of clothing and textiles, approximately 13% of them have received cars, and 13% of various electronic equipment. The number of migrants who visit Kosovo is quite large which amounts to seventy percent, affecting the overall consumption growth through spending during the visit.

Despite all the problems that the economy of Kosovo had, and still has, also it has several significant achievements thanks to the contribution of the diaspora who have helped quite a lot in stability that has in Kosovo, contributed to a form in place economic development.

## **5. Conclusion**

International financial institutions have a significant impact on the economic development of member countries in these institutions. The reason to explore in this paper has been exactly that, how will this affect the international financial institutions in the economy, of the countries in the region Albania and Kosovo. What are the positive sides and will also have a negative effect on membership in these institutions. It should be noted that membership in these financial institutions both Kosovo and the region expect to benefit from a greater economic development. The main purpose of membership is to have a stable economy with a secure European future.

In this paper we have tried to present the tasks and goals of these institutions, as these affect the financial systems of countries, especially those who have not yet passed the transition, i.e. the case of Kosovo. Kosovo cases have made efforts to treat more in this paper as a new state and a new member of the IMF, WB and EBRD.

During this theme, we have come to the conclusion that international financial institutions with the benefits and disadvantages of them are still trying to achieve macroeconomic stability and financial system. Finally we can say that this document does not pretend to reach the solution of economic problems in the region and Kosovo, but the important thing is the appearance of a real view what is happening with the economies of these countries and their need for financial support by these institutions.

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