THE FINANCIAL INSTRUMENTS USED BY INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs) REGARDING THE SOUTHEAST EUROPEAN COUNTRIES: A CRITICAL ASSESSMENT OF THEIR UNDERLYING PHILOSOPHY AND ORIENTATION

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Abstract: *After the fall of the communist regimes in the Southeast European countries, what was attempted was a systemic transformation which was called transition. The economic transition aimed at transforming the nature of economic relations, since their coordination would be passed from the state to market mechanisms. In order to enable this transformation, what was necessary was to finance the attempted changes. However, since the countries in the region lacked sufficient equity capital, they resorted to foreign borrowing and, thus, international finance has to date been the main source of capital. The involvement of International Financial Institutions (IFIs) in the transition process was almost direct but after the cessation of hostilities in Kosovo in 1999 there has been a dramatic increase in financing throughout the area. The level of financing in conjunction with the immediate and increasing needs of countries was the main factors that configured the balance of powers among recipient countries and international financial institutions. The implementation of financial policies by Institutions is being conducted by means of specific financial instruments.*

The present article aims at examining and evaluating the instruments used by institutions to finance the transition of Southeast European countries, as their suitability, orientation and philosophy have been repeatedly questioned. In order to make this assessment feasible, an examination will take place with regard to the financial instruments of the major creditors of the region, namely the IMF (International Monetary Fund) the World Bank Group and the European Union, who are also managers of the vast majority of financings.

Keywords: transition, international financial institutions (IFIs), Southeast Europe, financial instruments

JEL Classification Codes: F33, N24, P21

1. INTRODUCTION

The financing of the transition process regarding Southeast European countries was principally based on international finance. The financial policies of the International Financial Institutions are initiated and implemented through the financial instruments introduced by the relevant body within the region of southeast Europe.†

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† Following the demarcation of the International Financial Institutions (IFIs) for Southeast Europe, the States will be studied are Albania, the former Federal Republic of Serbia - Montenegro (including Kosovo) (S-M), the

The present paper, through studying the financial instruments of International Financial Institutions for Southeastern Europe as well as the financing provided by the countries of the region, will attempt to examine their structure and to determine the suitability and the degree of their effectiveness. For this purpose, the finance and the financial instruments of the main creditors of the region will be examined, namely the International Monetary Fund (IMF), the World Bank Group (WBG) and the European Union (EU).

The above institutions manage the vast majority of finance in the area and the use of financial instruments is directly related to the associated conditionalities of their financial policies. Their almost direct involvement in the transition process determined the key aspects of the attempted transformation so that the financing towards the Southeast European states exhibits specific common characteristics[‡]

The methodology chosen for the analysis that follows is descriptive research with qualitative analysis and critical review of content sources. The collection of data and data on financial flows in the study area was based primarily on reports and publicly evidence of international funding institutions and secondarily in the international literature.

At first, studied the financial tools used by each institution in the region of Southeast Europe and also plotted, with the greatest accuracy, the financial flows for each country in Southeast Europe separately. The next chapter is devoted to the description of the effort for the systematic organization of international finance with the creation of joint actions to form a more integrated approach. Finally attempts a brief recording the options of institutions in relation to the direction of funding, the philosophy governing the implementation of programs and the final use of funding by the recipient countries.

2. THE FINANCIAL INSTRUMENTS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

2.1 THE INTERNATIONAL MONETARY FUND

It was in 1999 that the IMF established its new financial program "Poverty Reduction and Growth Facility" (PRGF) for its poorest member-states, which replaced the previous financial instrument called "Enhanced Structural Adjustment Facility" (ESAF), (IMF 2002a). The credit support of the policies arising from this program does not come from the General Resources Account (GRA) but by the PRGF-ESF Fund, which is financed by 93 members of the Organization and the IMF is its Commissioner.

Within the scope of its implementation, more favorable financial conditionalities are being adopted, emphasis is placed on economic aspects of governance and the possibility of incurring adverse effects by the implementation of various reforms is being recognized. In an effort to promote support measures that will mitigate the social impact, the countries are enabled to fail to meet certain conditionalities or to implement a more flexible policy within their compliance. Although this approach constitutes an implicit acceptance, on the part of the Fund, of the social impacts caused by its implemented policy, this program concerns a very special group of countries, which consists of only two Balkan countries, Albania and FYROM (Tables 1&2).

Former Yugoslav Republic of Macedonia (FYROM), Bulgaria, Romania, Croatia and the Bosnia – Herzegovina (B-H).

[‡] For a detailed description of the theoretical framework and the characteristics of funding from IFIs to the chantries of South East Europe see Voutsa, M.-E., 2010, *Assessment and Evaluation of the Results Obtained by Finance Policies of International Financial Institutions (IFIs) in the Transition Process of the Southeast European Countries* in The Economies of the Balkan and Eastern Europe Countries in the Changed World edited by Karasavvoglou, A., pp. 251-271, Cambridge Scholars Publishing.

The loans given to the SE European states mostly come from the financial policies of 'Stand-By Arrangement' and the 'Extended Fund Facility'. Within the 'Stand-By Arrangement', the interested state contracts agreements with the IMF, which enable it to draw a certain amount from the General Resources Account for an agreed period, usually up to 2 years, if it meets the conditionalities determined by the supporting arrangement accompanying the 'Stand-By Arrangement',(Xatzimixail and Voutsa 2009).

The 'Extended Fund Facility' finances three-year programs to support countries so as to confront the difficulties arising in the balance of payments as a result of the macroeconomic and structural problems that a country has been facing. In this case, the country is obligated to state the overall objectives of the three-year period and the policy applied during the first year, while the policies for the following years are specified in the program reviews. Loan crediting, in this case as well, is drawn by the General Resources Account, (Xatzimihail and Voutsa 2009).

Table 1: Total IMF finances to Albania (1992-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Extended Fund Facility	1/2/2006	31/1/2009	8.523.000	4.870.000
PRGF Commitments	1/2/2006	31/1/2009	8.523.000	4.870.000
PRGF Commitments	21/6/2002	20/11/2005	28.000.000	28.000.000
PRGF Commitments	13/5/1998	31/7/2001	45.040.000	45.040.000
PRGF Commitments	14/7/1993	13/7/1996	42.360.000	31.060.000
Stand-By Agreement	26/8/1992	14/7/1993	20.000.000	13.125.000
TOTAL SDRs			**152.445.000**	**126.965.000**
TOTAL US DOLLARS			**240.864.000**	**200.605.000**
DISBURSEMENT RATE			**84%**	

Source: IMF, Albania and the IMF, *History of Lending Arrangements*, processing & calculation Voutsa (2008).

Table 2: Total IMF finances to FYROM (1995-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATIO N	AMOUNT AGREED	AMOUNT DRAWN
Stand-By Agreement	31/8/2005	30/8/2008	51.675.000	10.500.000
Stand-By Agreement	30/4/2003	15/8/2004	20.000.000	20.000.000
Stand-By Agreement	29/11/2000	22/11/2001	24.115.000	1.148.000
Extended Fund Facility	18/12/2000	22/11/2001	10.335.000	1.723.000
Extended Credit Facility	11/4/1997	10/4/2000	54.560.000	27.281.000
Stand-By Agreement	5/5/1995	4/6/1996	22.300.000	22.300.000
TOTAL SDRs			**182.985.000**	**82.952.000**
TOTAL US DOLLARS			**289.116.300**	**131.064.160**
DISBURSEMENT RATE			**46%**	

Source: IMF, former Yugoslav Republic of Macedonia and the IMF**,** *History of Lending Arrangements*, processing & calculation Voutsa (2008).

The states of the region exhibit significant differentiations with regard to the agreed amounts of their loans. Bulgaria and Romania have contracted agreements with the largest amounts of financing compared to other countries in the region (Tables 4 &7). However, on the basis of the duration of the loan agreement, Serbia-Montenegro holds first position since in less than a year (2001-2002) it borrowed an amount exceeding 1.3 billion $ (Table 5). The disbursement rates also seem diversified since Croatia disburses only 5% of its total loans (Table 6), while Bosnia-Herzegovina and Serbia-Montenegro have both disbursed 100% of their total financing (Tables 3&5). There are usually two principal causes for the non-disbursement of money. Either the IMF stops its lending program due to failure to comply with the conditionalities on the part of the receiving country or the country chooses not to proceed with the disbursement of the money. In such a case and if the disbursed amount is very small, as in the case of Croatia, this happens because the country usually contracts agreements with the IMF with the aim of increasing its credibility within the international financial and investment environment and not because they aim at using the entire loan

Table 3: Total IMF finances to Bosnia - Herzegovina (1998-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Stand-By Agreement	2/8/2002	29/2/2004	67.600.000	67.600.000
Stand-By Agreement	29/5/1998	29/5/2001	94.420.000	94.420.000
TOTAL SDRs			**162.020.000**	**162.020.000**
TOTAL US DOLLARS			**255.991.600**	**255.991.600**
DISBURSEMENT RATE			**100%**	

Source: IMF, Bosnia and Herzegovina and the IMF, *History of Lending Arrangements*, processing & calculation Voutsa (2008).

Table 4: Total IMF finances to Bulgaria (1991-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Stand-By Agreement	6/8/2004	31/3/2007	100.000.000	0
Stand-By Agreement	27/2/2002	15/3/2004	240.000.000	240.000.000
Extended Fund Facility	25/9/1998	24/9/2001	627.620.000	627.620.000
Stand-By Agreement	11/4/1997	10/6/1998	371.900.000	371.900.000
Stand-By Agreement	19/6/1996	11/4/1997	400.000.000	80.000.000
Stand-By Agreement	11/4/1994	31/3/1995	139.480.000	116.240.000
Stand-By Agreement	17/4/1992	16/4/1993	155.000.000	124.000.000
Stand-By Agreement	15/3/1991	14/3/1992	279.000.000	279.000.000
TOTAL SDRs			**2.313.000.000**	**1.838.760.000**
TOTAL US DOLLARS			**3.654.540.000**	**2.905.240.800**
DISBURSEMENT RATE			**80%**	

Source: IMF, Bulgaria and the IMF, *History of Lending Arrangements*, processing & calculation Voutsa (2008).

Table 5: Total IMF finances to Serbia - Montenegro (2001-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Extended Fund Facility	14/5/2002	28/2/2006	650.000.000	650.000.000
Stand-By Agreement	11/6/2001	31/5/2002	200.000.000	200.000.000
TOTAL SDRs			**850.000.000**	**850.000.000**
TOTAL US DOLLARS			**1.343.000.000**	**1.343.000.000**
DISBURSEMENT RATE			**100%**	

Source: IMF, Republic of Serbia and the IMF, *History of Lending Arrangements*, processing & calculation Voutsa (2008).

Table 6: Total IMF finances to Croatia (1994-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Stand-By Agreement	4/8/2004	15/11/2006	99.000.000	0
Stand-By Agreement	3/2/2003	2/4/2004	105.880.000	0
Stand-By Agreement	19/3/2001	18/5/2002	200.000.000	0
Extended Fund Facility	12/3/1997	11/3/2000	353.160.000	28.780.000
Stand-By Agreement	14/10/1994	13/4/1996	65.400.000	13.080.000
TOTAL SDRs			**823.440.000**	**41.860.000**
TOTAL US DOLLARS			**1.301.035.200**	**66.138.800**
DISBURSEMENT RATE			**5%**	

Source: IMF, Republic of Croatia and the IMF, *History of Lending Arrangements* processing & calculation Voutsa (2008).

Table 7: Total IMF finances to Romania (1991-2008)

PROGRAM AGREED	DATE OF AGREEMENT	DATE OF EXPIRATION OR CANCELLATION	AMOUNT AGREED	AMOUNT DRAWN
Stand-By Agreement	7/7/2004	6/7/2006	250.000.000	0
Stand-By Agreement	31/10/2001	15/10/2003	300.000.000	300.000.000
Stand-By Agreement	05/8/1999	28/2/2001	400.000.000	139.750.000
Stand-By Agreement	22/4/1997	21/5/1998	301.500.000	120.600.000
Stand-By Agreement	11/5/1994	22/4/1997	320.495.000	94.265.000
Stand-By Agreement	29/5/1992	28/3/1993	314.040.000	261.700.000
Stand-By Agreement	11/4/1991	10/4/1992	380.500.000	318.100.000
TOTAL SDRs			**2.266.535.000**	**1.234.415.000**
TOTAL US DOLLARS			**3.581.125.300**	**1.950.375.700**
DISBURSEMENT RATE			**55%**	

Source: IMF, Romania and the IMF, *History of Lending Arrangements*, processing & calculation Voutsa (2008).

2.2 THE WORLD BANK GROUP

Between 1995 and 2005 the World Bank Group has been financing countries throughout the region with approximately 10 billion $ through its various programs (Table 8). In 2000, the Bank defined the areas and objectives of its action regarding South East Europe by means of the Regional Strategy Paper; In order to support the implementation of reform programs in each country it created the 'Country Assistance Strategy' (CAS). Based on the assessment of each country's priorities, its past performance and its creditworthiness, the 'Country Assistance Strategy' sets out strategic priorities and determines the level and composition of financial and technical assistance to be offered by the Bank in each case. What constitutes a key pillar supporting the 'Country Assistance Strategy' is Poverty Reduction Strategy Papers (PRSPs). Their primary purpose is to improve the living standards of the weaker social layers through the active participation of the private sector and civil society.

In order to achieve the objectives of the Regional Strategy Paper in 2002, the World Bank and the European Commission decided to coordinate and inform each other in the preparation and evaluation of the 'Poverty Reduction Strategy Papers' on the part of the Bank and 'Country Strategy Papers' on the part of the European Commission (Voutsa, 2011). The 'Poverty Reduction Strategy Papers' are being compiled by the governments in cooperation with the WBG and the IMF (Joint Office Reports 2008). As a consequence of the direct involvement of the IMF in this process, conditionalities are imposed on the financing arising from this program. In the joint review of the IMF and the WBG (2001-02) the question raised was that of the alignment of all financial benefits and financial strategies, from whatever institution they may come from with certain conditionalities which are included in the 'Poverty Reduction Strategy Papers'. Some examples of the programs and financial instruments that should be aligned with specific conditionalities are the following:

- *the IMF program 'Poverty Reduction and Economic Growth',*
- *the WBG programs 'Country Support Strategy' and (Poverty Reduction Support Credits (PRSCs)), and*
- *the United Nations Development Assistance Framework (UNDAF),* (IMF 2002b, Voutsa 2011)

Table 8: Total financing commitments of the World Bank for Southeast Europe 1995-2005 (Million $)

COUNTRY	YEAR								TOTAL
	1995-1998*	1999	2000	2001	2002	2003	2004	2005	
ALBANIA (IDA)	66	125	60	28	88	43	58	62	**728**
B-E (IDA& IBRD)	206	163	38	124	102	23	98	57	**1429**
BULGARIA (IBRD)	104	161	221	102	-	268	150	150	**1468**
CROATIA (IBRD)	125	108	29	19	202	53	209	86	**1206**
FYROM (IDA &IBRD)	82	122	-	67	35	-	55	25	**632**
ROMANIA (IBRD)	332	340	113	130	60	486	230	709	**3396**
S-M (IDA)	-	-	41	24	178	234	125	129	**731**
TOTAL	783	1019	502	494	665	1107	925	1218	9590

Source: Economic Reconstruction and Development in South East Europe, *What is the Role of the World Bank ?* http://www.seerecon.org/gen/wbrole & World Bank –IMF Paper, *Building Peace in South East Europe Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict*, 2001, processing & calculation Voutsa (2008).

* Annual Average

2.3 THE EUROPEAN UNION

The EU is the largest financier of the Western Balkans and one of the biggest for the total countries throughout the region with total financing approaching 10 billion $ between 1991-2005 (Tables 9& 10). The EU action in the former socialist countries was inaugurated through the PHARE program, which was created in 1989 and designed to support the transition of Poland and Hungary. After the Essen European Council in December 1994, PHARE was turned into a financial instrument of the pre-accession strategy aiming at the ultimate accession of the ten associated countries of Central and Eastern Europe (CEEC) in the Union. Subsequently, the program was extended to the Western Balkan countries while, in accordance with the provisions of Agenda 2000, it was gradually transformed into a fund of a structural kind, aiming at boosting economic growth. As a result, a large proportion of investments were being financed by the World Bank for Reconstruction and Development and the European Investment Bank. Among the beneficiaries of the program are Bulgaria, Romania and Croatia. Over the years, it was realized that the PHARE did not cover the specific needs of countries in the region as it was designed for Eastern Europe.

Table 9: The distribution of the CARDS program 2000-2006 (in million €)

COUNTRY	YEAR							TOTAL
	2000	2001	2002	2003	2004	2005	2006	
ALBANIA	33.4	37.5	44.9	46.5	63.5	44.2	45.5	315.5
B-E	90.3	105.2	71.9	63.0	72.0	49.4	51.0	502.8
CROATIA	16.8	60.0	59.0	62.0	81.0	-	-	278.8
FYROM	13.0	56.2	41.5	43.5	59.0	45.0	40.0	298.2
S-M	650.3	385.5	351.6	324.3	307.9	282.5	257.5	2559.8

Source: Economic Reconstruction and Development in South East Europe, *Status of SEE countries' relations with the EU*, www.seerecon.org/gen/eu-see.htm .

Table 10: Total commitments of EU funding for the Western Balkans 1991-2001 (in million €)

Country	YEAR								TOTAL
	1991-1994	1995	1996	1997	1998	1999	2000	2001	
ALBANIA	368,13	70,15	75,25	97,90	54,30	205,24	41,29	44,50	956,76
B-E	495,47	216,38	442,42	360,86	295,25	233,95	115,83	131,78	2.291,93
CROATIA	204,86	38,74	33,56	26,96	24,14	18,63	19,62	61,48	427,99
FYROM	101,52	34,43	25,00	58,71	40,48	108,61	47,07	85,75	501,57
S-M	170,62	39,95	24,47	18,13	37,24	384,01	798,71	899,27	2.372,39

Source: EE, *Cards Regional Annual Action Programme /Financing Proposal,* 2002, processing & calculation Voutsa (2008).

After the Zagreb summit, the Stabilization and Association Process (SAP) has constituted a key policy lever for SE Europe, introducing a new regulatory framework for financing through the CARDS program, which replaced all previous financing programs. The Stabilization and Association Process is the cornerstone of the EU policy in the region. It aims at promoting stability by facilitating the establishment of closer relations with the Union.

The countries making satisfactory economic and political progress contract a formal relationship with the EU in the form of a Stabilization and Association Agreement (SAA).

The Union and the World Bank actions have to date been established by the Stabilization and Association Process and the conclusions of the Thessaloniki European Council (2003) (EC 2008). In 2005 the European Commission presented the revised enlargement package, through which it adopted a new approach to the EU enlargement policy, based on three principles:

1. consolidation,
2. communication and
3. conditionality (Xenakis and Tsinisizelis 2006).

The Instrument for Pre-Accession Assistance (IPA) which was adopted for the period 2007-2013 constitutes a new program of financial support for the enlargement and is estimated to keep the Union among the top financiers to the Western Balkan area. It provides for the stricter application of conditionality through the suspension of financing in case there is no satisfactory progress in meeting the accession criteria or if the beneficiary country does not proceed to the commitments it has undertaken within the framework of its partnership with the EU (Xatzimihail and Voutsa 2009).

3. THE SYSTEMATIC ORGANISATION OF INTERNATIONAL FINANCING

In 1995, after the Dayton Agreement, and particularly after the cessation of hostilities in Kosovo in 1999 there has been a dramatic increase of financing in the region of southeast Europe. The international community, recognizing the risk of conflicts being extended to sensitive areas of Europe, seeking to halt a potential mass immigration wave and recognizing the escalating negative impacts of war on the economy of all countries in the region, decided to intensify efforts so as to curb the downside.

In order for the action of institutions to be effective, the creation of a structured approach was supported. In 1999, after an EU initiative, the Stability Pact for the countries of Southeastern Europe was created, which provides a framework for cooperation aiming at consolidating regional stability and the smooth integration of countries into the EU. It was created through collaboration among states, international organizations and development institutions (Council of Europe, EU, OSCE, EBRD, IMF, WBG) and its main task is to provide assistance to SE European countries (including Moldova) on promoting structural changes and adjustments in the institutional, political, social and economic sector.

At a structural level, the Pact is divided into three Working Tables (Table 11). Most actions of the first and third bank are mostly financed by the EU and secondarily by bilateral financiers and the WBG. The bulk of the financing is directed toward purely economic aspects of transformation by putting on the back burner the socio-political sectors of transition.

The systematic organization of international action, which the pact attempts, includes the field of finance as well by promoting a delineation of the appropriate context within which it is proposed that financiers and recipient countries move. The World Bank and the European Commission, under Article 41 of the Stability Pact, are authorized to act as coordinators of the entire assistance to SE Europe (Joint Office Report 2001). This authorization was based on the already very close cooperation developed between the two institutions so as to implement their policies in the region. In 1999 they founded the Joint Office for South-East Europe with the main aim of organizing their coordinating role, facilitating their cooperation, promoting international assistance and monitoring finances. In 2002 the Office decided to direct all International Financial Institutions towards implementing various aspects and parameters of the Stabilization and Association Process (World Bank, IMF 2001).

The Pact does not explore in detail neither the financial policies which will be followed, nor the conditions which will accompany them. A clear description of the objectives which the finance should meet is being presented into the Regional Strategy Paper[§], which was compiled jointly by the WBG and the European Commission in 2000 (Xatzimihail and Voutsa 2009). The paper presents a detailed description of the formed situation for each country and proposes a series of solutions to the problems they are facing. These solutions are possessed by a spirit of generalization in relation to the proposed policies and measures that the countries are required to take. In particular, as far as the socio-political issues of development and transition are concerned, the description of the current situation is not accompanied neither by proposals for measures addressing these issues, nor by the proportional amounts of assisting reforms, except for the EU (Table 12).

The data available on financing South Eastern Europe until 1999 and after 2006 are fragmentary, so it is not possible to achieve a comprehensive and clear picture of financial flows and programs throughout the transitional period for all countries. The establishment of the Joint Office in 1999 and the publicization through a series of data allows for a more complete recording of financial flows at least for the period 1999-2005 during which an increasing capital inflow is exhibited in the region, which in 1999 exceeded 5,5 billion € and in 2005 it is estimated to have reached 7.3 billion € (Joint Office Report 2007), (Table 13).

According to the data available, the countries that have benefited most from financing, in absolute terms, are Romania and Bulgaria (Tables 21-25). But if the assistance provided is examined as a GDP rate, it arises that the Western Balkans, with the exception of Croatia, are ranked first (Diagrams 1-7). Over the period 2001-2005, these states have on average been financed with amounts which every year amount to 4.5% of their GDP, while for the same period the total annual average for the region does not exceed 3,5%.

Table 11: The thematic organization of the Stability Pact

1st WORKING TABLE	2nd WORKING TABLE	3rd WORKING TABLE
Decromitisation & Human Rights	Economic Reconstruction, Growth & Cooperation	Security issues
PRINCIPAL ISSUES		
• Public institutions, administration & governance • Civil society • State of justice • Minority rights • Mass Media freedom • refugees	• pro motion of free transaction areas • international transportations • energy supply • infrastructures • promotion of private businesses • deregulation and integrity • reintegration of refugees • environmental issues	• justice, internal affairs & immigration • organised crime, bribery & terrorism • defensive & military cooperation • cross-border environmental risks

Source: Stability Pact for South Eastern Europe, *About the Stability Pact*, http://www.stabilitypact.org/about/default.asp.

§ Full name of the paper "The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper".

Table 12: Overall review of the assistance and finance objectives in SE Europe

ASSISTANCE OBJECTIVES	DESCRIPTION OF CURRENT SITUATION	PROPOSALS FOR THE CONFRONTATION OF PROBLEMS	FINANCING	FINANCIAL INSTITUTION
Private Sector Support	X	X	X	IMF, WBG, EU, EBRD
Trade Liberization	X	X	X	WBG, EU
Improvement of Economic System	X	X	X	IMF, WBG, EU
Agricultural Sector	X	----	X	EU, WBG
Poverty Reduction & Social Development	X	----	X	EU
Institutional Development/ Government/ Public Sector/ Corruption	X	----	X	EU
Redefinition of State Operations so that they respond to market needs	X	X	X	IMF, WBG, EU, EBRD
Reinforcement to the State towards Long-term Growth	X	----	X	EU
Empowerment of the Judicial System	X	----	X	EU
Reduction of Corruption	X	X	X	EU
Infrastructures	X	X	X	EU, EBRD
Environment	X	X	X	EU

Source: Europe and Central Asia Region, The World Bank, The Road to Stability and Prosperity in South Eastern Europe: A Regional Strategy Paper, 2000, categorization: Voutsa 2010.

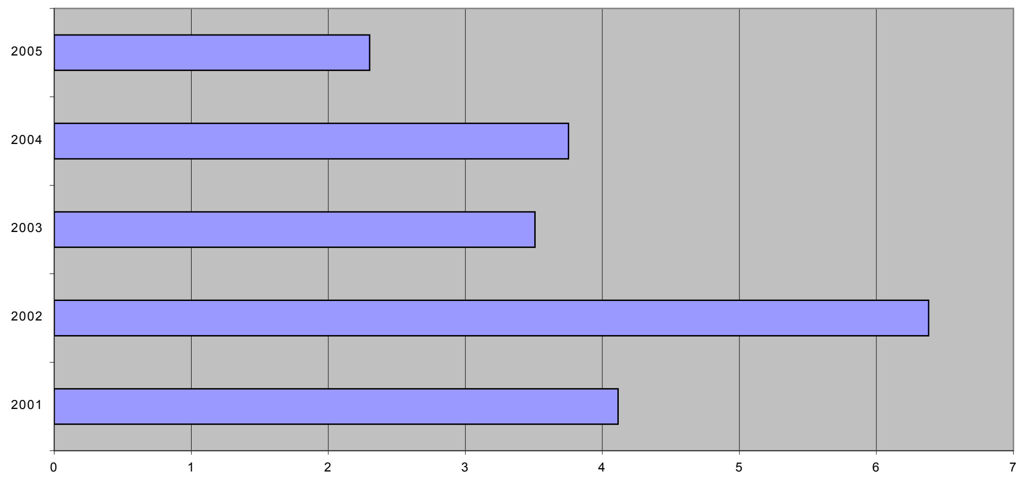
Table 13: International financing for South East Europe (Billion €)

Donors	South East Europe*						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005*** **
Bilateral & European Committee	3,5 (64%)	2,2 (38%)	3,9 (60%)	3,7 (55%)	3,3 (50%)	3,3 (55%)	3,0 (41%)
IFI**	2 (36%)	3,6 (62%)	2,6 (40%)	3,0 (45%)	3,3 (50%)	2,7 (45%)	4,3 (59%)
Total	**5,6 (100%)**	**5,9 (100%)**	**6,5 (100%)**	**6,7 (100%)**	**6,6 (100%)**	**6,0 (100%)**	**7,3 (100%)**

* Including Moldavia
** Not including the IMF
*** Estimations

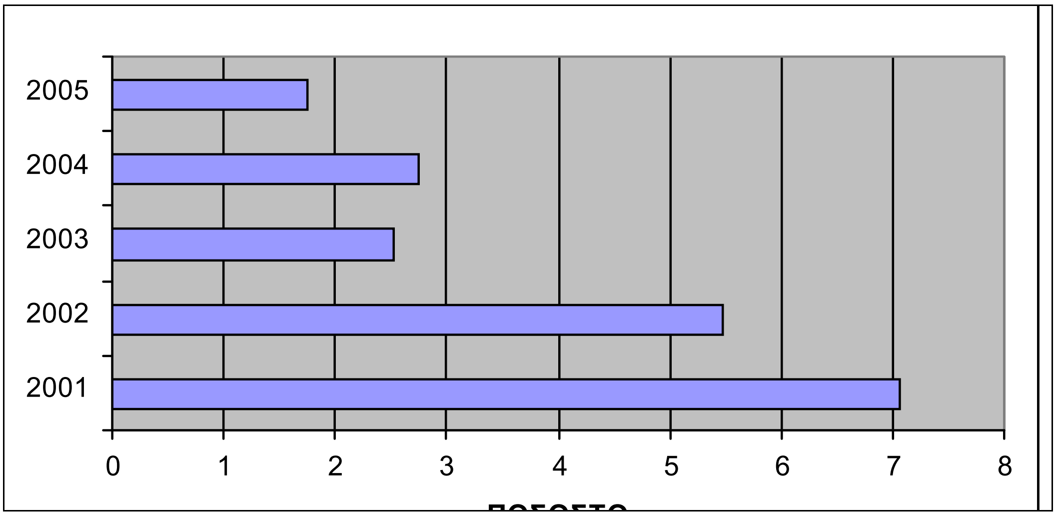
Source: Voutsa, M.-E., 2010, *Assessment and Evaluation of the Results Obtained by Finance Policies of International Financial Institutions (IFIs) in the Transition Process of the Southeast European Countries* in The Economies of the Balkan and Eastern Europe Countries in the Changed World edited by Karasavvoglou, A., pp.251-271, Cambridge Scholars Publishing. .

Diagram 1 : Financing of Albania as a percent of GDP



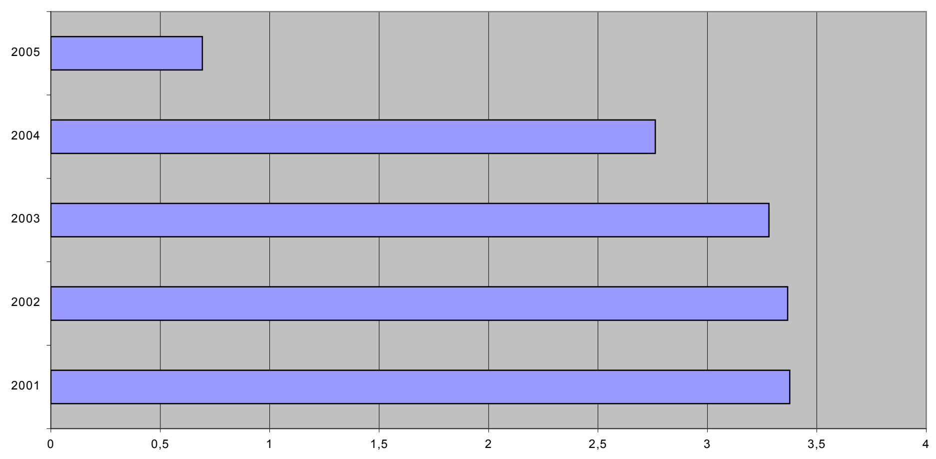
Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 2: Financing of Bosnia – Herzegovina as a percent of GDP



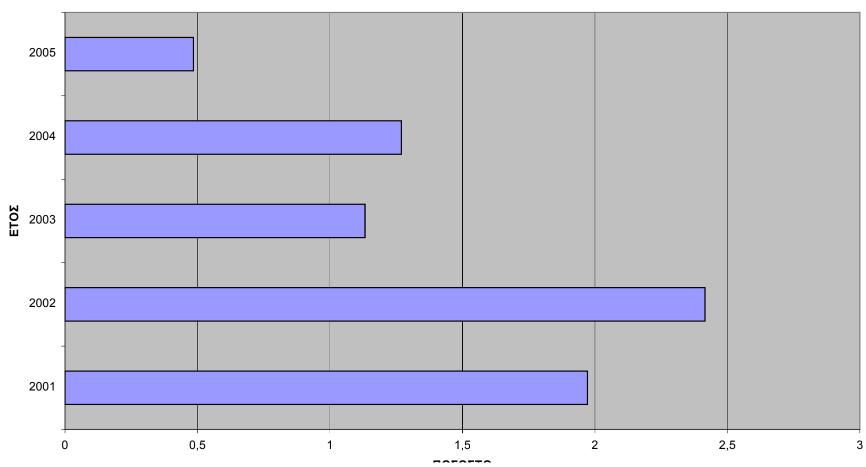
Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 3: Financing of Bulgaria as a percent of GDP



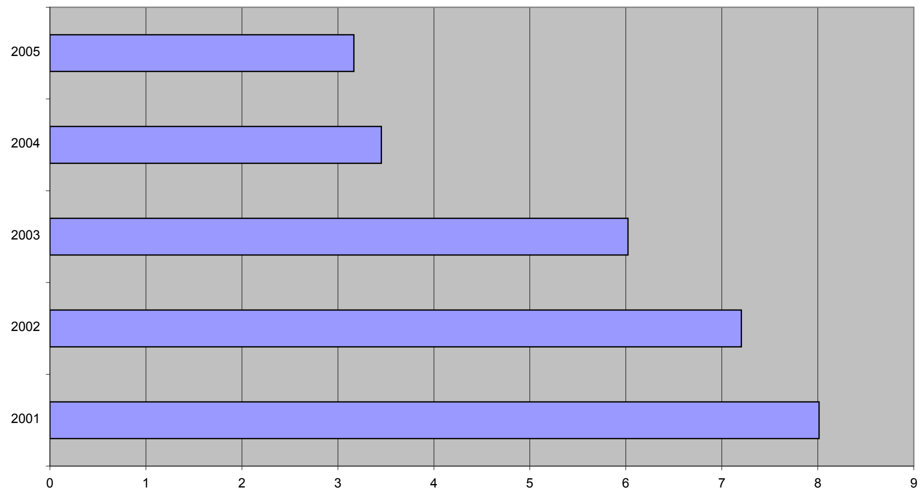
Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 4: Financing of Croatia as a percent of GDP



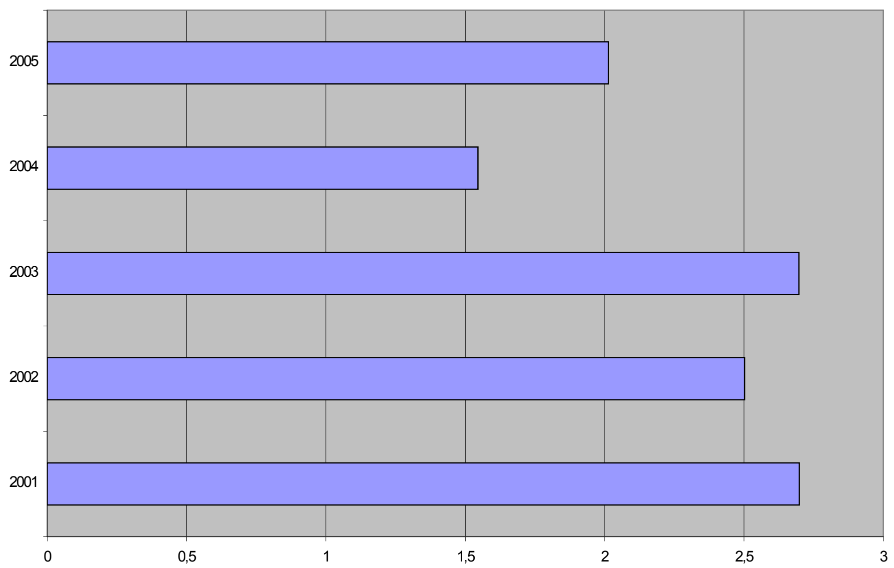
Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 5: Financing of FYROM as a percent of GDP



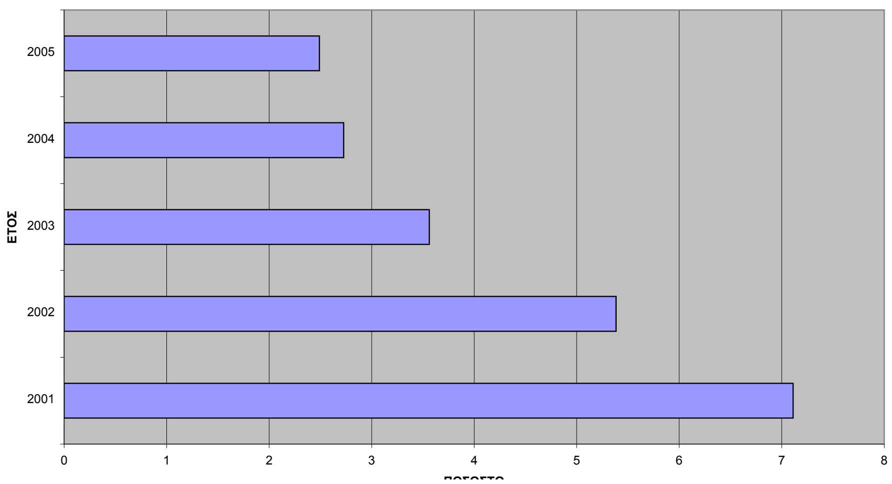
Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 6: Financing of Romania as a percent of GDP



Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

Diagram 7: Financing of Serbia- Montenegro as a percent of GDP



Source: Economic Reconstruction and Development in South East Europe, processing & calculation Voutsa (2011).

4. THE UNDERLYING PHILOSOPHY THE ORIENTATION AND THE UTILIZATION OF THE FINANCING

The underlying philosophy and the orientation of funding to the countries of Southeast Europe have been influenced by the shape of the theoretical model of transition. The primary principles which guided the transition are summarized under the umbrella term ‘Washington consensus’ and a key role in the ‘Washington consensus’ is played by the New Political Economy, which constitutes the dominant ideology within the financing processes. According to this, market mechanisms can function as regulators of the economic system as long as they remain unaffected by political interference.

The result is that institutions face the state as the problem of development and display the free market as the solution. The ‘structural adjustment loans’ of the WBG marked the beginning of the practical implementation of the above philosophy, followed later by the IMF with the ‘structural adjustment policy’, which has been established as the primary method of its financing.

The adequacy of this approach began to be reviewed since the mid 90s (Makris and Voutsa 2006). Main reason was apparently operating inhibitors in development but could be explained by the New Political Economy. The countries of the area failed to reach the promised levels of prosperity so that the institutions can adopt, at a theoretical level at least, a diversified approach to development by putting more emphasis on social factors affecting it (World Bank 2001).

The “post-Washington Consensus”, which was proposed as a term descriptive of the new development policy, not contributed towards substantial change. In fact, the theoretical framework was not different but it was merely updated and completed by modernising the neoclassical model, continuing, however, to treat development and the transition as a technical problem (Voutsa 2011). The free market mechanisms and the private sector keep having a leading role. The new components concern the implementation of more and more stringent conditionalities as well as the increase in the influence of institutions on domestic policy making (Table 14).

Table 14: Key fields of action, proposed policies and conditionalities through the implementation of the "Washington consensus" and the "post-Washington consensus"

	WASHINGTON CONSENSUS		POST-WASHINGTON CONSENSUS	
FIELDS	**PROPOSED POLICIES**	**CONDITIONALITIES IMPOSED**	**PROPOSED POLICIES**	**CONDITIONALITIES IMPOSED**
Fiscal Policy	Fiscal discipline aiming at GDP growth	X	Maintaining fiscal discipline aiming at GDP growth & the reduction in the current account deficit	X -----
Public Expenditure	Tax increase	X	Tax increase with a gradual reduction of income tax, increased indirect taxation and tax collection mechanisms	X
Public Expenditure	Downscaling of public expenditure, reduction of salaries, pensions and social benefits	X	Downscaling of public expenditure, reduction of salaries, pensions and social benefits	X
Monetary Policy	Exertion of restrictive policy aiming primarily at controlling inflation	X	Continuation of the restrictive policy and inflation control. Free setting of interest rates and in some cases preservation of a fixed exchange rate	X
Banking System	Reconstruction of the Banking Sector	X	Strengthening the competitiveness of banks	X
Trade Policy	Liberalisation of Trade	X	Full trade liberalisation and harmonisation with the WTO and EU policies	X
Business Policy	Privatisation of state enterprises	X	Completion of the privatisation process of state enterprises, even by selling them	X
Investment Policy	Cuts in social expenditure and privatisation of enterprises in order to strengthen public investment with a view to attracting FDIs.	X	Abrogation of the remaining restrictive policies concerning FDIs and reform of the legislative framework conditioning them	X

Poverty	There are no correlations between reform programs and the impacts that these will have on poverty	----	The potential impacts of reform programs on poverty increase are acknowledged but no comprehensive proposals or policies are put forward in order to confront it	----
Institutional Environment	Coverage of the institutional and administrative gap by providing technical assistance for the implementation of programs and hardly any support for bridging the gap (there are remarks which only regard the legislative framework for the protection of property rights)	----	It is acknowledged that the lack of an appropriate institutional environment may affect the course of transition and development, but no policies are recommended so as to bridge the gap and in some cases where piecemeal measures are proposed, no funds are credited.	----
Social Goods (education, health, etc.)	Their importance is recognised, but they are neither financially supported nor is it discussed to what extent they will be influenced by the transition process	----	Their importance as well as the adverse effects they may incur by the reform programs are recognised but no care is actually taken in order to protect them.	----

Source: Voutsa, M.-E., 2010, *Assessment and Evaluation of the Results Obtained by Finance Policies of International Financial Institutions (IFIs) in the Transition Process of the Southeast European Countries* in The Economies of the Balkan and Eastern Europe Countries in the Changed World edited by Karasavvoglou, A., pp.251-271, Cambridge Scholars Publishing.

With this theoretical framework and despite the increased requirements posed by International Financial Institutions for the release of funds and continuation of funding, there is inefficiency in the recipient countries to absorb and manage funds.

The incomplete and problematic legislation in conjunction with the “bureaucratic rigidity” of the public sector, in many cases rendered financing and, by extension, the absorptive capacity of the countries ineffective, (UNECE, 1999). Poor design and planning have contributed to squandering the assistance on projects of dubious quality and utility. The EU Court of Auditors in a relevant report characterised half of the pre-accession assistance to Romania and Bulgaria (1.9 billion €) as problematic (Voutsa 2011).

Market failures and phenomena of corruption and shadow economy act as catalysts in the effective utilisation of funds the International Financial Institutions argue that the design and implementation of financial plans can be made more effective without the participation of local actors. This perception has been described as the “nirvana fallacy” (Coyne, 2006). In ignorance of the characteristics that should be taken into account, the institutions formulate policies and tools that are not designed to function properly and implemented in the environment of each country.

This practice hinders the implementation of financial policies since a country's commitment is not enough for their successful implementation but what is needed is a wider framework of cooperation, which cannot be achieved without constructive dialogue. Furthermore, the absence of a strong social contract, which would act as a breakwater against the turbulences of transformation by facilitating the smooth operation of the countries, caused irreparable damage to the social capital of the countries (Xatzimixail and Voutsa 2009).

The International Financial Institutions treated countries in the region as a tabula rasa, ignoring completely the 'initial conditions' and placing unilateral emphasis on the economic aspects of transition. This treatment essentially led to a double distortion in the transition process. On the one hand, they completely ignored the structural transformation that was necessary in order to support the operation of market economy and, on the other hand, the serious structural weaknesses along with the considerable institutional insufficiencies impeded the transition process (Voutsa 2011).

The fundamental principle which the promoted model was based on entailed that every economic action can be explained by the rational, individualist and materialistic behaviour of persons. But this approach ignores the fact that individuals and, by extension, societies do not act as perfect maxi misers as they do not aim at maximising but at satisfying instead, (Zoumboulakis and Kyriazis 2009).

5. CONCLUSION

The total financing to Southeastern European states in the form of loans and grants and independently of its kind (technical, humanitarian, investment, budget support, macro-economic support) has placed SE Europe on top of areas with the highest per capita financing since the total amounts correspond to more than 100 € per capita a year on average (Tables 15-19).

However, the amount of financing cannot by itself guarantee the success of implemented policies. By the end of the 1990s, the financial instruments used to provide assistance were not specialized, and properly adapted to the specificities of countries. The modification of some of them and the effort to coordinate the provided assistance did not make, at least to a high extent, financing better since the philosophy underlying its provision has remained the same and cooperation focused mainly on the conditionalities of financing and the technical parameters of the programs (Makris and Voutsa 2006).

While from 2006 and on a comparative laxity has been marked in joint efforts to finance the region more effectively, the interweaving of financing coupled with its amount deprived the area from alternative approaches and led to the adoption of a similar transitional model. This model was drastically influenced by non-economic factors not included in the original design and, as a result, the approach chosen was proved to be ineffective (Voutsa 2011).

The speed of reforms had a catalytic impact in leading the transition issues and is directly related to the amount of funding. The choice of shock therapy maximized the social, political and economic costs and not allowed to take account of criteria relating to the "initial conditions", the particularities of each country and the logical sequence of proposed programs.What was ignored was the fact that countries are directly dependent on the path-dependence. Once a set of rules, institutions and customs of a society have been established, it is difficult and it requires great effort to change it.

The conditionalities eventually undermined the effectiveness of the financing itself, which initially functioned as a formative mechanism of the transitional framework and subsequently was used to cover the cost of the reforms introduced by the financial institutions (Xatzimixail and Voutsa 2009).

The neoliberal model which was implemented created a teleological conception of transition. Through shock therapy, all states in the region were forced to implement a specific procedure, as a sine qua non Treaty, which in theory would lead to the establishment of democracies and to the smooth operation of market economy.

However, the main question is not whether the specific development model was appropriate for managing the transition process, but why they chose a development model in order to implement the project of transition. The international financial institutions, having established a series of development principles, rushed to apply them as a transitional model. That is, in fact they did not study the creation of a policy framework that would correspond to the transition process but instead they used a development model in order to manage transition (Voutsa 2011).

It is worth noting that the EU policy is the only one which reflected a basic effort to approach the socio-political parameters of the transition. At a theoretical level, it was through the Maastricht Treaty which in Article 49 states that "*any European State which respects the principles of liberty, democracy, human rights and fundamental freedoms as well as the rule of law may apply to become a member of the Union*" (European Union, 2008). Nevertheless, in practical terms it is the only institution which finances, mostly through grants and not loans, socio-political fields, associating them with the tightening of its relations to countries in the region (Tables 12). It connects them with conditionalities and checks the expected results.

In practice the implementation of the attempted changes and the effectiveness of the funding affected by the non-economic factors are associated with a number of issues which are not taken into account in the selection of financial instruments, which cannot be assessed in isolation, without considering the overall approach of the transition process adopted, as they reflect the overall philosophy of the International Financial Institutions.

Table 15: Total financing commitments 2001

Country	Grants (million €)	Grants as a percent-tage of the total Financing	Per Capita Grants (€)	Loans (million €)	Loans as a percent-tage of the total Financing	Per capita Loans (€)	Total Financing (million €)	Per Capita Total Financing (€)
Albania	160,45	64,79%	47,19	87,21	35,21%	25,65	247,65	72,84
B-E	313,76	56,63%	78,44	240,32	43,37%	60,08	554,07	138,52
Bulgaria	384,26	55,75%	48,03	305,02	44,25%	38,13	689,28	86,16
Croatia	119,67	20,70%	29,92	458,59	79,30%	114,65	578,26	144,57
FYROM	217,08	53,27%	108,54	190,43	46,73%	95,21	407,50	203,75
Romania	699,57	41,99%	31,80	966,46	58,01%	43,93	1.666,03	75,73
S-M	715,44	53,54%	79,49	620,79	46,46%	68,98	1.336,23	148,47
Kosovo	495,91	99,82%	247,95	0,90	0,18%	0,45	496,81	248,40

Source: Economic Reconstruction and Development in South East Europe, processing & calculation by Voutsa (2008).

Table 16: Total financing commitments 2002

Country	Grants (million €)	Grants as a percentage of the total Financing	Per Capita Grants (€)	Loans (million €)	Loans as a percentage of the total Financing	Per capita Loans (€)	Total Financing (million €)	Per Capita Total Financing (€)
Albania	207,39	49,43%	61,00	212,16	50,57%	62,40	419,55	123,40
B-E	303,04	60,55%	75,76	197,41	39,45%	49,35	500,44	125,11
Bulgaria	368,91	47,29%	46,11	411,18	52,71%	51,40	780,08	97,51
Croatia	130,80	15,89%	32,70	692,46	84,11%	173,11	823,26	205,81
FYROM	330,31	82,19%	165,16	71,55	17,81%	35,78	401,87	200,93
Romania	764,81	43,42%	34,76	996,80	56,58%	45,31	1761,61	80,07
S-M	691,46	50,85%	76,83	668,40	49,15%	74,27	1359,86	151,10
Kosovo	362,49	99,72%	181,25	1,00	0,28%	0,50	363,49	181,75

Source: Economic Reconstruction and Development in South East Europe, processing & calculation by Voutsa (2008).

Table 17: Total financing commitments 2003

Country	Grants (million €)	Grants as a percentage of the total Financing	Per Capita Grants (€)	Loans (million €)	Loans as a percentage of the total Financing	Per capita Loans (€)	Total Financing (million €)	Per Capita Total Financing (€)
Albania	140,95	47,65%	41,46	154,84	52,35%	45,54	295,79	87,00
B-E	241,12	77,15%	60,28	71,41	22,85%	17,85	312,53	78,13
Bulgaria	420,14	43,13%	52,52	553,94	56,87%	69,24	974,07	121,76
Croatia	110,29	22,24%	27,57	385,53	77,76%	96,38	495,82	123,95
FYROM	188,65	45,68%	94,33	224,34	54,32%	112,17	412,99	206,50
Romania	784,81	33,04%	35,67	1590,20	66,96%	72,28	2.375,01	107,96
S-M	567,01	49,08%	63,00	588,35	50,92%	65,37	1.155,36	128,37
Kosovo	275,77	100,00%	137,88	0,00	0,00%	0,00	275,77	137,88

Source: Economic Reconstruction and Development in South East Europe, processing & calculation by Voutsa (2008).

Table 18: Total financing commitments 2004

Country	Grants (million €)	Grants as a percentage of the total Financing	Per Capita Grants (€)	Loans (million €)	Loans as a percentage of the total Financing	Per capita Loans (€)	Total Financing (million €)	Per Capita Total Financing (€)
Albania	163,72	40,34%	48,15	242,14	59,66%	71,22	405,86	119,37
B-E	195,86	48,18%	48,97	210,66	51,82%	52,67	406,52	101,63
Bulgaria	567,37	56,22%	70,92	441,81	43,78%	55,23	1.009,18	126,15
Croatia	122,65	18,34%	30,66	546,29	81,66%	136,57	668,95	167,24
FYROM	155,03	56,49%	77,52	119,39	43,51%	59,70	274,42	137,21
Romania	1.023,09	59,23%	46,50	704,29	40,77%	32,01	1.727,39	78,52
S-M	587,61	54,81%	65,29	484,42	45,19%	53,82	1.072,03	119,11
Kosovo	172,48	97,18%	86,24	5,00	2,82%	2,50	177,48	88,74

Source: Economic Reconstruction and Development in South East Europe, processing & calculation by Voutsa (2008).

Table 19: Total financing commitments 2005*

Country	Grants (million €)	Grants as a percentage of the total Financing	Per Capita Grants (€)	Loans (million €)	Loans as a percentage of the total Financing	Per capita Loans (€)	Total Financing (million €)	Per Capita Total Financing (€)
Albania	115,20	41,33%	33,88	163,54	58,67%	48,10	278,74	81,98
B-E	154,55	37,84%	38,64	253,90	62,16%	63,47	408,44	102,11
Bulgaria	645,24	58,38%	80,65	459,95	41,62%	57,49	1105,18	138,15
Croatia	136,82	20,71%	34,21	523,69	79,29%	130,92	660,52	165,13
FYROM	131,19	48,17%	65,60	141,17	51,83%	70,58	272,36	136,18
Romania	1116,59	37,87%	50,75	1831,60	62,13%	83,25	2948,19	134,01
S-M	371,14	35,38%	41,24	677,74	64,62%	75,30	1048,88	116,54
Kosovo	140,58	96,57%	70,29	5,00	3,43%	2,50	145,58	72,79

* Estimations

Source: Economic Reconstruction and Development in South East Europe, processing & calculation by Voutsa (2008).

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