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INFLUENCE OF RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS ON INSTITUTIONAL TRANSFORMATIONS OF ECONOMY

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Abstract:
The article deals with the problem of the impact of transitional countries cooperation with international financial institutions on institutional changes which take place in emerging market economies, on the base of Ukraine. Research is carried out from the standpoint of institutional theory. The main reforms that took place in emerging market economy countries were based on the Washington Consensus strategy recommended by international financial institutions. The results of implementing this strategy are varied in different countries. In Ukraine strict adherence to requirements in the early stages of reforms without internal institutional conditions and characteristics led to a deep and protracted crisis of forming a "transformational stability." The general formal institutions of the market economy have been created according to the neoliberal concept which is provided by IFIs. However, experience of transitive economies including Ukraine, confirms the ineffectiveness of many established formal institutions borrowed from the developed countries. The author reviews the basic theory of institutional changes, argues that the terms of cooperation circulated by international financial institutions not only affect economic development strategy, but also determine the role of the national government in relations with markets. Under present conditions prevailing in Ukraine, it is impossible to manage without assistance of international financial institutions. But we need to pay more attention to technical and advisory cooperation in realization of institutional reforms, and credits – to take as a required time for receiving the results of reforms.

Key words: institutions; institutional changes; institutional structure; international financial institutions (IFIs); Washington Consensus.

JEL classification: B52, F33, O19, P20

INTRODUCTION

International financial institutions (IFIs) evidently have a positive impact on socio-economic development in today's globalized world.

First, international financial institutions provide financing - usually loans but also, in some cases, a significant grant element - to help the country's authorities attain objectives agreed upon in consultation with the former. The financing may support specific investments - in, for example, infrastructure and capacity building - or it may be part of a sector-specific or economy-wide adjustment program.

Second, international financial institutions support national authorities' efforts to design policies to achieve specific economic and social targets. This usually entails extensive consultations with both officials and private sector representatives, and between the headquarters and resident staffs of the international financial institutions to identify the bottlenecks and most important issues that the country faces. These are generally followed by preparation of a written report summarizing the findings and proposed policy recommendations of the international financial institutions' staffs. The policy packages agreed upon may include funds or other assistance specifically targeted on enhancing capacity in social or economic areas.

Third, international financial institutions encourage the development, dissemination, and adoption of internationally accepted standards and codes of good practice in economic, financial, and business activities. The adoption and implementation of such standards and codes contribute to the development and improved functioning of domestic institutions, which, in turn, can help countries better integrate themselves into the world economy and benefit from globalization in progress.

Fourth, international financial institutions provide training on a multitude of topics. This training can take place within the framework of a specific project that a country implements with the support of an international financial institution—for example, projects calling for reform of public enterprises, the civil service, tax administration, or the financial sector. It can also be provided in courses, workshops, and seminars offered by the training institutions of international financial institutions (Nsouli Saleh , 2000)

IFIs lend to the emerging market economies (EMEs) in the role that such lending can play in encouraging sound economic management, investment in institution building, and policies that reduce poverty and inequity. The institutions have mechanisms to link lending to these kinds of changes. The "enforcement" mechanism of future access to MDB loans is one of them. It requires that MDBs stop lending when governments fail to honor their commitments. A second is conditionality, which ties disbursements of loans to agreed-upon policy changes by governments.

However, they can produce false impulses which lie within the prescribed requirements.

Fostering development of the national economy of Ukraine requires analysis of prior miscalculations in the process of implementing market reforms and formation of institutional structure of the national economy on the basis of the reform program proposed by international agencies, which supported and financed the reforms and improvement of relations with international financial institutions.

MARKET TRANSFORMAION, RECOMMENDATION OF IFIs AND INSTITUTION

Systemic transformations that swept post-Soviet countries were unprecedented in nature. However, some countries have achieved relatively fast results, for example, Poland, and found themselves on a fast track of development, while others, like Ukraine, are still in the making and need major reforms, primarily institutional ones.

Transformational changes in post-Soviet countries occurred according to the philosophy of "Washington consensus" with regard to reforming command-administrative economies and upgrading them to market economy principles on the basis of neoclassical theory of economic development.

The project titled "Washington consensus" was elaborated by a team of leading economists headed by Professor J. Williamson (Harvard University) with the support from IMF in 1989 for the Latin America countries. After a number of modifications, this document was treated by the IMF and other international institutions as a benchmark program of western countries and a starting point for implementing reforms in the developing countries and the countries with transitional economy, i.e. the post-socialist countries. The key ideas of the project are as follows: support of fiscal discipline; special emphasis on healthcare, education and infrastructure in terms of state expenditures; decrease in marginal tax rates; liberalization of financial markets; free exchange rate of national currencies; liberalization of foreign trade; favourable direct foreign investment climate; privatization; deregulation of economy; protection of ownership. These principles were taken in consideration when elaborating the model of economic development of Ukraine.

Normally, a set of recommendations for each debtor-country was fairly specific. However, their basic platform has always been clear-cut:

- tough budgetary and monetary policy;
- liberalization of foreign trade, financial markets, exchange rates;
- removal of restrictions on foreign investments;
- deregulation of economy, protection of ownership, privatization.

Hence, the economic significance of IMF actions changed in the 1980-90s: loans were given not under temporary disparities of balance of payments, but for implementation of a specific economic policy.

Practically, the principles of the Washington consensus proved inappropriate to be implemented in the developing countries, since they, essentially, minimize the role of the state in regulating the national economy, facilitate market openness and its operation under the laws of supply and demand, whereas this poses a substantial threat to the economic security of the countries appealing to the IMF for support as speculative capital becomes accessible. Besides, the Washington consensus practically objects to state support of the most vulnerable individuals in form of subsidies and state support caused by the increasing number of the individuals living at the poverty line.

The economic policy based on the Washington consensus, which saw liberalization in line with formation of the new institutional environment, not only hindered solving the problems of the transitional period, but even exacerbated them.

Secondary treatment of the role of institutions and institutional change in ensuring conditions for the formation of a national market economy model and the role of public participation in the process have led to negative growth of the Ukrainian economy during the 1990s.

The awareness that institutions are key to understanding the relationships between all the agents of the economic system and institutional changes determine the direction of its development is a defining trend today. Methodology of institutionalism, firstly, considers the socio-economic system through holistic development. Secondly, individuals are characterized in the light of institutions that determine their behavior and interaction. Institutions, therefore, are primary, whereas individuals and their characteristics are secondary or derivative. The holistic approach to the research of the socio-economic system involves a multidisciplinary technique. Thirdly, institutional research program also calls upon the cumulative early development of society as a whole and its constituent parts.

Fourth, institutional changes require not only quantitative but also qualitative methods of observation, where it is not the outcome (e.g. performance and growth indicators), but the direction, strategy and the process of evolution with the identification of causes, all stages and forms of transformation are analyzed. Therefore, it is the institution which determines and defines economic conditions which are considered the unit of analysis in the theory of institutionalism (Lemeshenko, 2005)

Douglas North gave the following definition to the notion of institution: «Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction». Institutions are consciously and/or randomly formed “rules of the game” (Loginov, 2010). Thus, transition from command economy to market economy meant change in “rules of the game” suggested as an outer generalizing model.

The choice of the pathway for development, which is collectively exercised by social groups and civilizations interacting with one another at the bifurcation point, can be defined as an institutional choice. Institutional choice is change in the formal and informal rules and procedures and the effectiveness of enforcement of rules and restrictions when the better option of several potentially possible ones is selected. The concept of "institutional choice" almost merges with the concept of “institutional innovation”, since it is unlikely that a socio-economic problem can be solved by a single method (Nureyev, Latov, 2009). Therefore, socio-economic development is directly dependent on the efficiency of a given set of institutions.

INSTITUTIONAL SRUCTURE OF ECONOMY AND INSTITUTIONAL CHANGES

In economic theory, research issues of institutional changes and shaping the institutional structure of the economy became relevant in the 1980s and the 1990s., when the processes in the global economy called upon reflection on the importance of institutions for economic development, especially in countries which experienced a transition from planned to market economy.

O. Williamson gives the most general definition of the institutional structure – “these are major political, social and legal norms which are a foundation for production, exchange and consumption”(Williamson, 1993).

In the process of market transformation implemented are those institutional changes that lead to formation of a particular institutional structure. Institutional changes of market economy are characterized by changes in formal and informal business environment.

This system includes primarily development and application of legislation appropriate for market conditions, changes in property relations (introduction of private sector), establishment of new organizations and institutions of market type (commercial banks, commodity and stock exchanges, investment funds, etc.) as well as introducing new system of economic management (by replacing administrative controls with the economic ones, especially with the fiscal and tax controls). However, the existence of some institutions inherent for spontaneous market order is not sufficient for the formation of the institutional structure of market. For example, creating the legal framework for private property does not mean that it can actually function in the economy as a market institution.

Institutional structure stands for an ordered set of institutions that create matrices for economic behaviour, determine restrictions for economic entities and are formed within a certain system of economic activity coordination (Volchik, 2012)

The institutional structure of the economy of any country is, above all, the result of past actions of the state and spontaneous evolutionary selection of the most effective institutions. Accordingly, institutional change relies upon the previous path dependence. Subjection to the previous path dependence is a phenomenon which explains why agents' actual acts of choice may be subject to the former acts of choice.

Today there is no unified theory of institutional change. It is formed by a number of different theories (Table 1).

Table 1. Theories of institutional changes

Theory	Scope of theory	Representatives
Theory of institutional change due to changes in relative prices on economic resources	The state and political processes act as passive factors which mutely perceive all changes affecting growth of net public benefit. Institutional changes are stipulated by demand on behalf of economy due to insufficient efficiency of resource utilization.	Demsetz H. Umbeck J. Field B. Feeny D. Eggertsson T.
Theory of institutional change by D. North	Accounts for processes occurring on the political market and underscores positive (not equal to zero) value of transactional expenses on it (obstacles to performing political actions and exchanges).	North D.
Theory of induced institutional innovations	Takes into account both exogenous changes that cause the demand for new institutions as well as political and cultural constraints to the supply in response to institutional change.	Ruttan V.W., Hayami Y.
"Distributional" theory of institutional change	Argues that the attitude of individual economic agents to the proposed institutional innovations is determined by net benefits, which they received from conducting the latter. The conflict of interest that arises is solved in the process of conducting political negotiations and concluding relevant agreements (contracts):	Libecap G.
Theory of institutional change by J. Knight	Emphasizes the "fare dodger problem" in the process of concluding political agreements on the implementation of socially effective institutional change. Argues that a rational economic agent will not participate in this contractual process, as in the case of its successful completion he will get his share of the common property at no cost. Knight coins the concept of "asymmetric distribution of power" in society as the primary explanation of institutional change.	Knight J.

Formed and extended by the author basing on [7, 8].

Based on the fundamental concepts of modern institutional change, we can conclude that institutional change primarily concern the evolution of the state and its functions. In this case, the state's options regarding actual transformation of the existing formal institutions are associated with two issues.

First is distribution of power in society and in the political arena (distribution of costs and benefits of proposed changes that may be incurred by certain special interest groups). Second is value of the cost (not just financial) to perform the required collective action, which may be too high for such action, despite its significant potential benefits (Tambovtsev, 1999).

Of course, the initial availability of resources and knowledge are a basic conditions for development. And no matter the institutions, but the lack of appropriate competencies, technological knowledge and resources is unlikely to bring about a high standard of living. Moreover, the lack of these components will not even let create the necessary institutions, since institutional planning and improvement possibilities for institutions are also determined by the level of knowledge, technological development and availability of resources. Different factors within the system, so long as management and institutional changes are such factors, may change the direction of its development, the level of its diversity and, hence, influence going through life cycle stages (Sukharev, 2012)

Institutional change may be endogenous as well as exogenous in nature (Brousseaua, Garrousteb, Raynaudc, 2011). Endogenous institutional change is associated with the evolution of behavioral stereotypes and values, development of organizations or interest groups in a broad sense. Exogenous institutional change, especially related to importing of institutions, can change the existing structure of incentives, which, due to destruction of conventional social ties, can lead to instability.

In today's world, institutional changes are related to the impact of globalization and international organizations on the process of implementing global standard institutions (GSI) (Chang, 2011). Implementation of GSI is, on the one hand, a special case of institutional import, and, on the other hand, is a reflection of the standardization process of mechanisms of economic regulation. These processes can be evaluated ambiguously with respect to mixed economic efficiency, because they impede institutional diversity, which inevitably will affect the adaptive efficiency of institutions.

The 2008-2010 crisis has led to reinterpretation of neo-classical position, which was the dominant tradition of economic policy in the 1990s.

Leading IFIs - the IMF and the World Bank followed the neo-liberal approach in creating conditions for cooperation with emerging market economies countries. In return for continued disbursements of IMF loans, countries must follow austere policy conditions designed to ensure debt repayment, stabilize the economy, and promote national prosperity.

However, the approach used by IFIs is not only an economic growth doctrine, but is related to reconstruction of the state's role in the society. The requirements imposed by IFIs determine measures that affect both socio-economic and the socio-political processes, i.e. political strategies of the formation of national government in relations with markets. Thus, meeting the requirements of cooperation with IFIs acts as a decisive and important factor of influence on institutional change and shaping the institutional structure of emerging market economies countries.

RELATIONS OF UKRAINE WITH IFIs AND INSTITUTIONAL CHANGES OF ECONOMY

The choice of Ukraine in favor of neo-liberal model was not spontaneous. Having no reforms at first, the country had to resort to foreign practice. However, widely circulated and used in the 1990s within transformational changes, the liberal doctrine of orthodox nature, which was aimed at building a new society and a new economic system, failed to bring about the expected results and to be implemented fully.

Centralized economy associated with dominance of public monopoly intermediation defined the logic of its forthcoming transformation in Ukraine. There are three logically related steps. The first one is the stage of destruction of the institutional system of centralized economy, due to the existence of an implicit financial pyramid. The second stage is desocial privatization of assets and property rights, changes in the old control system of the economy. It led to destructurization and primitivisation of its institutional structure. The third stage is gradual formation of a new system of property rights and economic power of new institutions in the Ukrainian economy (Tkach A., 2012).

Transformation processes in Ukraine were accompanied by a dire economic crisis. In this regard, the issue of resource support of economic development has sharpened, especially in terms of its financial components. Every reform is dependent on expenditure, therefore possibilities for introduction of intensive institutional changes are limited. Deregulation of the financial system, payment crisis, caused primarily by transition to world prices on energy, lack of domestic savings objectively resulted in the need for external resources to restore economic balance and sustainable economic growth. Among the external financial sources with the greatest potential for international financial institutions are the International Monetary Fund (IMF), the World Bank (WB) and European Bank for Reconstruction and Development (EBRD).

It should be noted, however, that the strategy of cooperation with IFIs is not only to obtain loans to finance government programs and projects, but a certain set of complementary measures. The measures recommended by international financial institutions (1) rely on the monetarist-liberal model of development, (2) are standard, as they do not take into account the specific features of the national development of the recipient countries, (3) correspond primarily to the interests of the developed countries (according to the "center – periphery" theory), (4) have different effects in different countries, which is why there has been increasing economic differentiation of countries.

Ukraine has been member of the IMF, the World Bank and the EBRD since 1992, and it started cooperation with the European Investment Bank (EIB) in 2006.

Cooperation between Ukraine and the World Bank was launched in 1992 to provide institutional and rehabilitation loans worth 527 million USD. These funds were used to finance external debt liabilities, fix the difficult economic situation in the country and finance critical imports (mainly energy sources – thus, the major amount was transferred to repay the debt for gas to Turkmenistan).

The initial phase of cooperation with the IMF included consultation and technical assistance for the creation of its own monetary system. Ukraine's cooperation with the IMF in terms of implementation of joint programs of economic development in Ukraine started in October 1994.

It should be noted that the World Bank is an organization which deals with the problems of world countries' development, while the IMF is a cooperation body whose activities are primarily aimed at improving the global monetary system. The European Bank for Reconstruction and Development (EBRD) is a relatively new organization established for supporting the development and cooperation between European countries. Obviously, the activities of these institutions are fundamentally different: each has its own objectives, fixed structure, different sources of financing, helps different categories of member countries.

Some countries of Eastern and Central Europe have achieved significant economic results due to the support of their reforms by international creditors.

All projects which have been implemented in Ukraine since 1991 can be attributed to one of the following groups: projects of macroeconomic stabilization and structural transformations of the economy in some sectors (systemic projects); investment projects; international technical assistance projects.

IMF assistance to Ukraine is aimed at stabilization the monetary and credit system, while the funds of the World Bank are for financing critical import and budget support and financing various investment projects.

European Bank for Reconstruction and Development, unlike other international financial institutions, lays down political conditions to their partners. A country must be a fan of multiparty democracy, pluralism and market economy. Herewith realizing external direct and joint financing of investment projects, it is focused primarily on crediting the private sector and major infrastructure objects.

The results of Ukraine's cooperation with international financial institutions, in the first place with the IMF and the World Bank are estimated ambiguously. On the one hand, cooperation with International Financial Institution (IFIs) contributed to reforming the budget, tax and pension systems; increasing the stability of the national currency by growth of foreign exchange reserves; ensured low prices on credits, implementation of a number of infrastructural projects; enhancement of investment image and trust in Ukraine internationally. In fact, the requirements act as a catalyst, which forced the government to speed up the reforming of budgetary, fiscal and pension systems, the structure of the economy, in particular the energy sector.

Meeting the recommendations of the Washington Consensus under the protection of the IMF contributed to formation of basic market institutions.

On the other hand, experience of transitive economies, including Ukraine, confirms the inefficiency of many established official institutions borrowed in the developed countries. Their functioning in many countries failed to ensure efficiency of institutions in the importing countries. On the contrary, if economic indices are analyzed: transaction costs are increasing, and the efficiency of the economy is increasing nominally, which has fallen sharply since the beginning of market reforming.

Institutions do not operate in a vacuum, and the context in which the organizational structure is established, may lead to very different results in Mexico as opposed to a similar structure in Brazil, or China. This is because incentives matter, and the balance of power and influence of elites, including bureaucracies, may determine whether or not an organizational structure generates rents at the behest of vested interests, especially in societies that North terms “limited access orders.” Thus, attempts by international agencies to propagate “best practices” quite often fail.

Ukraine's economy has been unreasonably in a state of transformation ("permanent shock therapy") for a long period of time. New destructive factor – “transformational stability” has been created on the way of its development. If an economy has been in a state of uncertainty for a long period of time, individuals and business entities, guided by an instinct of self-preservation, aiming at their own life support, try to adjust to these conditions of uncertainty. Everybody occupies their own socio-economic niche, providing their own stability. These relatively stable microsystems that have been created in terms of systematic instability begin to resist to the changes that violate their stability, despite the fact that these changes are positive for the economic system as a whole and for themselves.

The importance of institutional preconditions of implementation principles of the Washington consensus has been disregarded by Ukrainian reformers, which resulted in significant negative socio-economic outcomes and caused deep transformational crisis in particular. Human factor is one of the reasons in Ukraine, i.e the lack of willingness to accept the "shock therapy" by an ordinary citizen of Ukraine and mechanical implementation of principles of the Washington Consensus by the authorities without taking into account national peculiarities, historical heritage etc.

Today, inadequacy of IFI requirements to Ukrainian realities under current crisis and military conflict as well as their improper implementation may result in the exacerbation of difficult economic and social situation in the country, prevent economic development in the medium- and long-term perspective and create a model of dependent development.

CONCLUSION

Any mechanical borrowings from the well-tested international institutions, norms of regulation or forms of organization will not always bring about a positive result in other environment. Their efficiency depends on the path dependence. Ukraine has its own national social environment with formal and informal institutions, its disregard exacerbates efficient activity of both new institutions and the advanced ones.

Despite the twenty-year long reforming of Ukraine's economy, the results achieved remain fragmentary. Based on the experience of post-socialist countries of Eastern Europe and the transformation period of Ukraine’s development, one can propose the following regularity: the more advanced institutional and legislative reforms are, the more efficient the state administration is and the higher credit the judiciary authorities have, which results in a stronger mutual trust between business partners. In Ukraine, the norms of a law-governed state are weak, the legislation is insufficiently developed, on the contrary to impractical use of laws, insufficient reforming of the property relations and "blurring" ownership rights, distorted structure of economy, low contractual discipline, which yields additional transaction costs in protection of ownership rights and interests.

In addition, through implementation of long-term institutional reforms, the dynamics of asynchronous mechanisms of regulation (and technologies) should be considered, on the one hand, and of institutions, on the other hand. Thus, the contradiction between spontaneous evolutionary processes and conscious transformation of institutions in the course of economic reforms can be considered in the framework of institutional cooperation (a set of rules based on the dominant values and mechanisms which ensure their implementation, thus forming subjects' behavior) and mechanisms of regulation (a system of authorities' links and relations arising in the result of ordering the economic processes within existing organizations) (Volchik , Kot 2013). It is the regulation mechanisms, because of informal authorities' relations, low legislation efficiency regulating economic relations (laws do exist, however they are largely neglected in practice), subordination of the judiciary authorities to political interests, which have led to the establishment of "government-to-business" relations by the "protector-client" type, which contributed to the formation of clan-oligarchic system, exchange of economic rent for political loyalty and consolidation of the power-property institution.

It should be emphasized that cooperation with international financial institutions (introduction of new credit programs, expert forecasts for economic development of countries) are order of time, because it is a chance to recover from the situation in Ukraine, at minimum cost. Economy and the state can be saved only by reforms, and IFI loans are just a chance to buy time for the reforms to be implemented. It is necessary to take into account previous cooperation practices, as the main reasons of the major problems related to the implementation of any projects in Ukraine are related to the institutional field – these are unstable compliance with the plans and, more precisely, constant strategic changes, poor coordination of authorities, broken implementation mechanisms of formal rules and regulations.

The state policy of cooperation with international financial institutions at the present stage should be focused not on minimization loans, but on the most efficient use of the advantages and opportunities offered by membership in these institutions or the agreed-upon arrangements.

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