

# COLLABORATION OF INTERNATIONAL FINANCIAL INSTITUTIONS WITH POST-CONFLICT COUNTRIES

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## ABSTRACT

The article is dedicated to the role of international financial institutions in overcoming the consequences of war actions. The author studies the evolution of the role of international financial institutions in the post-conflict renewal during the second half of XX century and at the beginning of XXI century; the author also reveals the change of its key emphasis in the cold war period and after the war end.

The article determines the main negative consequences in the activity of international financial institutions on the issue of overcoming the consequences of war conflicts that are the following: increasing the debtor's sovereign loading, the priority support of the branches, which are the most interesting for foreign investors, the interference in inner policy, the contribution to corruption, and in some cases, the worsening of ecological situation in post-conflict countries. A special attention is paid to the issue of odious debt and the practice of refusal of debtor's obligations of previous regimes in a post-conflict period.

The article deals with the conflict of interests of international financial institutions and the management of the countries suffered from war actions concerning the mobilization of inner resources and providing external financial support from the position of the theory of plays, that makes it possible to reveal the reasons of the slow post-conflict renewal.

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**Introduction.** Nowadays, the appearance of the most influential international financial institutions, such as the International Monetary Fund and the International Bank of Reconstruction and Development, was caused by the necessity of renewal of national economies after the World War II consequences. The foundations of the new future world financial system were established at the Bretton-Wood conference in July 1944, that is, it took place more than over a year before the actual end of the biggest war conflict in the known history of humanity. This fact confirms the importance of the preparation to the renewal actions and preliminary assessment of the losses caused before the complete end of the war conflict.

Generally, the network of international financial organizations extended with new institutions characterized with the different specificity of activities, amount of participants, and regional directions, and the role of these institutions increased in the post-conflict renewal in comparison with the midst of the previous century – all this happened during more than over seventy years.

The topicality of the role of international financial institutions in overcoming the economic consequences of war conflicts is caused by the complicated economic, war, and political situation that took place in Ukraine after the beginning of the war actions in 2014.

**Analysis of the recent researches and publications.** The issue of supporting international financial institutions was researched by a great number of publications, in particular, the works of Stephan Klingebiel [18], James K. Boyce [6], Kristen Boon [5], Irfan Nooruddin ra Thomas E. Flores [14], Shepard Forman [7], and also the studies of the World Bank Group, the International Monetary Fund and other international organizations.

Simultaneously, the Ukrainian academic research environment, dealing with the study of collaboration of the states with international financial institutions, as a rule, did not pay attention to the needs of the post-conflict renewal, that is why, the current issue is still far from a considerable scientific interest.

*The purpose of the article* is to determine the role of international financial institutions in the post-war renewal.

**Principal research results.** According to the analysis of the works dedicated to the activities of international financial institutions, their evolution in the post-conflict renewal field as well as from

the second part of the XX century to the beginning of the XXI century can be shown in the following way (table1).

Table 1. Evolution of role of international financial institutions in post-war renewal from the second part of the XX century to the beginning of the XXI century

№ 3/II	Characteristic	Cold war period		After cold war end	
		1945-1950s	1960-1990s	1990s	since 2000s
1	Emphasis in post-conflict renewal: - <i>political and legal system</i> - <i>economy</i> - <i>security and defense</i> - <i>social sphere</i>	+	+	+	+
2	Post-conflict countries	Germany, Japan, western European countries	South Korea, Vietnam, countries of Africa and Asia	Croatia, Serbia, Macedonia, Bosnia and Herzegovina	Georgia, Angola, Iraq, Near East countries
3	Level of economic development in post-conflict countries	high	low	middle	Low and middle
4	Key international financial institutions	WB Group <sup>1</sup>	WB Group, regionalFI <sup>3</sup>	WBGroup, IMF <sup>2</sup> , regionalFI	WBGroup, IMF, regionalFI

Note. 1. – World Bank Group, 2. –International Monetary Fund, 3. – regional financial institutions.

Reference: author's development is based on [10, 11, 17, 19]

To support the countries, which overcome the consequences of war conflicts, in addition to the already mentioned the World Bank Group and International Monetary Fund, regional financial institutions (established later) join (namely, the Islamic Development Bank, the International Bank of Economic Collaboration, the European Bank for Reconstruction and Development and others) and their influence is increasing around the world. It is necessary to mention that we did not pay any attention to the activity of the Bank of International Settlements because after the World War II the International Bank for Reconstruction and Development together with the International Monetary Fund began fulfilling a part of its functions.

Some researchers consider that [6, p 2; 14, p. 3] the most success in assisting the post-conflict renewal reached the World Bank Group, where the International Bank for Reconstruction and Development is a main body. The head of the Group Robert B. Zoellick emphasized on the understanding of a new meaning of the word “reconstruction” in the Bank name in the «World Development Report 2011: Conflict, Security, and Development» [24] – after overcoming the principal economic consequences of the World War II, the bank activity changed into assistance to promote the development, specially, of the biggest countries, and was concentrated on the infrastructure objects (high roads, electricity transmission networks, etc.); only after the American and Soviet opposition was over in the 90s of the previous century, the post-conflict renewal returned the lost priority for the World Bank Group.

Generally, it is necessary to emphasize that the activity of international financial institutions has to be oriented not only in the financial support of post-conflict countries, by the way, nowadays, its expediency arouses doubts (in particular, in the work of Angus Deaton, a Nobel Prizewinner in economics in 2015 [9, p. 306] and the doctor dissertation of Maliha Chishti «Post-conflict Afghanistan: a post-colonial critique» [8, p. 100]). Information and consulting services, active analytical and research work, and educational projects are also significant.

Another problem is the essential debt load of post-conflict countries, which was formed, mainly, because of, so called, «odious debt», it is the term used for the description of state debt obligations received and used by the previous regime not for public purposes, but for its own interests [23]. For example, in 2004 it was necessary to spend the fourth part of all the state incomes for servicing 12 billion US dollars of debt for Mobutu's regime in the Democratic Republic of Congo [6, c. 15].

Historical experience shows the existence of refusal precedents to pay off such debts – in 1844 the USA for the debts of the Independent Republic of Taxes after its joining the federation, in 1918 Bolsheviks for the obligations of tsar's Russia, in 1922 Costa Rica and in 2003 Iraq - for the previous management [12]. The proposals were also advanced to recognize V. F. Yanukovich's

government obligations of 3 billion USD dollars before Russia as such debts [3; 15; 16], at the same time, other creditors of Ukraine and the state obligations different from credits are usually avoided.

Besides, the criticism of the World Bank Group and IMF [20; 21; 22] is connected with the negative impact supported by last projects on environment, the priority of the support of the fields, which are the most interesting for foreign, not national investors, intrusion in inner policy, contribution for corruption in low-developed countries, and also neglecting historical, social, and other peculiarities of economy.

As for the previous position, we see the partial solution of the present problem in the activity of regional financial institutions, which began appearing in the 60s of the last century as a result of strengthening collaboration between the countries with common religious and cultural traditions and increasing the role of developing countries in the world economy.

Taking into account the specificity of organization of regional financial relations we consider the Islamic Development Bank to be the brightest example of such institutions; it was established in 1975 “to promote the economic growth and social progress in Muslim countries” [1], including non-members of the bank, due to financing the various projects according to the bases of Islamic right where the borrowed interest payment is prohibited, the united share in the distribution of profits and risks as well as the ethnicity in the use of financial resources in accordance with the Sharia regulations are provided.

After the cold was over, regional financial institutions extended the geography of their activity. So, the Central Asian countries of the former USSR became the members of the Islamic Development Bank, in particular, during 1997 – 2001 the Republic of Tadjhikistan received over 52 million USA dollars of credits and technical aid necessary for renewal their economy after the civil war end [2, p. 174].

James K. Boyce says [6, p. 9] that the significant contribution to the overcoming of the consequences of the war actions in Guatemala and El Salvador was made by the Inter-American Bank for Development, the Asian Bank for Development contributed to Cambodia and Afghanistan, the European Bank for Reconstruction and Development did it to the Balkan countries. At the same time the principal documents of regional financial institutions do not cover their exact approach to post-conflict situations. Thus, we consider as perspective the appearance of new organizational structures and instruments for supporting the countries suffered from armed conflicts as well as the scientific grounds of such offers.

Generally, the conflict of interests at interaction of post-conflict countries with the World Bank Group, the IMF and other institutions is like a fundamental problem of the theory of plays called «Prisoner's dilemma», which was formulated in the 50s of the previous century by Merrill Flood and Melvin Dresher [13].

In this case the «players» are international financial institutions and the management of the post-conflict country, which have the common task to overcome the consequences of war operations and strengthen peace due to mutually beneficial measures in this field and every player can choose either an active or a passive strategy.

Let us estimate the priority of the possible interaction options for every player from 1 (the best) to 4 (the worst) (fig.1).

		<b>Mobilization of inner resources by country management</b>	
		<i>Active</i>	<i>Passive</i>
<b>Support of international financial institutions</b>	<i>Active</i>	2 2	1 4
	<i>Passive</i>	4 1	3 3

*Fig. 1. Matrix of interaction of international financial institutions and country management*

*Note. Event assessment by country management is showed above the diagonal, event assessment by international institutions is showed under the diagonal.*

So, for international financial institutions, which activity is determined, mainly, by interests of international donors, the best (grade 1) option is when a recipient country uses the mobilization of its own resources and provided outside support will be minimal (lower left angle), this will allow to direct

money to help other countries, to fight with poverty and other statutory goals. The worst scenario (grade 1) will be observed if the suffered country is actively supported and when its management chooses the passive participation in the mobilization of inner resources (upper right angle).

These events will have opposite grades for the country management as the last option will be the best one (grade 1) that will allow to leave unused reserve and finance the future projects, which are far from international donors' interests, particularly, in the field of national security and defense strengthening (for example, the start or renewal of own nuclear program) or innovation progress in separate branches of economy (for example, own technologies, the production and sale of new generation vaccines). The situation will differ dramatically (grade 4), when the country management mobilizes its own resources and does not receive the expected active support from international financial institutions.

Simultaneously, if the players agree to take into account in their actions the interests of an opposite party, then the active support of international financial institutions combined with the active mobilization of own resources by country management (upper left angle) is optimal (grade 2 for both) for the both players. The worse will be the option (grade 3 for both), when the players choose the passive strategy that will mean the slowness of measures for post-conflict renewal (lower right angle).

The content of dilemma is to choose between the active (the grade of possible events is 2 and 4) or passive strategy (the grade of possible events is 1 and 3) without knowing what exact decision was made by the opposite party. On the assumption that the players will try to minimize their own losses, then they will choose the passive strategies (right lower angle), but this can happen only in a classical «dilemma of an imprisoned».

At the same time, according to the further researches of the current issue was found out that in a case of the play repetition and information accumulation about the previous actions of the opposite party («iterated prisoner's dilemma» [4, p. 57], the players will be ready for mutually beneficial collaboration in a long-run perspective. This provides us with the reasons to presume that the increase in the quantity of such «playing» operations will cause the situation when international financial institutions and country management will be much completely ready to choose the active strategy for their actions. But at the same time, it is necessary to find out how to reach this.

**Conclusions.** Generally the support of international financial institutions appeared to be very necessary for carrying out successful post-conflict transformations in Croatia, Macedonia, Liberia and other countries, at the same time the impact of these institutions on the post-conflict renewal for overcoming the consequences of war actions is not always positive because it can deepen the problems in the sphere of debtor's security, ensuring the country real sovereignty, taking into account the national specificity of economic relations, etc.

Considering the importance of optimal use of not only external, but also internal financial resources of the country it is perspective to examine the mechanism of the influence of international financial institutions on the development of state financial potential in a post-conflict period.

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