

# COOPERATION OF UKRAINE WITH INTERNATIONAL FINANCIAL AND CREDIT ORGANIZATIONS: CURRENT STATUS AND EXPANSION PROSPECTS

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**Abstract.** The article analyzes the state of Ukraine's cooperation with leading international financial organizations, paying special attention to such organizations as the International Monetary Fund, the European Bank for Reconstruction and Development, the World Bank, the International Bank for Reconstruction and Development and the International Development Association. The article identifies the advantages and disadvantages of cooperation with the IMF. The investment and credit activity of IFRS in Ukraine is analyzed. The influence of IFRS on the economic development of the country has been studied. The features of Ukraine's cooperation with the European Bank for Reconstruction and Development are revealed. The most relevant joint projects of the World Bank and the Government of Ukraine are given. *The subject* of the study is theoretical and practical issues related to the role of international financial organizations in financing the state development of the country. *The purpose* of the article is to open to identify the impact of international financial and credit institutions on financing the social development of Ukraine. *research methods.* *The work* uses a combination of general scientific and specific methods and approaches, such as dialectics, consistency, the method of scientific abstraction, comparative and factor analysis, and the logical approach. *Work results.* The role and significance of the IFC as an important source of external financial resources are disclosed. Scientific approaches to the use of international financial assistance and ensuring economic development in conditions of financial imbalances are summarized. It is shown that the experience of international financial organizations and their recommendations make it possible to take into account global and regional trends and processes, risks and problems in the financial environment. This is important for shaping the financial policy of sovereign states and improving the formats of their cooperation in the international arena. *Findings.* Financial cooperation with international institutions is a powerful source and an effective tool for the development of the national economy. The resources of international financial institutions are used to implement programs aimed at market reform, ensuring the stability of the national currency, solving socio-economic problems, economic growth, financing the state budget deficit and balancing the balance of payments. But financial debt to these institutions makes the country's economy vulnerable and dependent on foreign creditors. Now, when Ukraine is in a state of crisis, the issue of finding resources in the external market needs an urgent solution. Of particular relevance is the search for ways to expand international financial cooperation of Ukraine, which is associated with the need to provide the national economy with the necessary amount of financial resources due to a lack of funds in the Ukrainian market. A sovereign country has advantages in obtaining external official financial resources in comparison with other economic entities, which are determined by the trust in the sovereign state. This means support in the international arena and better conditions for receiving financial assistance. Additional financial resources as part of external official assistance allow the introduction of the latest technologies and financing mechanisms of the IFC, which improves the best management of financial resources and increases the efficiency of their use.

**Key words:** International credit and financial organizations, IMF, EBRD, World Bank Group, IBRD, IFC, GODS, Ukrainian economy, investments.

**JEL Classification:** F34, G15, H81, P33

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## 1. Introduction

International organizations are an effective regulator of international relations in the economic sphere. Their importance as institutional units of the international economy is growing. Financial cooperation with international institutions is a powerful source and an effective tool for the development of the national economy. The resources of international financial institutions are used to implement programs aimed at market reform, ensuring the stability of the national currency, solving socio-economic problems, economic growth, financing the state budget deficit and balancing the balance of payments. But financial debt to these institutions makes the country's economy vulnerable, dependent on foreign creditors.

Ukraine, as a country with a transitive economy, today is most vulnerable to market conditions, which have developed under pressure not only from economic factors, but also from political processes. The significant economic potential of the country today is partially realized precisely through close cooperation with international financial organizations in many areas.

Modern globalization contributes to the openness of the economies of countries, activates their foreign economic relations. Ukraine is implementing its strategy of integration into the global economic space. One of the important measures in this direction, which it is implementing, is the formation of cooperation with various international organizations, including financial ones, since they play an important role both in regulating the world economy and in promoting the economic development of individual countries of the world. Therefore, the issue of relations between Ukraine and international financial organizations is relevant, the study of which is of significant scientific and practical interest.

## 2. Literature analysis

Given the importance of Ukraine's integration into the world economic space and its relations, a number of scholars have studied it with international financial organizations in these circumstances. For example, P. Kutsik, A. Kovtun, G. Bashnyanin, V. Shevchuk analyzed the problems and prospects of integration of the Ukrainian economy into the global economy. N.M. Halazyuk, O.M. Zelinskaya, O.A. Urban considered the modern features of integration into the world economic space. T. Melnyk studied the realities and prospects of development of the foreign economic sector of Ukraine. V.P. Kolosova studied the theoretical aspects of the influence of international financial organizations on the economic development of the country, and together with I.M. Ivanova studied Ukraine's cooperation with international financial organizations. N.E. Skorobogotova and N.M. Balev

considered the possibility of improving the mechanism of financial cooperation between Ukraine and the EU. A.V. Bohan and A.G. Tsybulyak analyzed the environmental aspect of cooperation with international organizations. Scholars have considered certain aspects of Ukraine's foreign economic activity and its relations with international organizations, including financial ones. But a comprehensive analysis of cooperation Ukraine with international financial organizations, its importance for the integration of the state into the world economy and the impact on the national economy in the context of modern globalization have not received sufficient coverage in the scientific literature.

## 3. Object, subject, and methods of research

**The object** of the study is international financial organizations, primarily universal IFIs, namely the IMF and the World Bank, as well as regional IFIs.

**The subject** of the research is the place and activities of MFIs in the global financial architecture, as well as their role in the socio-economic transformation of the countries of the world and the regulation of the international financial system.

### Research methods:

- theoretical – analysis of scientific literature on research issues, systematization, classification, generalization, synthesis, inductive and deductive methods of research;
- empirical – analysis of individual regulatory documents, analysis of reporting of individual international financial institutions;
- mathematical and statistical for the analysis of numerical data on the activities of relevant organizations;
- graphical for presenting analysis data, etc.

## 4. Results

The modern economy is becoming increasingly global. Its functioning requires an appropriate financial system, which contributed to the emergence of international financial organizations.

Ukraine, integrating into the world economy, began to build relations with international organizations, primarily financial ones, in order to ensure equal participation in international integration processes through the effective attraction and use of credit resources, the creation of conditions for sustainable economic growth and the formation of a modern market economy (Kolosova, 2016).

Having become a member of the International Monetary Fund (IMF) in 1992, Ukraine joined the structure of the World Bank (which includes the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation,

the Multilateral Investment Guarantee Agency, the International Center for the Settlement of Investment Disputes) (Kolossova, Ivanova, 2014).

Among the joint projects with the International Bank for Reconstruction and Development (IBRD) are:

- development of urban infrastructure (loan amount – 140 million USD);
- transmission of electricity (loan amount – 200 million US dollars);
- rehabilitation of hydroelectric power plants (loan amount – 166 million US dollars);
- energy efficiency project (loan amount – 200 million USD);
- improvement of roads and traffic safety (two projects) (total loan amount – 850 million US dollars) (Kolossova, Ivanova, 2014).

The European integration strategy contributed to the establishment of cooperation with European financial institutions. The structure of the EU includes: The European Bank for Reconstruction and Development (EBRD), which is part of the leading international financial institutions with a high credit rating – AAA; European Central Bank (ECB), European Investment Bank (EIB), European Investment Fund. According to the Ministry of Finance of Ukraine, as of January 1, 2014, the EBRD portfolio in our country consisted of 337 projects with a total funding of 8.7 billion euros. The sectoral structure of the EBRD loan portfolio in the public sector of the economy was as follows: 50% – to finance projects for the development of transport infrastructure, 39% – to support projects in the energy sector, 8% – in the financial sector, 2% – for communications, 1% – for municipal development (Skorobogatova, 2016).

In general, the European Union and its member institutions are Ukraine's most important financial donors. Since 1991, the amount of EU financial assistance to Ukraine has been increasing every year. In early 2014, the European Commission adopted a financial assistance package for Ukraine, within which it can receive up to 12 billion euros by 2020. It includes grants from the European budget (up to 1.57 billion euros), macro-financial assistance (1,61 billion euros), as well as loans from the European Investment Bank (EIB, up to 3 billion euros) and the European Bank for Reconstruction and Development (EBRD, up to 5 billion euros). In 2015, the package was increased by another 1.8 billion euros of macro-financial assistance (Skorobogatova, 2016).

Relevant for Ukraine is the joint implementation of projects with the EU in the field of radiation safety, which combines the modernization of the sarcophagus with the help of the EBRD, the Shelter Fund and the Nuclear Safety Fund and the creation of the Chernobyl Biosphere Reserve, the development of projects for the construction of storage facilities for radioactive waste (Bohan, 2016).

Active cooperation with the International Monetary Fund should also be noted. According to available data, as a result of cooperation with the IMF within the framework of credit programs during 1994–2002. Ukraine received 4289.1 million dollars USA, for 2008–2013 – 14430 million dollars USA. In April 2014, the IMF approved the stand-by program, according to which Ukraine was to receive \$17.1 million over the next two years USA (Kolossova, 2016).

The main goals of cooperation with the IMF are the stabilization of the financial system of Ukraine, the implementation of structural reforms and the creation of a basis for sustainable economic growth. The IHN is helping Ukraine to restore its own financial viability by suggesting how to most effectively implement the reform program.

In addition, interaction with the IMF at the present stage opens up opportunities for attracting funding from other IFIs (IB, EBRD, EIB and others) and governments of other states, including the USA, EU, Germany, Canada, Japan, etc.

The main tasks of providing financial assistance to the IMF at present are (Skorobogatova, 2016):

- ensuring stability and confidence in the financial sector by stabilizing the banking system through a balanced provision of the NBU on collateral and a clear monitoring of the state of banks' liquidity; improving the efficiency of the regulatory and supervisory framework, modernizing and implementing the bank resolution strategy due to a decrease in the amount of lending to related parties; recapitalization and resolution of banks; strengthening the system of corporate governance and financial performance in the DGF and state banks; (improvement of the existing system for the solution;
- formation of an effective monetary policy to stabilize the hryvnia, reduce inflation, fill gold and foreign exchange reserves;
- increasing the level of stability of public finances and reducing державних spending on the regulation of public debt;
- carrying out the reform of social assistance programs and additional financial resources to finance the relevant programs;
- reforming the energy sector, in particular the reform "Naftogaz" to reduce the level of its deficit and the introduction of additional programs in order to generate sufficient income streams;
- deepening structural reforms, focused on a radical restructuring in the field of public administration and combating corruption, improving the business climate and reforming state-owned enterprises.

As follows from the above data, Ukraine is gradually increasing the amount of financial resources received from the IMF. This applies to both individual tranches and the total amount of funds received.

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The data characterizing the volumes of funds received by Ukraine from the IMF are presented in Table 1.

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The current extended financing mechanism is aimed at increasing the level of NBU reserves, preventing capital outflow, strengthening government measures aimed at stabilizing the state's balance of payments, and helping the state overcome structural problems in its economy through the implementation of appropriate reforms.

Thus, the receipt of this tranche made it possible to immediately double the reserves (from about 5 to 10 billion US dollars). \$1.7 billion The US of the second tranche, received in August 2015, was all used to replenish the reserves of the NBU, which helped to increase stability in the country's foreign exchange market.

In October 2018, the IMF and Ukraine reached an agreement on a new 14-month stand-by policy support program to replace the extended financing program that was due to end in March 2019.

Table 1

**Volumes of lending to Ukraine by the International Monetary Fund**

| Period    | Amount approved, million SDR | Amount disbursed, million SDR |
|-----------|------------------------------|-------------------------------|
| 1996–1997 | 997,3                        | 538,65                        |
| 1997–1998 | 598,20                       | 598,20                        |
| 1998–1999 | 398,92                       | 181,33                        |
| 1999–2002 | 1919,95                      | 1193,00                       |
| 2004–2005 | 411,60                       | 0,00                          |
| 2008–2010 | 11000,00                     | 4000,00                       |
| 2010–2012 | 10000,00                     | 2250,00                       |
| 2014–2016 | 10976                        | 3014,7                        |
| 2015–2020 | 12348,00                     | 3546                          |

At present, due to certain political changes in our country, the provision of the following tranches is still suspended. The IMF is still monitoring Ukraine to establish the possibilities and features of further lending to the country. The corresponding IMF mission

worked in Ukraine in early autumn 2020. However, so far there are no specific agreements between the government of Ukraine and the IMF on further cooperation.

For the entire period of interaction, Ukraine received about 27.8 billion dollars from the IMF USA (Bohan, 2016).

According to the World Bank classification, Ukraine belongs to the category of countries with a lower middle income level, so the maturity of loans is up to 20 years with a grace period of 5 years. Interest on the loan is paid at a floating rate and is about 6.5% per annum.

The Security Council cooperates not only with governmental structures, but also with non-governmental organizations, multilateral institutions and donors. The WB offers flexible schemes for granting loans for joint projects with the government. The participation of donors and non-governmental organizations in the projects of Ukraine and the World Bank is one of the main success factors. In addition, for the development of projects in Ukraine, the Security Council attracts grant resources in the form of technical assistance on a non-reimbursable basis, and also assists the government of Ukraine in the development and implementation of economic reforms through consulting, conducting joint economic studies and approving loans for reforms (Melnyk, 2016).

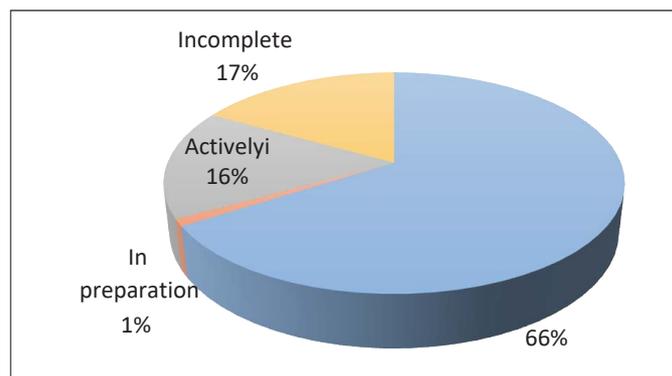
Over the entire period of cooperation, the World Bank has approved 50 loans for Ukraine with a total volume of 10.1 billion dollars. USA, of which 7.4 billion dollars were received USA. The vast majority of these financial resources were loans for structural adjustment and reform of the financial sector and further development of the banking system.

Currently, 12 projects are being implemented, the purpose of which is the modernization of infrastructure, in particular hydroelectric power plants, electricity transmission, urban infrastructure development, improvement of roads and traffic safety, energy efficiency, incl. in the district heating sector, the development of urban infrastructure, the modernization of the system of social support for the population of Ukraine, and the improvement of healthcare.

For 28 years of cooperation, the World Bank has offered Ukraine funds totaling more than 7.94 billion dollars USA (of which more than 5.5 billion US dollars have already been used).

The state of implementation of the World Bank projects in Ukraine is shown in Figure 1.

Ukraine became a member of the IBRD in 1992 in accordance with the Law of Ukraine dated 03.06.92 – 2402-XII "On joining the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation,



**Figure 1. Status of implementation of World Bank projects in Ukraine, for all years**

the International Development Association and the Multilateral Investment Guarantee Agency" (Kutzyk, Kovtun, Bashnyanyn, Shevchuk, 2017).

The purpose of this Concept is to promote sustainable and comprehensive recovery of the Ukrainian economy. According to the Concept, the areas of strategic partnership between Ukraine and the World Bank in 2017–2021 are (Melnyk, 2016):

- public finance management and reforming the public administration system;
- anti-corruption activities;
- managing fiscal risks and improving public investment management;
- strengthening the financial sector;
- improvement of infrastructure;
- formation of a system of equal partnership in the private sector;
- land reform;
- health care reform;
- privatization;
- effective, efficient and integrated service delivery;
- social help;
- targeted assistance to conflict-affected communities.

The main projects in the state and municipal sectors of Ukraine, which are currently planned for EBRD financing (Kutzyk, Kovtun, Bashnyanyn, Shevchuk, 2017):

- construction of the Pan-European Corridor provided for Ukravtodor (with corresponding parallel financing from the EIB);
- expansion of the Trade Facilitation Program (Trade Facilitation Programme), which enables Ukrainian banks to confirm through the EBRD relevant trade documentary instruments;
- modernization of gas compressor stations on the Urengoy-Pomary-Uzhgorod pipeline (with parallel provision of finance from the EIB);
- a number of projects in the field of utilities and energy saving in accordance with the program of the Eastern European Partnership for Environmental Energy Efficiency ("Eastern Europe Energy Efficiency

and Environment Partnership – ESP"). It should be noted that the EBRD finances both public and private projects. The structure of the investment portfolio according to the corresponding criterion is shown in Figure 2.

It should be noted that the EBRD finances both public and private projects. The structure of the investment portfolio according to the corresponding criterion is shown in Figure 2. As you can see, in the process of Ukraine's cooperation with IFIs, a lot of different options for projects were implemented, both at the national level, as well as individual regional projects or projects to support individual production processes. from three groups: projects of macroeconomic stabilization of the economy and structural reforms in certain sectors (systemic projects).

On Figure 3 the structure of EBRD loans by sectors of the economy is presented.

Therefore, it can be concluded that Ukraine also cooperates closely with individual IFIs, in particular with the IMF, IBRD and EBRD. This cooperation began in 1992 and continues to this day. Thus, in the process of cooperation with the IMF, Ukraine has received more than 30 billion dollars in 28 years US financial aid.

Also, in accordance with the recommendations of the IMF, Ukraine was forced to carry out certain economic reforms, which to a certain extent contributed to the development of the economy of our country. Ukraine also actively cooperates with the IBRD and the EBRD, which are implementing certain projects in Ukraine, such as supporting the agricultural sector, developing the energy sector, etc. Over the years of Ukraine's independence, about a hundred such projects have been implemented, which also favorably contributed to the development of our country.

## 5. Conclusions and offers

So, in the process of its integration into the world economic space, Ukraine demonstrates active cooperation with international financial organizations.

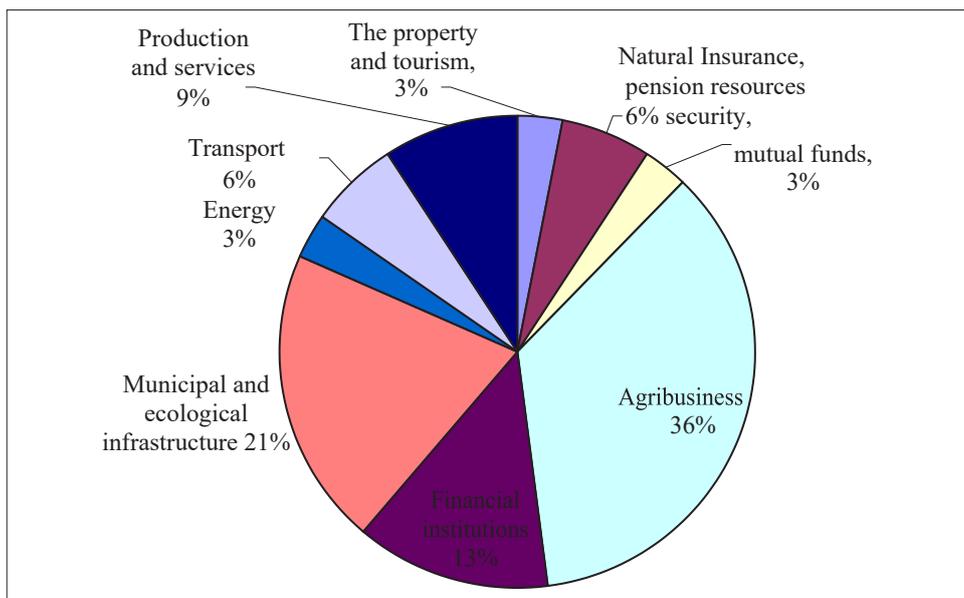


Figure 2. Structure of the EBRD loan portfolio by types of persons (%)

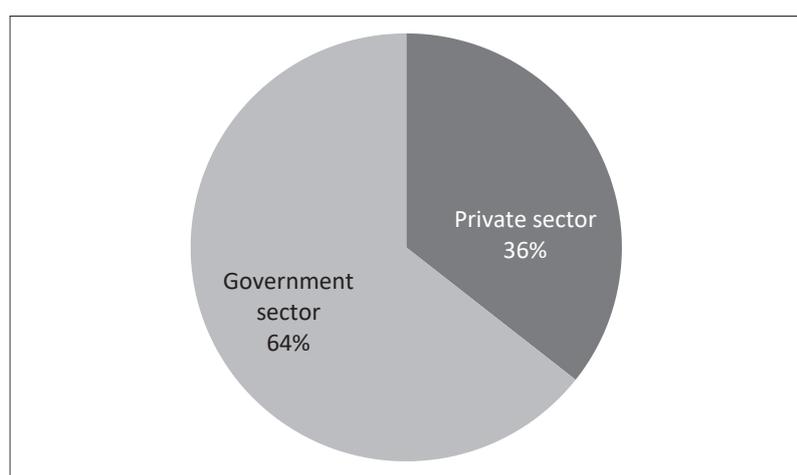


Figure 3. Structure of the EBRD loan portfolio in Ukraine by sectors of the economy (%)

But the practice of this cooperation testifies to the presence of negative and positive sides.

The main problems arising in the financial cooperation of Ukraine with the EU and other international organizations include:

- 1) inefficient activity of the apparatus of employees and specialists involved in the process of developing and implementing projects of international financial transactions; excessive bureaucracy in the preparation of a loan application, which leads to an increase in the time for loan approval by international financial institutions;
- 2) non-transparency of work with the funds of international organizations;
- 3) insufficient support for small and medium-sized businesses, both at the legislative level and in terms of real money programs;

4) the slow pace of implementation of reforms led to the need to borrow funds from the IMF, the EU, and others, which led to an extremely high level of debt, which in 2015 amounted to 79.4% of GDP. Today, this debt to international organizations is constantly growing.

But at the same time, there are factors that demonstrate a positive trend in cooperation between Ukraine and international financial organizations:

- 1) the very fact of relations with international organizations is an important step towards its integration into the world economic space;
- 2) membership of Ukraine in international organizations increase its authority as a subject of the world economy, spread economic relations. For example, membership in the IMF contributed to the entry of Ukraine into the structure the World Bank;

3) the activities of international organizations are aimed at supporting structural reforms in the economy of Ukraine; improving the efficiency of the state economy.

Consequently, cooperation with international financial organizations contributes to the solution of many financial, economic and social problems in Ukraine. In addition, it testifies to the desire of Ukraine to integrate into the world economy and helps to take significant steps in this direction. The goal of the policy of cooperation with international financial organizations should be to ensure equal participation in international integration processes through the effective attraction and use of credit resources, the

creation of conditions for sustainable economic growth and the formation of a modern market economy.

In order to increase the level of Ukraine's cooperation with international financial organizations and its return to the national economy, it is advisable to develop projects for international financial transactions with a specifically defined, most effective direction of funds; and having received these funds, strictly control their use. This will make it possible to carry out a structural reform of the Ukrainian economy, promote its innovative development, and as a result, increase the competitiveness of the national economy, which will help it successfully integrate into the global economic space.

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