EU-STRAT

The EU and Eastern Partnership Countries
An Inside-Out Analysis and Strategic Assessment

Strategies and Approaches of International Financial Institutions towards Eastern Partnership Countries

Ramūnas Vilpišauskas

No. 14 | January 2019

WORKING PAPER SERIES

EU-STRAT Working Paper Series

Edited by the EU-STRAT Project '*The EU and Eastern Partnership Countries – An Inside-Out Analysis and Strategic Assessment'* (EU-STRAT)

The EU-STRAT Working Paper Series serves to disseminate the research results of the research consortium by making them available to a broader public. It means to create new and strengthen existing links within and between the academic and the policy world on matters relating to the current and future enlargement of the EU.

All EU-STRAT Working Papers are available on the EU-STRAT website at http://eu-strat.eu.

Editorial assistance and production: Hannah Fabri, Max Schneider, Elyssa Shea

Ramūnas Vilpišauskas: Strategies and Approaches of International Financial Institutions towards Eastern Partnership Countries, EU-STRAT Working Paper No. 14, January 2019, 'The EU and Eastern Partnership Countries – An Inside-Out Analysis and Strategic Assessment' (EU-STRAT).

ISSN (2510-084X)
This publication has been funded by the European Union under the Horizon 2020 research and innovation programme.

Freie Universität Berlin
EU-STRAT
'The EU and Eastern Partnership Countries -
An Inside-Out Analysis and
Strategic Assessment'
Ihnestr. 22
14195 Berlin
Germany
Phone: +49 30 838 57656
Fax: +49 30 838 55049
eustrat@zedat.fu-berlin.de
http://eu-strat.eu

This project has received funding from the European Union's Horizon 2020 research and innovative programme under grant agreement no. 693382.

Strategies and Approaches of International Financial Institutions towards Eastern Partnership Countries

Ramūnas Vilpišauskas

Abstract

The paper focuses on the strategies and approaches of the main international financial institutions (IFIs) – the International Monetary Fund and the World Bank – towards reforms in the Eastern Partnership (EaP) countries, namely, Belarus, Moldova and Ukraine. It assesses the main principles, goals, policy instruments, conditionalities and the target groups of these IFIs in their interaction with the authorities of the three countries and the implementation of country support programs. The two core questions that guide the analysis are, first, the role of IFIs in supporting economic and institutional reforms, which aim at transforming limited access orders into open access orders, and, second, these IFIs' interaction with other external actors, such as the European Union, that are present in the EaP countries. In addition to the traditional advice on fiscal consolidation and structural reforms, the IFIs have been focused on banking and energy reforms, as rent-seeking and corruption were especially wide-spread in these sectors. Increasing focus on policies aimed at reducing corruption, in particular in the case of Ukraine, is among the most notable features of the IFIs' operation in those countries. However, such measures often risked being implemented only 'on paper', especially after the financial pressure on the ruling elite in recipient countries decreased. The attempts to broaden the political and societal support for agreed policy reforms have become another exceptional element of the support strategy practiced by the IFIs in the EaP countries, in particular in Ukraine. In the latter case, the negotiated arrangements were discussed not only with key figures from the ruling elite and responsible institutions but also with the opposition, societal activists and other important stakeholders. Despite attempts at broadening reform ownership and coordination with other external donors, the actual effects of the IFIs' strategies on transition reforms have been limited, as evidenced by a history of half-implemented and sometimes reversed policy measures.

The Author

Prof. dr. Ramūnas Vilpišauskas is director of and a professor at the Institute of International Relations and Political Science, Vilnius University (since 2009). In 2004-2009 he worked as a Chief Economic Policy Advisor to the President of Lithuania Valdas Adamkus. He advised the Lithuanian government on EU accession related issues in 1999-2002, and has more recently advised institutions of Eastern neighbourhood countries, such as Georgia, on international trade and domestic reforms. His main research interests include the political economy of European integration, analysis of public sector reform, and international political economy. He was a visiting fellow at Syracuse University, a Fulbright scholar at Columbia University, and conducted research at the European University Institute in Florence.

Contents

1. Introduction[1]

There are a number of international financial institutions (IFIs) active in the Eastern Partnership (EaP) countries. Some are multilateral organizations such as the International Monetary Fund (IMF) and the World Bank (WB), others are regional (European) institutions such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). This paper focuses on the strategies and approaches of the IMF and the WB since they, particularly the former, have been prominent providers of financial and technical support, often coordinating their activities among themselves and with the European Union (EU) and European financial institutions, and have also been watched for country assessments by financial markets and investors active in those countries. In particular, during the initial years of transition reforms in 1990s, the IMF and the WB were seen as "the leading international organizations assisting countries in their actual transition" (Aslund 2013: 153).

The main hypothesis of this paper is that the IFIs have been consistent external supporters of reforms aimed at macro-stabilization (assistance in dealing with balance of payments difficulties, which is the main criteria for the involvement of the IMF), opening the economic environment to competition, and transforming previously restrictive institutions. These institutions, which had benefited ruling elites and allowed rent-seeking, were transformed into open access impersonal institutions based on the rule of law, protection of property rights, open competition and wider diffusion of economic gains. As has been argued by North et al. (2009: 23), "impersonal markets and exchange … are features of open access societies".

This focus on competitive markets and open trade policy reflects a decades long consensus among advisers and technocrats of economic and institutional reforms. Such consensus has been summarized in a classical volume on political economy of reforms as "stabilization where needed, liberalization and opening up everywhere – irrespective of whether a country might in the past have been classified as an industrial country, whether it had been part of the socialist bloc, or whether it had been poor in the mid-1950s when the world was declared divided into three" (Bergsten and Williamson 1994: 4). Research into the operation of the IMF has also shown the importance that it has traditionally attached to the opening of external trade measures as conditions for country support programs (see Wei and Zhang 2006). After several financial crises in recent decades, especially the Asian financial crisis in 1998 and the global financial crisis of 2008, the dominant ideas in the IFIs evolved towards a more cautious approach regarding the liberalization of the capital account. The approach has moved towards more emphasis being given to the regulation and quality of institutions supervising financial markets, as well as to the redistributive effects of competition, anticyclical policies and a more active role for the state in dealing with social issues. The consensus on the importance of open economy and need for market based restructuring has remained relatively strong.

The work of North et al. (2009) maintains that different social orders – limited access orders (LAOs) and open access orders (OAOs) – operate on the basis of different logic and in different institutional contexts, and this has important implications for the prospects of transition from one type of the social order into another. Nevertheless, they still see easy entry conditions and competition as the main features of the OAO and, one can argue, as the goals of economic and institutional reforms. The reduction of barriers to foreign trade and

[1] The author is grateful to Esther Ademmer, Rimtautas Bartkus, Marijus Bernatavičius, Klaudijus Maniokas, Aušra Rauličkytė, Elyssa Shea, Marius Vismantas, Hannah Fabri, and Max Schneider for their comments and suggestions. The usual disclaimer applies.

investments as well as streamlining domestic regulations to reduce administrative barriers, which make market entry costly and create opportunities for rent-creation, have traditionally formed the backbone of the support programs advocated by the IMF and the WB. These IFIs have thus sometimes been described as “champions of globalization and economic liberalization” (Broome 2014: 67).

It should be noted that the paper does not discuss the general issues related to the functions of IFIs, their role in the international system, interaction with sovereign countries, or controversies surrounding the policy ideas that they promote and the effects they have (for those general debates see, for example, Broome 2014: 62-79). The analysis is guided by examining, first, the role of IFIs in supporting economic and institutional reforms, which aim at transforming LAOs into OAOs, and, second, the IFIs’ interactions with other external actors that are present in the EaP countries. This comparative study contributes to the literature on the political economy of reforms and the role of external actors by examining approaches and strategies of the IMF and the WB in the EaP countries. In contrast to the thinking prevailing in the literature on economic development and the role of IFIs, which has often seen the IFIs as important instruments of the US and other Western countries in transforming recipient countries, this study exposes the limits of the influence of those external actors. The limits become evident when domestic ruling elites in the recipient countries are reluctant to proceed with reforms that might threaten their rent-accumulation and power positions. By focusing on a series of half implemented agreements between the IFIs and EaP countries, the analysis also shows how the focus of these agreements and the conditionalities within them have evolved. This evolution occurred with the growing attention that the IFIs have given to governance issues, in particular to the reduction of opportunities for corruption and rent-seeking. It was the IFIs’ relations with Ukraine that led to growing acknowledgement of the need to not only improve the capacities of recipient institutions, but to acknowledge the presence of large scale corruption practices. These practices severely impaired the incentives to transform the societal order and open it up to competition and transparent transactions. This experience extended beyond the relationship with just one singular country and had broader effects on the IFIs’ operations in their member countries.

The role of the IFIs and their interactions with other external actors is addressed below by discussing the main elements of the strategies of the IMF and the WB in three EaP countries – Belarus, Moldova and Ukraine. Although all three countries became members of those IFIs in 1992, the degree and the nature of their involvement differed depending on the domestic political and economic situation as well as on the influence of other external actors.

Belarus has had the most limited record of transition reforms, while Moldova and Ukraine are characterized as gradual reformers (Havrylyshyn et al. 2016: 7). In Belarus, two stand-by agreements (SBAs) were concluded with the IMF in the early-mid 1990s (in 1993 and 1995). However, since then the role of the IFIs was limited due to contradictions between conditions set by the IMF and national policy priorities of Belarus (Dobrinsky 2016). Cooperation with the WB has been somewhat more intense and focused on sectors such as health care, environment and infrastructure (Ibid.). Interest in cooperation with the IMF was revived when the country’s ruling elites turned for support in the face of external shocks in 2008 but after the economic situation improved many reforms discussed in the country assistance program were not implemented.

Moldova’s relationship with the IFIs has been relatively intense since 1993, when several agreements with the IMF were approved (Compensatory and Contingency Financing Facility, Systemic Transformation Facility and

Stand-By Arrangement). In the following years, another SBA (1995), an Extended Fund Facility (1996, 2010 and 2016) and a Poverty Reduction and Growth Facility (2000 and 2006) – from 2009 called Extended Credit Facility (2010 and 2016) – were agreed upon. Despite recommendations provided by the IMF, usually in coordination with the WB and other institutions like the EBRD, to accelerate the opening of the economy and structural changes, price liberalization, privatization and governance reforms, Moldova's authorities pursued gradual reforms during most of the time until 2010. These were often assessed by the IFIs as satisfactory, despite slippages (see, for example, IMF 2007a and IMF 2008). Some analysts and NGOs have criticized the Moldovan government's reform policies as formal changes without actual implementation of reforms in economic policy and judicial institutions "when they implied real political costs or jeopardized the dominant position and control over institutions" (Ghinea and Chirila 2010: 15). Despite periods of economic growth, such as from 2006 to 2008, Moldova remained one of the poorest countries in Europe with relatively high emigration, inefficient governance and pervasive corruption.

Ukraine, like Moldova, Armenia, Georgia and some other Commonwealth of Independent States (CIS) countries, followed the path of gradual transition reforms. It had a number of arrangements with the IMF, mostly SBAs, in 1994, 1995, 1996, 1997, 1998, 2004, 2008, 2010, 2014, 2015 and most recently in 2018. Most of those agreements were only partially implemented and only part of the loans were disbursed, as after the first few tranches were paid, it was routinely discovered that the country's authorities had failed to deliver reform commitments. By 2005, only three out of 13 reviews were completed on time and without waivers, and the programs were off-track more than 85 % of the time (IMF 2005). The early years of the WB engagement with Ukrainian authorities throughout 1990 were also characterized as "only partially effective" with disbursement ratios from the Country Assistance Program of 1996-99 being significantly lower than in other CIS countries, the resource cost in supervising programs and projects being 50 % higher than the regional average and many prepared projects not materializing at all (World Bank 2000: i).

This brief overview of the early involvement of the IFIs in those transition countries shows the limited effectiveness of country support programs, and, in the case of Belarus, the limited involvement of those institutions due to the relatively good economic conditions and divergent policy priorities of ruling elites. However, in the late 2000s all three countries experienced significant negative effects of global financial crisis and all three turned again to the IMF for assistance. Moreover, in Moldova and in Ukraine changes in ruling coalitions provided windows of opportunity to accelerate transition reforms by taking advantage of IFIs resources and policy advice. The paper therefore discusses in detail the IFI strategies that were adopted for each country and compares their main elements, focusing on concrete policy advice and conditions in terms of policy reforms that were set for the financial assistance to become available.

The paper is structured in such a way as to allow comparison of the key elements of the strategies of the IFIs towards selected EaP countries. It starts with an overview of the main principles and goals of IFIs generally and concretely towards those countries, before presenting the instruments and resources as well as actors in those countries with whom representatives of those institutions interact. The paper concludes by presenting the main findings on the IFIs' strategies towards Belarus, Moldova and Ukraine. It underlines the similarities and differences in terms of policies and sectoral focus in light of the hypothesis on the IFIs' support for these countries' transitions towards more open economies with greater competition and easier entry conditions.

2. Guiding Principles and Goals of the IMF and the WB

The IMF and the WB are both multilateral financial institutions established in the aftermath of World War II as part of the Bretton Woods international architecture to govern financial relations between its (initially Western world) members, seeking global monetary stability and fostering economic growth. The IMF has traditionally dealt mostly with the stability of exchange rates and international payments while the WB (formally a group of five organizations) focused on developmental policies, the reduction of poverty, and contributing to economic growth. Their membership extends to the absolute majority of the countries in the world (currently 189), just a few countries short of all United Nations members. In more than 70 years of operation, both institutions have gone through an evolution of their roles in response to the needs of their clients and to a changing international economic situation, in particular, different types of crises (for a long-term assessment of the evolution of the IMF and the WB, see Boughton 2004; Krueger 1997; Reinhart and Trebesch 2015).

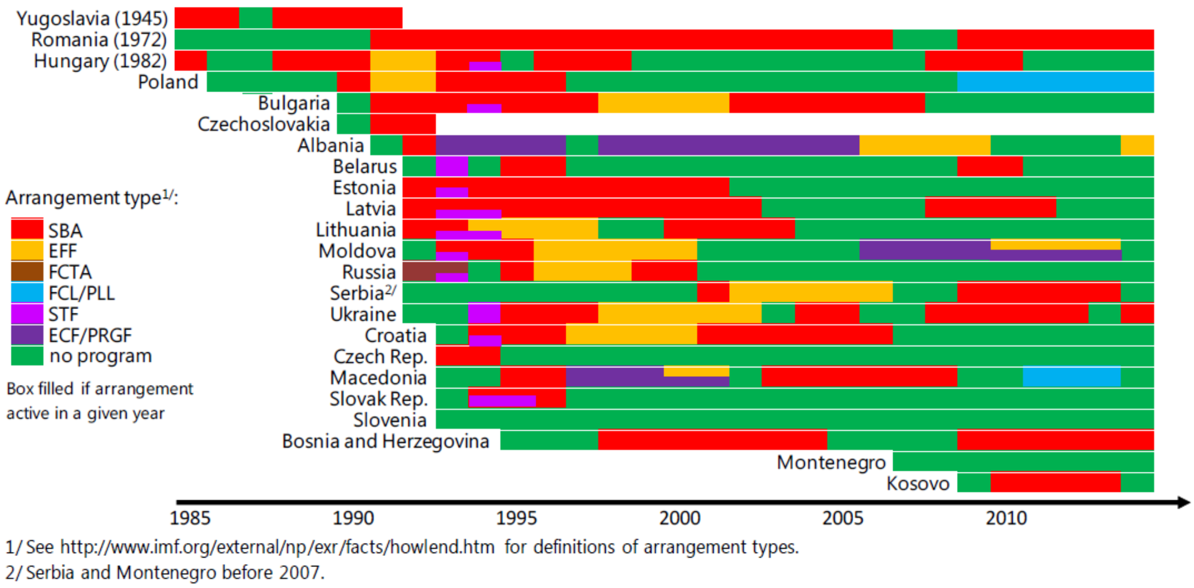
The rise of new economic powers, first of all China, in recent decades, has brought forth a debate on the relative weight of the United States (US) and other advanced economies inside of those IFIs, as compared to the underrepresented emerging markets. Criticism regarding the Western bias of the IMF and other multilateral institutions was mostly based on the argument that there is a mismatch between the growing share of emerging markets in the global economy, especially Asian, and their share of votes within those organizations (see Rachman 2017: 229-231). The IMF and other global institutions were also criticized by the then Russian President Dmitri Medvedev, who reportedly called them “discredited”, in 2008 (Forsberg and Haukkala 2016: 90). The criticism towards IFIs resulted in several revisions of the IMF in 2010, with quotas and voting shares going downwards for advanced economies. The latter still retain around 57 % of quota shares and voting shares (IMF 2018a).

The general mission of the IMF is to ensure the stability of the international monetary system by keeping track of the global economy and national economies, lending to countries with balance of payments difficulties, and giving technical assistance to its member states (IMF 2018). The two main goals of the WB include ending extreme poverty by 2030 by decreasing the percentage of people living on less than \$1,90 a day to no more than three per cent and fostering income growth of the bottom 40 % for every country (World Bank 2018). It provides low-interest loans, zero to low-interest credits and grants to developing countries to support investments in education, health care, public administration, infrastructure, financial and private sector development, agriculture, environment and natural resource management. Similarly to the IMF, it also offers economic policy advice, research and analysis as well as technical assistance. Indicators such as ‘Doing Business’ and ‘Quality of Governance’ are examples of analytical tools that help reforming countries to benchmark themselves against the others and track reform progress over time.

As was mentioned before, the IMF and the WB have been active in Central and Eastern Europe since the start of transition reforms in early 1990s, with most countries in the region becoming members around 1992 (see Diagram 1). The general goal of the IMF and the WB was to assist those countries in their transformation from centrally planned economies into the market economies and institutions that are characteristic to the Western OAO societies. The end of the Cold War and the start of transition reforms not only meant an increase in the membership of the IMF and the WB, they also reinforced their importance in terms of the demand for their services and the prospect that their policy prescriptions could be diffused more widely. The recognition of the demand for technical and financial assistance in the region is also reflected by the establishment of the EBRD, which became an important partner institution for the IMF and the WB.

However, soon the divergence of transformation trajectories emerged within this group of post-Communist countries. On the one hand, Central European countries, including the Baltic States, sustained reforms and used EU and NATO accession processes to consolidate them. On the other hand, Eastern European countries, belonging to the CIS, increasingly lagged behind (for a recent analysis of such a divergence see Hartwell (2016), who compares trajectories of transition reforms of Poland and Ukraine). In the late 1990s and early 2000s, the former group of countries exited most support programs of the IMF and the WB, maintaining channels of cooperation characteristic to members during normal times and regular meetings such as the IMF Article IV consultations. EU membership resulted in EU financial support becoming the main source of external funding for developmental needs. It was only after the global financial crisis in 2008 that some EU members in this region (i.e. Latvia, Hungary, Romania) again turned for the temporary financial assistance to the IMF.

Diagram 1. The timeline of IMF membership and programs



Source: IMF (2014a: 8).

Meanwhile, CIS countries were increasingly left behind in terms of most transition indicators ('lost in transition' as described by the EBRD in 2016). The absence of the credible external incentives, such as EU and NATO membership, has been used as a popular explanation for these divergences in transition trajectories ('the great divide' as it was called by some – see Sonin 2013). However, it is important to note another explanation of this 'development trap', one which points to the emergence of winners from initial reforms, especially privatization and inefficient political institutions, such as so-called oligarchs, who, rather than the populists elected by losers of transition, became the main force resisting further reforms. As argued by the IMF staff, reforms were stalled or only partially implemented due to the emergence and consolidation of rent-seeking elites, often representing former Soviet *nomenklatura* and bureaucratic veto players, strong enough to prevent implementation of reforms which could threaten their interests and dominant positions (Havrylyshyn and Odling-Smee 2000).

After discussing possible internal and external factors that could incentivize those with vested interests to support reforms, IMF analysts called for using every possible option to move Eastern European countries towards "fuller liberalization of markets, greater competition, and the removal of privileges like tax exemptions or rent-creating government regulations that favour vested interests" (Ibid.). Similar advice was provided by the WB in the mid-1990s in one of its most prominent reports "From Plan to Market", which provided a systematic overview of recommended transition reforms for the Central and Eastern European countries. The WB report argued "that both extensive liberalization and determined stabilization are needed for improved productivity and growth and that sustaining these policies requires rapid structural change as well as institutional reforms" (World Bank 1996: 5). Economic liberalization advocated by the WB covered three areas: domestic prices and markets, foreign trade and currency convertibility, and openness to new business entry. Progress in opening up these areas together with reforms of property rights, private ownership, institutions and social policy formed the basis for assessing the progress in transition reforms, according to the WB. For example, on the basis of the comparison of fast trade liberalization by Estonia and slow liberalization by Ukraine in the early 1990s, the report concluded that "rapid trade liberalization pays off" while "slow trade liberalization imposes high costs" (World Bank 1996: 31). To reinforce the message about the importance of external liberalization, the report also stressed that "international integration is vital for successful reform in transition countries" (World Bank 1996: 145).

To sum up, it has been observed that the 25 years of transition reforms in the region provide a basis to argue that rapid reformers ended up with better institutions than gradual reformers. This confirmed the thesis that political elites who were committed to economic liberalization were also committed to subsequent institutional development, while political elites who advocated gradual reforms often did so to extract rents from the economy, resulting in the formation of oligarchic classes (Havrylyshyn et al. 2016).

The 'vital' role of the IFIs, in particular the IMF, for successful reforms in Eastern European countries has been reconfirmed more recently by analysts who stressed their role in "setting standards, providing relevant policy advice, evaluating outcomes, and providing financing" (Aslund 2013: 251). In particular, after Maidan events in Ukraine in 2014, the political, security and economic crisis of the country revived interest in policy advice that was recommended to the transition countries in early 1990s. This included the role played by the IMF in providing funding to stabilize the macroeconomic environment and assisting in implementing fast reforms, in particular reforming corrupt institutions, opening up the economy, reforming public finances, energy, land use and other areas dominated by entrenched rent-accumulating elites (Aslund 2015).

Thus, during the recent decade, the IMF assumed its usual role of crisis management and enforcer of policy reforms, while at the same time acting as a mediator between Ukrainian institutions and external creditors. Differences in the domestic situation in Belarus or Moldova compared to post-Maidan Ukraine impacted the role played by the IMF and the WB, as reflected in their strategies towards these countries.

3. Objectives, Instruments and Resources

The discussion below focuses on the strategies of the IMF and the WB in Belarus, Moldova and Ukraine adopted in recent years. Due to the nature and objectives of the IFIs, their strategies deal directly with financial stabilization and structural reforms, which often has a direct or indirect impact on sectors such as trade, sometimes energy (through conditions on price liberalization, market access or privatization), or, to much less extent, on migration and especially security, which is a domain of organizations like the OSCE and NATO.

The IMF and the WB operate by setting concrete objectives in particular policy areas for countries that receive their financial and technical support. As the more detailed analysis of their strategies towards Belarus, Moldova and Ukraine below reveals, the IMF aims at supporting the stabilization of the macroeconomic environment and the functioning of financial sector, at consolidating public finances and at improving conditions for economic development. The latter often includes measures aimed at removing barriers to market activities, reforming institutions to reduce possibilities for rent-seeking and corruption. The WB aims at supporting sectors which are important for economic development ranging from infrastructure such as transport and energy to education, health care, social support and environmental policies.

The main instruments and resources, which are used in their country strategies, include financial support (low interest rates loans) and technical advice on policy and institutional reforms. Financial support is provided under conditions that take into account the particular country's situation while at the same time reflecting program objectives and the mission of the IFI. According to the IMF guidelines, conditionality "is intended to ensure that Fund resources are provided to its members to assist them in resolving their balance of payments problems in a manner that is consistent with the Fund's Article and that establishes adequate safeguards for the temporary use of the Fund's resources" (IMF 2002: 1). The Fund-supported programs are directed primarily towards solving a country's balance of payments problems and "achieving its medium-term external viability while fostering sustainable economic growth" (IMF 2002: 2).

Conditions are usually established on the basis of these macroeconomic variables and structural measures which are within a country's direct or indirect control. These variables and measures are of critical importance for achieving the aims of the program or for monitoring the implementation of the program, and they are necessary for the implementation of the Articles (Ibid.). The core areas of the Fund's responsibility comprise macroeconomic stabilization, monetary, fiscal and exchange rate policies including the underlying institutional arrangements and related structural measures, and financial system issues. In cases where variables and measures are not within the core areas of the IMF, it draws on the advice of other IFIs, particularly the WB, using the framework of 'a lead agency'. The implementation of the support arrangements can be monitored on the basis of prior actions, performance criteria, program and other reviews, and other variables and measures established as structural benchmarks or indicative targets (Ibid.). The Table 1 below provides a comparative overview of selected IMF country programs with Belarus, Moldova and Ukraine to illustrate what type of conditions and monitoring procedures have been used by the Fund.

Table 1. Comparison of selected IMF country programs with Belarus, Moldova and Ukraine

	Belarus (SBA 2009)	**Moldova (ECF/EFF 2010)**	**Ukraine (SBA 2014)**
Objectives	To facilitate an orderly adjustment to external shocks and address pressing vulnerabilities; to advance structural reforms.	To reverse the structural fiscal deterioration that occurred in from 2008 to 2009 while safeguarding funds for public investment and priority social spending; to keep inflation under control while rebuilding foreign reserves to cushion the economy from external shocks; to ensure financial stability	To restore macroeconomic stability; to strengthen economic governance and transparency; to lay the foundations for robust and sustainable economic growth.

		by enabling the early detection of problems and strengthening the framework for bank rehabilitation and resolution; to raise the economy potential through structural reforms.	
Conditions:			
Prior actions	Devaluation of Belarus rubel against US dollar by 20 % and shifting exchange rate peg from US dollar to a basket of currencies; abolishment of the ceiling on lending rates by banks to the corporate sector; amendment of legislation to prohibit the central government from making additional transfers to its deposit accounts with commercial banks; approval of a central government budget for 2009 targeting a zero budget deficit; limiting wage increases for budgetary workers in November 2008 to five per cent.	Parliamentary passage of an amended 2009 budget and 2010 budget with a deficit in line with memorandum, amendments to Budget System Wage Law 355 to bring wages in line with the wage bill allocation in the 2010 budget; the National Bank of Moldova's (NBM) net international reserves will amount to $1300 million by end-December; parliamentary passage of legislation transferring to the National Energy Regulation Agency (ANRE) the authority to set tariffs for heat directly, rather than indirectly through municipalities; the new heating tariff to be set by ANRE by January 14, 2010, will cover at least amortization and all variable costs and be legally binding.	National Bank of Ukraine (NBU) adopting a regulation related to the method of calculation of official exchange rate, instructing the largest 35 banks to launch diagnostic studies; NBU Council establishing an independent audit committee to provide internal oversight; government approving a package of revenue and expenditure measures yielding a UAH 45 billion and implementing it by passing a supplementary budget; the parliament passing a public procurement law by strengthening checks and balances and decreasing a number of exemptions; another law on VAT to reverse recently introduced rate reduction to keep the rate at 20 %; gas price regulator to adopt and officially publish a decision to raise end-user gas tariffs for households by 56 % by May 2014; utility price regulatory to adopt the decision to raise heating tariffs for households by average 40 % by July 2014; government approving the decision to introduce a new social assistance scheme to compensate the effects of those increases for the most vulnerable.
Performance criteria	Floor on net international reserves; ceiling on the net domestic assets of the National Bank of the	Ceiling on the overall cash deficit of the general government; ceiling on net domestic assets of the NBM;	Floor on net international reserves; ceiling on net domestic assets; ceiling on the cash deficit of the

	Republic of Belarus (NBRB); ceiling on the central government budget deficit. Non-accumulation of external arrears, avoidance of exchange restrictions, multiple currency practices and intensification of import restrictions.	floor on net international reserves of the NBM; ceiling on contracting or guaranteeing of non-concessional external debt of the general government; ceiling on accumulation of external payment arrears; ceiling on reserve money, on change in domestic expenditure arrears of general government, on the general government wage bill; floor on priority social spending of the general government.	general government; ceiling on publicly guaranteed debt; non-accumulation of external debt payments arrears by the general government; ceiling on monetary base and ceiling on VAT refund arrears.
Structural benchmarks	Hiring of a consultant to assist in the sale of shares in key state-owned banks; bringing loan classification in line with best practices; eliminating the regulatory act imposing a ceiling on price increases of 0.5 per cent and refraining from establishing any new extra-budgetary funds.	Cabinet approval and submission to the parliament of amendments to the Law on Financial Institutions to strengthen the tools available to resolve problem banks; the NBM will collect and share with IMF the results of the ongoing diagnostic studies in all banks; the Cabinet adoption of a plan for a speedy expansion of the new target social assistance system to cover at least 2/3 of all eligible recipients by the end of 2010; Cabinet approval and submission to parliament of amendments to the Law about guaranteeing the deposits of physical persons in the banking system with early access in the event of bank failure.	Complete diagnostic studies and review of business plans for the largest 15 banks; agreement between the government and NBU and the IMF staff reached on criteria when public money could be used to bring a weak bank back into solvency; a special unit set up in the Ministry of Finance to manage financial sector shareholdings; proposals for the VAT in agricultural sector to bring it closer to general VAT regime; audit of Naftogaz operations; legislation passed to improve payment discipline in the heating sector; design and implementations of laws and regulation on business climate, the effectiveness of the judiciary and tax administration
Review procedures	Total of 15-months with quarterly reviews, with a possibility of successor EFF program to continue implementing structural reforms	Each program running for 36-months with semi-annual reviews	Total of 24-months with the first two bi-monthly reviews and later quarterly reviews
Resources	\$2.46 billion (SDR 1.62 or 418.8 % of Belarus quota), \$787.9 million released immediately	\$588 million (SDR 369.6 or 300 % of Moldova's quota) split equally between two facilities, SDR 60 million released immediately	\$17.1 billion (SDR 10.976 or 800 % of Ukraine's quota), \$3.2 billion made available immediately

Coordination with other institutions	SBA linked to triggering funds from the WB ($200 million) and the EU (€200 of macro financial assistance).	Support coordinated with other donors – the WB, the EU, EIB, EBRD that were expected to contribute the same amount as IMF.	Support coordinated with the WB, the EU, the US, Japan, Canada and China with funding from those sources projected to exceed $6 billion in 2014 and $5 billion in 2015.

Source: IMF (2009), IMF (2010), IMF (2014b)

The comparison of IMF country programs shows that the Fund consistently focuses on macroeconomic stability and conditions for restoring economic growth. These objectives are aimed at by setting parameters for monetary and exchange rate policies, the financial sector stability, fiscal payments and adjustments, energy sector reforms to reduce fiscal drag and increase its efficiency, and the improvement of the regulatory quality and independence of the central banks and other regulatory institutions. In the case of Moldova and in particular Ukraine, strong emphasis has been placed on anti-money laundering activities, anti-corruption actions, seeking recovery of stolen assets, increasing the transparency of government operations and on the governance of energy companies, banks and other state owned organizations. The conditions in terms of prior actions usually include legal and organizational measures to consolidate public finances and deal with financial sector vulnerabilities. There are also measures and benchmarks foreseen to reduce distortions in the economy and improve business environment, although their implementation as well as improvements in governance and elimination of incentives for corruption has been partial or absent as it will be discussed below. The Fund programs are coordinated with the WB, the EU and other institutions such as the EBRD and the EIB, and sometimes with donors like the US, Japan, Canada and China.

Conditionality is seen as an element of a broader strategy for supporting members in their economic and financial policies, which is supplemented by formal and informal consultations, multilateral surveillance, advice on the voluntary adoption of rules and codes of conduct, and the provision of other technical assistance. Some authors make a distinction between the external influences of IFIs with respect to the content of reform programs (intellectual and technical advice) and mobilizing internal support for those programs (money in exchange for reforms), arguing that sometimes the latter can be much more important than the former (Balcerowicz 1994: 175). The IMF and development banks have been seen as performing a useful role of external pressure, for example, by using conditionality when “the offer of financial assistance by an external agency gives reform-minded policymakers within the government extra leverage in winning internal arguments” (Williamson 1994: 25), or by making the reform programs internationally more credible and helping to consolidate them. It should be noted, that the IMF and the WB have been criticized for sometimes providing grants without conditions and programs attached, or relying too much on the effective and transparent decision-making of domestic ruling elites and bureaucracies (see Sachs 1994).

Table 2 provides a comparison of the engagement of the WB with Belarus, Moldova and Ukraine, drawing on its most recent partnership programs.

Table 2. The WB country partnerships with Belarus, Moldova and Ukraine

	Belarus	Moldova	Ukraine
Objectives	Increasing the competitiveness of the economy by supporting structural reforms, including reducing the role of state, transforming the state-owned enterprises, promoting private and financial sector development and integration into the world economy; improving the quality and efficiency of public infrastructure services and the use of agricultural and forestry resources, and increasing global public goods benefits; enhancing human development outcomes through better education, health and social services.	Strengthening the rule of law and accountability in economic institutions; improving inclusive access to and the efficiency and quality of public services; enhancing the quality and relevance of education and training for job-relevant skills.	Ensuring that markets work more effectively; establishing necessary conditions for fiscal and financial stability; improving service delivery for all Ukrainians. Particular focus on promoting good governance, transparency and accountability in public sector; stability in the banking sector; reduction in the cost of doing business; and effective use of scarce public resources to provide public services.
Examples of projects funded and expected results:	Upgraded road of 53 km between Minsk and Bobrujsk and 154 km of the road linking Minsk and Grodno to be upgraded by 2019 to reduce transport costs for users and accidents; modern mechanical waste separation plant constructed in Grodno; about 324,000 people in 20 districts across country to be connected to clean and reliable water services by 2019; 243,000 people will benefit from energy efficiency in heating and power generation by 2018; 79,000 of people living in 13 towns benefit from the efficient use of biomass in heat and electricity generation by 2019; 4.5 million hectares of forests outside protected areas will be managed as biodiversity friendly by 2020; by 2018 Belarus will participate in the internally recognized Program for International Student Assessment	Modernization of Government services to improve access, efficiency and delivery quality of administrative services through the re-engineering, digitization and creation of points for assisted service delivery at the local level; tax administration modernization project to improve revenue collection, tax compliance and taxpayer services by automatization and integration; a comprehensive diagnostic of the state-owned enterprises to improve their performance and quality of service delivery; strengthening the effectiveness of the social safety net.	Anti-corruption reform by introducing e-declarations; improving district heating, water and sanitation services; health care and social protection; power transmission networks and road infrastructure.

	(PISA); 150 micro, small and medium enterprises will get funding by 2022; and e-health system will become operational and by 2022 the medical simulation centre will be established.		
Resources	Bank (IBRD) portfolio included 9 loans lending $991 million, GEF grant of $2.3 million (by October 2017).	Total 10 projects with IBRD net commitments of $100.5 million, IFC committed portfolio of $50.2 million, IDA net commitments of $2.78 million, MIGA exposure of $25.4 million, GEF 2 grants of $6.4 million (by October 2017).	Eight IBRD investment operations and one guarantee with total lending of $2.5 billion (by October 2017). Since 1992, a Bank's commitments to Ukraine totalled $12 billion in about 70 projects and programs.

Source: The World Bank (2017a), (2017b), (2017c)

Although in all three countries the WB has been involved in projects which generally aimed at improving conditions for economic development, similarly to the IMF, it has put particular emphasis on reduction of corruption in Moldova and especially in Ukraine, dedicating significant attention in the most recent country partnership framework 2017-21 with Ukraine to the problems of widespread corruption and state capture, calling them "fundamental constraints impeding progress" in addressing the challenges of macroeconomic instability, weak private sector productivity and ineffective service delivery (World Bank 2017d: 8). In addition to the dialogue with government officials, the WB staff has been actively engaged in discussions with private sector representatives, think tanks, societal groups and other international institutions and donors, for example, seeing the Ukraine's Association Agreement (AA) with the EU as providing an anchor for country's reform program.

The following comparative analysis will discuss concrete strategies of the IMF and the WB agreed with Belarus, Moldova and Ukraine as well as the record of their implementation. This will provide more concrete examples of the objectives, instruments and resources applied in country arrangements, allowing one to draw comparative insights on how they differed depending on the country, policy area or sector, and especially how they evolved over time.

3.1. IFIs and Belarus

After a period of relatively little cooperation with the IFIs on behalf of Belarus authorities, interest in cooperation with the IMF was revived when the country's ruling elites turned to it for support in the face of external shocks in 2008. The SBA of 15 months between the IMF and Belarus was agreed in early 2009, providing access to SDR 1.618 million ($2.46 billion or 419 % of quota). It aimed at "addressing Belarus' most pressing vulnerabilities by agreeing large upfront financing, strong macroeconomic policy adjustment (devaluation, new exchange rate regime, tight fiscal policy), and focused structural reforms" (IMF 2011a: 2).

In terms of sectors, the policy measures mostly aimed at financial and monetary benchmarks, with some effects on trade through adjustment of the exchange rate regime and internal structural reforms such as reducing price controls and state ownership. It should be noted, that part of the external shock was related to the increase in the prices of energy resources (natural gas and oil) imported from Russia from 2007 to 2008 due to reduced export subsidies compounded soon by the effects of global financial crisis. The IMF closely cooperated with the WB in the area of structural reforms with the latter, providing a Development Policy Loan in 2009 and technical expertise aimed at similar policy priorities (privatization, price flexibility, tax reduction). The IMF staff underlined the importance of coordination with the Bank as it “did not have the resources or expertise to address all important issues” (IMF 2011a: 19).

However, the WB support for setting up the National Agency for Privatization and Investment and preparing the pilot cases of state-owned enterprises to be privatized has not led to any significant privatization deals. More progress was achieved in improving the business environment in Belarus, which allowed it to move upwards significantly in the ‘Doing Business’ ranking and facilitated the conditions for the creation of private companies, often small and medium-sized enterprises (SMEs), alongside the state owned economy. More recently, the WB provided technical assistance in the areas of price liberalization, labour market relations, fiscal planning, deposit insurance and bank resolution framework as well as loans for the energy efficiency, water supply and sanitation, waste management, transport, education and health care projects (World Bank 2017a).

The IMF saw the SBA as setting the stage for further reforms over the medium-term under a successor program, although it was ultimately judged as having ‘mixed’ impact. While some of the most pressing issues, for example, in the financial sector, were addressed by the country’s authorities, key identified reforms such as privatization and direct lending “were missed or delayed” (IMF 2011a: 2). The staff of the Fund noted the lack of ownership of the program at the highest level in Belarus, which could account for the fact that “key identified reforms” were not implemented (Ibid.). Lending under government programs (soft budgetary constraints), that was based on political decisions (presidential decrees or resolutions of the Council of Ministers), continued to support particular projects, sectors and companies in Belarus. There was also a notable lack of progress in privatization, such as the sale of state-owned enterprises or opening up of the economy to foreign direct investment. These entrenched practices point to the dominance of the ruling elite’s political motives to fund projects that seem attractive to the electorate or benefit well-connected interest groups within the power circle surrounding President Alexander Lukashenko.

Although reportedly both the IMF and the Belarusian authorities showed flexibility in their approach to implementing the SBA (Dobrinsky 2016), in 2010 as the presidential elections were approaching in Belarus, the willingness of its authorities to continue cooperation with the IFIs decreased. In 2011, it applied for external support from the Eurasian Fund for Stabilisation and Development (EFSD), the conditionality of which was more easily adjusted to political motives and more in line with domestic political objectives of Belarus authorities. This type of strategic bargaining in the background of the state dominated Belarusian economy, centralization and administrative controls suggests that for a number of years, the ruling elites of the country were able to manoeuvre between different sources of external funding in order to try to limit overall exposure and maintain domestic control of recourses. In addition to Russia-dominated Eurasian financial institutions, these different sources of external funding also included China.

More recently, in 2012, faced with another currency crisis, Belarus sold the Belarusian gas pipeline company to Gazprom. Rather than acting on the advice of the IMF to privatize small state-owned enterprises to improve efficiency of the economy by allowing the development of private sector, the country's authorities preferred to opt for 'big ticket' privatizations. Around 2015, Belarusian authorities expressed their interest in developing the roadmap of structural reforms with the WB and started talks with the IMF about a new support program of $3 billion and unlocking the EU macroeconomic assistance linked to it (Ibid.). The talks regarding the accession into the WTO were also intensified, although Belarus remained reluctant to open up its agricultural sector and reduce government distortions in the economy, shielding its state-owned enterprises from competitive pressures and preserving employment despite loss making activities.

However, after initial talks with the Western IFIs, Belarus again turned eastwards. Eventually, in addition to the new energy pricing agreement with Russia and renewed funding from the EFSD of a $2 billion for the period 2016 to 2018, Belarus issued $1.4 billion Eurobonds in 2017. Meanwhile, the IMF adopted a stricter tone, asking for authorities to show clear high-level commitment to structural reforms. This came after the regular Article IV mission was concluded in November 2017, criticizing Belarus for pervasive distortions in resource allocation by the state and urging "deeper and faster institutional and structural reforms" (IMF 2017a).

The element which differentiates Belarus from other EaP countries discussed here and which is relevant to understanding the relatively limited role of IFIs and their conditionality, is its close integration with Russia, or, as some analysts described it, its "maintaining an economic lifeline to Moscow" (Wesslau and Wilson 2017: 1). In terms of foreign trade and as a source of Foreign Direct Investment (FDI), Russia is the most important economic partner for Belarus. It has also traditionally provided Belarusian authorities with "loyalty rents" via subsidized prices of natural gas and oil sold to Belarus, important also for its oil processing and chemical industry, in exchange for political alliance. Belarusian-Russian bilateral cooperation could be regarded as a case of a co-existence of dominant ruling coalitions, which have a mutual interest in preservation of others' dominance within their own political domains. Notwithstanding disagreements with Russia linked to trade within the Eurasian Customs Union or treatment of political issues such as annexation of Crimea, the Belarusian authorities so far managed to balance benefits resulting from the interdependence with Russia and preservation of domestic autonomy from too much outside interference. The key question, though, is how much longer Belarusian authorities will be able to play this balancing game, as some warn that 'Minsk's cards are weakening' vis-à-vis Moscow due to the growing asymmetries of interdependence reflected in much smaller concessions given by Russia in 2016-17 deals on energy pricing and financial support compared to 2010-11 (Moshes and Nizhnikau 2017).

3.2. IFIs and Moldova

Moldova's relationship with the IFIs has been relatively intense throughout most of the period since 1993, but its effect in terms of actual policy reforms and economic development is rather limited. In 2009, the government formed by a coalition of parties, which declared their intention to accelerate integration with the EU by calling their coalition 'The Alliance for European Integration'. This coalition stated its determination to implement reforms that had been recommended by the IFIs and to coordinate this process with the negotiations of the EU AA. Many AA related reforms such as trade liberalization, rule of law, business environment and public sector reforms were in line with policies recommended by the IFIs and other donor organizations such as the United States Agency for International Development (USAID).

The government requested IMF combined Extended Credit Facility/Extended Fund Facility Arrangements each running for three years, with access totalling SDR 369.6 million (300 % of quota or $588 million) split equally between two facilities (IMF 2010). The other partners – the European Commission, the WB, the EIB, the EBRD – were expected to provide the same amount as the IMF to cover all borrowing needs. The program was based on four pillars:

> “fiscal policies to restore sustainability while safeguarding public investment and social spending priorities; flexible monetary and exchange rate policies to keep inflation under control, facilitate adjustment to shocks, and rebuild foreign reserves; policies to ensure financial stability by early detection of bank difficulties and strengthening the legal framework for bank rehabilitation and resolution; and structural reforms to raise the economy’s potential” (IMF 2010: 1).

In describing the economic policy in Moldova at the time, the IMF staff noted that “the economy remained overregulated and hampered by relative price distortions” (IMF 2010: 4), advising that Moldova undertake over the whole program period “a massive program of deregulation and liberalization” to free business initiative, stimulate competition, and strongly support economic recovery (IMF 2010: 7). Several reviews of the program in 2011 and 2012 repeatedly called for critical structural reforms. The forth review stated that the program was “broadly on track”, all performance criteria were met except for the ceiling on the general government deficit (IMF 2012a). The fifth review noted that with the stabilization of the political situation after the presidential elections in 2012 and the next parliamentary elections scheduled for only 2015, there was “a window of opportunity for implementing much-needed structural reforms”, also noting that “economic policies remained susceptible to pressures from special interest groups, as demonstrated by recent slippages” (IMF 2012b: 4-5). As would become clear two years later when the banking fraud was publicized, the actual risks were significant.

Around 2010, this enthusiasm and support for reforms expressed by the EU, US, IFIs and other donors was also strengthened by domestic politics in Moldova. At this time, a majority of the population was supportive of EU integration and the country’s government expressed willingness to proceed with reforms without insisting on the EU’s promise of membership perspective (as seemed to be the case with the Ukrainian official position at the time, although the latter was the first to start AA talks). Although on the political and legislative levels the progress was noticeable, the Moldovan authorities did not opt for a unilateral liberalization of the economy and deregulation reforms aimed at reducing incentives for corruption, as was undertaken by Georgia.

For several years up until 2014, Moldova was advancing in terms of European integration and enacted some domestic reforms to start implementing the AA, including trade liberalization with the EU, and a visa-free regime. However, the banking fraud of around $1 billion (the sum totalling approximately 10 per cent of Moldova’s GDP) revealed in late 2014 damaged the trust of Western actors in the ruling elites of the country and their determination to reform. The crisis caused economic recession in the country and affected the political situation in Moldova with five changes in government in less than four years. Since 2016, the centre-right government has co-existed with a socialist president, who was elected later that year campaigning on a slogan of terminating the AA with the EU and joining the Eurasian Union, with its society divided and sceptical of further reforms. Three banks representing one-third of the system were closed in October 2015.

At the request of the country’s authorities, the IMF stepped in with a three-year Extended Credit Facility (ECF) and Extended Fund Facility (EFF) of $183 million (SDR 129.1 million) at the end of 2016 to support the efforts of country's institutions to manage the crisis by stabilizing the banking sector, assisting in restoring macroeconomic and financial stability. In addition to the above mentioned objectives, the program also focused on improving governance and business climate, attracting foreign and domestic investment, supporting economic diversification, and enacting targeted labour market reforms. The implementation of the program was also linked to unlocking other external support from multilateral and bilateral donors amounting to total $825 million over the three-year program period, based on semi-annual program reviews assessing agreed performance criteria, indicative targets and structural benchmarks. The program was expected to catalyse budget support from the WB of about $45 million in 2016 (with subsequent smaller operations from 2017 to 2019), macro-financial assistance from the EU of €97.4 million over the period 2017 to 2018 (of which €40 million in grants and €57.4 million in concessional loans), budget sectoral grants from the EU at about €94 million over the period 2017 to 2018, and bilateral budget support from Romania at about €150 million (IMF 2016a).

As the IMF staff concluded during the second review of the program, by late 2017 Moldova made important progress in cleaning the financial sector, though with delay, including strengthening supervisory and regulatory frameworks, increasing management and ownership transparency. However, it was stressed that further work was needed in reforming the banking sector, addressing weak governance, corruption and infrastructure gaps, strengthening effectiveness of monetary policy, transparency and cost recovery in the energy sector, tackling the shadow economy and relatively low development of human capital (IMF 2017b). It should be noted that with respect to energy sector reforms, the IMF has been cooperating with the WB, the Energy Community and other stakeholders. Cooperation with the WB has also been important in addressing labour market issues, in particular the mismatch between skills supply and demand, incentives for legal employment and job creation in the country (reducing incentives to emigrate).

In addition to structural reforms and regulatory changes, dealing with corruption has been one of the key priorities of the IMF. One of the terms used in characterizing reforms was the caution that reform progress is not yet "irreversible" (Ibid.). The IMF also maintained that continued progress on banking sector reforms hinged "on sustained political commitment to strengthen the sector and tackle vested interests", which as well as general program implementation could be tested in the run-up to the parliamentary elections at the end of 2018 (Ibid.). However, the staff supported completing the second review by disbursing SDR 15.7 million, bringing the total sum disbursed to SDR 57.4 million. It also reset six structural benchmarks in the financial sector which "posed political and technical challenges" for later dates "aligning them with the authorities' implementation capacities" (IMF 2017b: 22). In June 2018, after conducting the third review of the ECF and EFF, the IMF noted "significant progress" in cleaning up the financial sector and underlining that it was "critical that prudent policies are maintained and reforms continue to advance to complete the repair of the financial sector, ensure transparency and stability in the energy sector, and maintain macroeconomic stability, […] to further improve governance" making available SDR 24 million (IMF 2018b). The IMF has been coordinating its financial support with the EC macro-financial assistance and bilateral donors (i.e. Romania).

Since Moldova joined the WB in 1992, it has benefited from around 60 projects in the country worth approximately $1 billion in areas such as regulatory reform, improving business environment, modernizing government services, tax administration, education, health care, roads, agriculture, energy and environment. The WB Country Partnership Framework for the period 2018 to 2021 focuses on three areas: strengthening economic governance, in particular the rule of law and accountability in economic institutions, improving inclusive access to, the efficiency and the quality of public services, and enhancing the quality and relevance of education and training for job-relevant skills. One of the examples of the WB support is Education Reform Project of $40 million started in 2013 directed at improving the quality, relevance and efficiency of the education system, for example, the gap between the skills demanded by the labour market and the supply of education institutions. The latest disbursement of $10 million to be used for training, purchase of equipment and upgrading of laboratories was approved in February 2018 (Vlas 2018).

To sum up, although in 2010 there seemed to be a window of opportunity due to popular support and political consensus regarding economic and institutional reforms, the latter has been primarily limited to what was directly politically important for signing the AA and progressing with visa liberalization. Although external actors coordinated their support for Moldova and applied conditionality, it has not created strong enough incentives for irreversible reforms to open up the economy and to make the regulation of key sectors transparent, the judicial sector independent and governance efficient. As the banking fraud revealed in late 2014, the areas of business environment, regulatory policies, corruption prevention and judicial system remained unreformed (or reformed only 'on paper'). With the background of the economic recession in 2015 and financial risks, the fragile political agreement to accept IFIs and EU conditional support resulted in some further progress. But the prospect of reforms remains very uncertain due to popular reform fatigue and the competing vision of Eurasian integration which, if it gains support during the elections, could redirect political attention from agreed reforms, reduce the need for IFIs assistance and halt the already slow process of transition reforms.

3.3. IFIs and Ukraine

Ukraine's relations with the IMF and the WB have also been characterized by numerous partly implemented agreements and repetition of suspended assistance. Even with the background of the financial crisis in 1998, the Ukrainian authorities have shown reluctance to implement reform commitments in restructuring the country's economy, especially energy and agricultural sectors, improving business environment, and consolidating public finances. This prompted the IMF representative to publicly threaten to put on hold the transfer of the third tranche of a three-year program worth $2.2 billion (the first two tranches of $335 million were delivered) and automatically putting on hold the WB loans of $950 million (Gorchinskaya 1998). Therefore, the IMF staff has characterized the overall record of Ukraine's program compliance until recent years as "weak" (IMF 2005: 11).

It should be noted that in the late 1990s, the relations between the IMF and the Ukrainian government cooled down after practices of misreporting reserve assets by the country's authorities were publicized, although the Fund staff later acknowledged its own role in allowing the misreporting because of its willingness to work under rushed and disorganized circumstances and a climate of forbearance to "make the programs work" (IMF 2005: 12). Self-critical assessments by the Fund also related to certain conditions in its non-core areas and proliferation of structural measures and sub-measures used to monitor implementation throughout 1990s, which later led to the streamlining of structural conditionality. On the other hand, the IMF staff argued that the Fund served three valuable functions in Ukraine: transferring knowledge, coordinating policies, and advising on policy initiatives, and that the Fund "may have faced a trade-off between running the risk of repeated program disappointments and exercising these valuable functions" (IMF 2005: 31). The IMF and the WB worked in a coordinated manner with overlapping conditionality used for key reforms and drawing on each other's expertise.

Ukraine provides an interesting case, with two windows of opportunity for potential reforms that opened as a result of political upheaval and popular discontent with the muddling-through of *nomeklatura* and entrenched oligarchic regime during a period of ten years since 2004. The 'Orange Revolution' of 2004 proved to be a disappointment for those who expected a radical break with the dominance of corrupt and rent-accumulating behaviour of ruling elites. The Ukrainian government soon returned to the usual pattern of policy-making, which has been characterized by some analysts as "a history of its inability to commit to reforms", its relationship with the IMF described as a "tradition of failed IMF programs" (Vox Ukraine 2016).

The incremental and piecemeal nature of reforms, falling short of recommended benchmarks and agreed policy indicators, has been regularly noted by the IMF staff in the country reports. For example, in 2005, the IMF staff pointed to the lack of fiscal restraint and financial sectors' vulnerabilities, "a generally difficult investment climate", resulting from complex regulations as well as bureaucratic discretion and corruption (IMF 2005: 4). They further noted that the Ukraine-EU action plan could provide a blueprint for structural reforms, stressing the need to tighten monetary policy, and the need for more market-friendly institutions, also underlining the lack of consistency and political consensus on required reforms as "a key bottleneck" (Ibid.). On the impact of IMF technical assistance to the Ukrainian authorities, it was noted that the recent policy dialogue seemed "to have fostered internal debate and reflection, even when the authorities and staff disagreed" (IMF 2005: 7). Looking back into the long-term IMF engagement with Ukraine since the early 1990s, it was concluded that "Fund-supported programs had a mixed record in achieving their objectives. While the programs were quite effective in supporting macroeconomic stability, they did not succeed in accelerating the build-up of more market-friendly institutions". The general assessment was that "Ukraine's disappointing transition experience" could be attributed "mainly to a lack of political consensus, particularly on building more market-friendly institutions (IMF 2005: 32). It was followed with a recommendation to prioritize tackling long-delayed institutional reforms which should be rooted in political consensus and better program ownership.

Similar policy recommendations were provided by the WB in relation to the projects it has funded in Ukraine. For example, in the 2003, the major focus of the Country Assistance Strategy for Ukraine for the years 2004-07 was to support the "European choice" agenda of Ukraine, in particular "further institutional reform that would lead to a business-friendly environment and a more inclusive and responsive government" (IMF 2005: 53). It recommended working on Ukraine's European agenda both from the top, through reform of institutions and policies, and from the bottom, through strengthening civil society. The WB strategy proposed $2.4 billion base case lending program, allowing for a more ambitious high case of $3 billion maximum. Its distinct feature was its results orientation – the amount and content of financial assistance was conditional upon the ability of the Ukrainian government to accomplish the relevant benchmarks. In terms of sectoral coverage, the WB projects focused on improving public governance by targeting support to investment climate, public administration and public finance management and social inclusion. Concrete examples of funded projects included the modernization of tax administration and statistics, the establishment of the land registry in rural areas, improving the efficiency of the energy sector, water and waste management, the development of community-based social services for vulnerable groups as well as the development of civil society and economic research.

As mentioned above, the 'Orange revolution' and political changes in 2004, which brought to power President Yushchenko on a reform platform that promised to tackle pervasive corruption and rent-seeking, did not result in major reforms. Although the economy's growth accelerated, partly due to global economic developments, partly due to high expectations linked to domestic reforms, the policy continued to represent a mix of incremental and partial measures. Moreover, the political instability, with frequent changes in the composition of the government, narrow majorities, tensions between the president and prime minister and the presence of powerful vested interest groups continued. In their 2006 report, the IMF staff pointed to financial sector vulnerabilities and such unresolved issues as “insecure property rights, corruption and regulatory jungle”, also noting that implementation of Fund staff policy advice, in particular on structural issues, was “slow and uneven”, reflecting “an ingrained preference for gradualism and a polarized body politic that has found it difficult to reach and sustain consensus on implementing market-friendly policies” (IMF 2007b). Some advances were noted in levelling the playing field for business and liberalizing trade, primarily through a reduction in the level of import duties, while reforms in the energy sector, tax administration and public procurement were characterized as stalled or even backtracked.

In 2008, as the signs of overheating and substantial vulnerabilities were noted, the same traditional policy concerns were expressed by the IMF staff: uneven progress on macroeconomic and structural reform, in large part reflecting protracted political uncertainties with new “Orange” coalition government coming into power in late 2007 and presidential elections scheduled in a couple of years (IMF 2008). The key areas requiring attention included: improving the business climate by updating and strengthening the legal framework; improving accounting standards and establishing a market for agricultural land; continuing to liberalize trade policy, including by abandoning export restrictions (WTO accession was noted as a significant achievement in this regard); improving energy efficiency, including by allowing all domestic prices to reflect full costs; and strengthening tax administration (Ibid.).

Although in late 2008 the IMF approved another SBA for Ukraine to assist the country in dealing with a negative external environment and a domestic crisis of confidence, Ukraine was one of the countries hit hardest by the Great Recession – its reform record continued to be mixed. As the *ex post* assessment of the program stated several years later, “program implementation was difficult against the backdrop of sharp political divisions and weak institutional capacity”, only two of the envisaged eight reviews were completed, and the program “went off track in Autumn 2009 as commitment vanished ahead of the January 2010 presidential elections” (IMF 2011b: 3). It was concluded that short-term objectives were largely met – the banking system stabilized, the current account adjusted quickly, social areas and sovereign default avoided, economic recovery gradually started. However, little progress towards meeting medium-term was noted – no major shift in policy making occurred, efforts to tackle the underlying structural and institutional weakness stalled, bank resolution remained incomplete, the energy sector unreformed with quasi-fiscal deficits widening, public finances strained, and legal and governance reforms falling short of objectives (Ibid.). In a sober assessment, the Fund’s staff observed that the key lesson was once again “the importance of ownership and governance, but there were no clear-cut answers on how to achieve this in Ukraine. Four signatories of the program, many prior actions, and close IMF involvement – including through significant technical assistance – were only partially successful. Less front-loading of the program may have provided a stronger incentive to follow through with policies but would have to be balanced against the need to secure confidence and adequate financing” (Ibid.).

In 2010, Ukraine again agreed a new 29-month SBA of $15.4 billion with the IMF, with an immediate first tranche of $1.89 billion, after agreeing to adopt fiscal tightening measures and increasing household natural gas prices. The Ukrainian authorities reportedly first tried to raise money on international financial markets but cancelled a

$2 billion Eurobond issue faced with the prospect of having to pay more than an eight per cent interest rate (Olearchyk 2010). However, the second review on the SBA was put on hold in early 2011 as authorities once again backtracked on their commitments to raise gas and heating tariffs in 2011 and on reforms in some other areas including tax administration, resolution of banks and exceeding initially agreed government deficit target (IMF 2012c). As a result, the WB and European Commission support was also put on hold. In 2012, the IMF staff repeated traditional advice on the need for immediate steps in fiscal consolidation, deep structural reforms, in particular in the energy and banking sectors, improving the business environment and weak governance (Ibid.). After the SBA with the IMF expired in late 2012, in early 2013 Ukraine raised $ 2.25 billion in two Eurobond issues at yields of about 7.5 per cent. However, soon afterwards the yields increased to a 8.5-15 per cent range, making it too expensive for the country's authorities to borrow, resulting in decreasing NBU's international reserves and leading to downgrading of the country's ratings.

Later, during the October 2013 Article IV consultations, the IMF staff reiterated again "that incomplete transition to market economy held back Ukraine's economy", referring to "a large state budget, distorting price competition, and pervasive governance deficiencies", that "inconsistent macroeconomic policies generated deep-seated vulnerabilities and recurrent crises", finally, that "political polarization, the upcoming presidential elections, and pressures from vested interests limited authorities' policy space" (IMF 2014b). In December 2013, after President Yanukovich declined to sign an AA with the EU at the Vilnius EaP summit in November 2013, Ukraine received a $15 billion loan from Russia. However, a couple of months later, after the escape of President Yanukovich, and with the unlikely prospect that the remaining $12 billion would be received from Russia, Ukraine's authorities appealed to Western donors for financial support.

The Maidan events in 2014 and resulting political changes in the ruling coalition yet again opened up a window of opportunity for economic and institutional reforms, which have long been recommended by the IFIs but not implemented. The country was close to default and after its authorities again requested IMF support, setting out planned economic and financial policy reforms, a new SAB of $17 billion was approved in April 2014. The program aimed at restoring external solvency, replenishing international reserves, improving governance and laying foundations for sustainable growth by restoring sound public finances, as well as rationalizing the energy sector and improving the business environment (IMF 2014c). It should be noted that before signing the agreement, the IMF staff, in addition to meeting official representatives of the key institutions – the Acting President, Prime Minister, Governor of the NBU, Minister of Finance, Minister of Economy, Minister of Energy, Minister of Labour and Social Policies, other officials, ambassadors, trade unions, banking and business community, also held discussions with three leading presidential candidates, the Maidan Council and other activists.

However, less than half a year later, during the first review, the IMF stated that the key risks of geopolitical conflict and escalation of the dispute with Gazprom had materialized in a deepening economic crisis and complicated compliance with agreed target indicators (IMF 2014d). The staff supported the request of Ukraine's authorities for completion of the first review and the waivers for non-observance and applicability of performance criteria, at the same time highlighting the risks if the conflict did not subside as assumed. In March 2015, after the Ukrainian authorities decided to cancel the SBA concluded in previous year, the IMF Executive board approved a four year $ 17.5 billion Extended Fund Facility (EFF) under Fund's exceptional access policy, allowing to immediately disburse $5 billion (with $2.7 billion allocated for budgetary support) (IMF 2015a). The stated aims of the program have again included restoring external sustainability, strengthening public finances, and supporting economic growth by advancing structural and governance reforms, while protecting the most vulnerable. While once again acknowledging the exceptional risks arising from the conflict in Eastern Ukraine, which could affect the country's ability to sustain stabilization efforts and deliver structural overhaul, the IMF noted that the crisis provided "an opportunity for the government to make a decisive break from the past and implement reform-oriented and sustainable policies with strong ownership" (Ibid.).

After the first review in mid-2015, IMF staff acknowledged "a strong start in implementing the program" and recommended the completion of it, urging further fiscal consolidation and energy sector reform as well as substantial progress with structural reforms, in particular stepping up efforts to fight corruption, improve the business climate, and reform state-owned enterprises (IMF 2015b). The second review of Ukraine's economic program supported by the EFF arrangement acknowledged that authorities "have continued to make progress in implementing the program", including sizable fiscal adjustment, the increase in gas and heating tariffs to full cost recovery and decisive steps in rehabilitating the banking system, and recommended the disbursement of another $1 billion bringing total disbursements to $7.62 billion, at the same time approving waivers for non-observance of performance criteria related to net international reserves, non-accumulation of external payments arrears and non-introduction of new exchange restrictions (IMF 2016b). Again, the main policy recommendations included further progress in fiscal reform, in particular improving tax and customs administration as well as pension reform, strengthening the banking system, completing structural reforms, "where much remains to be done, including combating corruption and improving governance", especially equal application of the rule of law, restructuring and divestiture of state-owned enterprises, and prosecuting high-level corruption cases (Ibid.).

The third review of Ukraine's EFF resulted in the IMF approving another, fourth tranche of $1 billion disbursement in April 2017. However, it was four months late and the balance between acknowledgement of the country authorities' reform achievements and the remaining tasks had shifted towards a more critical assessment of the former. It was stated that "progress in advancing structural reforms had been mixed" (IMF 2017c). Acknowledging important achievements in the energy and financial sectors, the IMF staff underlined limited progress in reforming and privatizing state-owned enterprises, land and pension reforms, and effectively tackling corruption. It also noted that in coming years "the strength and durability of the recovery depended critically upon the pace and depth of structural reforms", especially improving the business environment and attracting investments, increasing productivity and labour market participation (Ibid.).

The resolve of the Ukrainian authorities to proceed with reforms suggested by the IFIs declined around mid-2017. Despite the reassurances of Ukrainian government officials that the country would get one more IMF tranche in 2017, it did not happen (Rao and Strohecker 2017). The deadline for the next tranche in summer 2017 was missed, and in 2018 the IMF continued to delay the next disbursement. In late 2017, the criticism toward the Ukrainian authorities' lack of progress in dealing with corruption and other outstanding reforms was stepped up by public criticisms from IMF Managing Director Christine Lagarde, as well as the US and EU authorities urging Ukrainian institutions to safeguard the independence of the National Anti-Corruption Bureau (NABU) and the special anti-corruption prosecutors' office, and to pass legislation creating an independent anti-corruption court (Verbyany 2017).

In 2018, the IMF continued prioritizing anti-corruption measures, with Managing Director Christine Lagarde commenting, after a talk with President of Ukraine Petro Poroshenko on June 19, that she was "very encouraged by the adoption of the law on the High Anti-Corruption Court by the Ukrainian parliament" (IMF 2018c). This evolution paved the way for setting up the Court, although it was still dependent on supplementary law being submitted by the president, adopted by the country's parliament, and implemented (Ibid.). Lagarde also repeated that actions related to gas prices and the budget were critical to allow the completion of the pending review of Ukraine's IMF-supported program (Ibid.).

In October 2018, the Ukrainian authorities and the IMF staff reached agreement on a new 14-month SBA with requested access of SDR 2.8 billion (equal to $ 3.9 billion) prepared in coordination with the WB and the EU (IMF 2018d). It replaced the 2015 agreements with the IMF, which were due to end in March 2019. Its focus remained the same, oriented towards fiscal consolidation, tax administration, the financial sector and energy sector reforms, including governance issues such as independence of the central bank, financial management, operationalizing the anti-corruption court, privatizing large state-owned enterprises, streamlining regulations and advancing land reform. Its approval by the IMF Executive Board was made conditional upon adoption by the Ukrainian parliament of the country's budget for 2019 consistent with IMF staff recommendations, including an increase in household gas and heating tariffs. On December 18, 2018, the IMF Executive Board approved the memorandum after agreed decisions were taken by the Ukrainian parliament, and released the first tranche of SDR 1 billion ($ 1.4 billion), opening the way for the country to attract other international financial support, including $ 750 million of loan guarantees from the WB (IMF 2018e). Once again, the IMF warned about significant domestic and external risks to the implementation of the agreement.

To sum up, analysts acknowledge that substantial reforms have been undertaken in the last several years by Ukrainian authorities, including: banking sector reform and reform of its regulatory institution (NBU); exchange rate regime and inflation targeting changes; fiscal reform and debt restructuring; gas sector reform; public procurement (ProZorro) reform; some changes in business environment, health care and education areas; and policy reform (Ash 2018; Vox Ukraine 2017). It has been argued that, compared to the attempts at implementing reform after 'the Orange Revolution', the round of reforms since 2014 has been more successful (Dabrowski 2017).

However, since the third review of the program in April 2017, progress in advancing energy pricing by removing remaining loopholes, in land reform, and in anti-corruption measures, such as the creation of an independent anti-corruption court, has been lacking or only partially adopted, and with extensive delays. This has included a significant delay in appointing the NBU governor. After some attempts by the Ukrainian authorities to borrow at very high yields, thus risking default, in the second half of 2018 they decided to move ahead with reforms. This was due to the approaching repayments of debts in the coming years and the IMF remaining the main source of external funding. Only four tranches totalling $8.7 billion were received within the four-year program, instead of the initially agreed twelve tranches, due to delays in implementing reform commitments (Shevchenko 2018). This led to the agreement of a new SBA with the IMF in late 2018 and the disbursement of its first tranche in December 2018. This latest agreement with the IMF allows sufficient international financing to maintain macroeconomic stability by meeting Ukraine's balance-of-payments needs and maintains currency reserves until the end of 2019. Importantly, it is expected to send a positive signal to financial markets, facilitating sales of government bonds to meet earlier borrowing commitments (Aslund 2018). It should also anchor fiscal policies and structural reforms to strengthen investors' confidence and unlock funding from other international donors, with the EU and WB providing an additional $2 billion (Ibid.). However, with the election campaign gaining speed and some of the presidential candidates promising to undo politically controversial measures undertaken as prior actions under this agreement, for example, adjusting gas and heating prices, the year 2019 is likely to become another difficult year in terms of transformation reforms.

4. Actors

The IMF and the WB interact on different levels with relevant institutions and actors in recipient countries. Policy assessment and advice is provided by region and country staff members from IFIs, who meet regularly with representatives of countries' governments, central banks, other official institutions, also analysts, business and trade union representatives, NGOs and other societal actors to get information on and assessments of a country's policies. Sometimes experts from both the IMF and the WB negotiate together in a trilateral format with recipient country representatives. There are also high-level meetings among the top officials of the IMF and the WB with countries' presidents and prime ministers. The IMF and the WB generally follow the practices of international economic cooperation and multilateralism, at the same time supporting country reforms which reduce barriers to international exchange and economic development, in particular with a focus on governance reforms aimed at reducing corruption and rent-accumulation.

They also coordinate their activities in the recipient countries with other institutions and donors. In the EaP countries, they coordinate closely with the EU institutions in their provision of policy advice and technical assistance in capacity building for the independent non-majoritarian institutions such as competition authorities or central banks. For example, in Moldova the WB and the IMF experts coordinated their support measures with the EU institutions in providing technical support for the National Agency for the Protection of Competition (Freyburg et al. 2015: 92). The two year SBA concluded by the IMF with Ukrainian authorities in April 2014, for a total international financial support of $33 billion over two years, was coordinated with the World Bank as well as the EU, EBRD, EIB and bilateral donors, with the IMF committing $17 billion of credits (Aslund 2015: 53). In addition, EU macro-financial assistance of $1 billion in loans, though reportedly more flexible than the IMF's in terms of the use of conditionality, was linked to the signature of the agreement between the IMF and Ukraine (Youngs 2017: 125). The role of IFIs extends beyond their direct support in a sense that their decisions can be treated as anchors that affect the decisions of other institutional donors or financial markets. The efforts at coordination with the EU and its member states, however, are sometimes constrained by divergent priorities of particular EU member states that focus on particular sectors, like energy or agriculture, and political incentives to report about successes of bilateral assistance back home.

Conditionality in itself could become an important instrument for use by reform-minded actors within recipient countries to change the equilibrium of domestic (lack of) support for proposed reforms. Although the need to engage local reform-minded elites and to create a sense of "local ownership" of reform programs has been noted, it has also been argued that too much external pressure can be ineffective or even counterproductive (Williamson and Haggard 1994: 566). The prospect of support from IFIs can also be used as leverage by ruling elites to extract resources or concessions from other external actors in an economic and political relationship. For example, when Belarus authorities were considering the option of IMF support in 2015, Belarusian President Lukashenko, after first hosting the head of the IMF mission, later in his visit to New York, met with the IMF Managing Director Lagarde to signal the importance of a possible agreement (Belta 2015). However, eventually

Belarus turned to support from Russia and Eurasian Union institutions. About a year later, in 2016, President Lukashenko publicly criticized the measures proposed by the IMF, such as raising utility rates, privatizing state-owned enterprises and other "super liberal" requirements that could "choke the nation" and "erase everything the nation and the president have done in the last 20 years" (Belta 2016). He furthermore claimed that it was the US and the EU as dominant shareholders who decided the policies of the IMF and that "no IMF decisions have ever been made without them" (Ibid.).

The experience of the IMF and the WB with Belarus, Moldova and Ukraine has contributed to additional efforts at increasing the ownership of the country agreements and policy reforms agreed. To maximize program ownership, the program could be signed jointly by four signatories: the country's president, prime minister, minister of finance and the governor of the central bank (a unique feature applied in the case of the SBA of 2008 with Ukraine). The program can also be presented to the political opposition to broaden political support for its implementation (this has been practiced in Ukraine – see IMF 2011b). In coordination with the IMF, the authorities of the recipient country usually provide assessments of the country's situation, which are then submitted alongside staff reports from the IFIs. While the IFIs interact with ruling elites in recipient countries, they also engage with different stakeholders from civil society to collect information on the country's situation and progress in implementing reforms. Although the involvement of NGOs and other societal actors can increase bottom-up support for transition reforms, there are also risks to this approach. Dominant coalitions can manipulate the process by establishing their own societal organizations, which only formally act as NGOs. Furthermore, NGOs can pressure the authorities to undertake reforms with only symbolic value, as could eventually be the case with the establishment of the special anti-corruption court in Ukraine.

5. Conclusions

The IFIs, in particular the IMF, have played an important role in supporting the transition of EaP countries from centrally planned economies to market economies. Although their activities have been aimed specifically at macroeconomic and financial stabilization (in the case of the IMF) and economic development (in the case of the WB), they nevertheless encompassed a broad reform agenda (see Table 3).

Table 3. Framework for assessing approaches and strategies of IFIs towards EaP countries

Dimension	**Categorization**	**Sector specific**			
		Trade	Migration	Energy	Security
Guiding principles	Multilateral actors; Engagement dependent on recipient country request; Coordination with other donors				
Goals (general) objectives (sectoral) - policies - instruments - resources	Transition to open market economy and institutions; Macroeconomic and financial stabilization, economic development Conditionality (financial assistance in exchange for reforms) Technical and financial assistance	Opening economy to competition, structural reforms, attracting investment privatization, tackling corruption,	Streamlining business environment to ease employment, increasing labour market participation, education	Liberalizing energy sector, raising gas and heating tariffs, targeted subsidies to low-income households, structural	Rule of law and judicial reforms

		reforming SoEs, strengthening CB independence and improving governance	reforms to reduce emigration pressure	reforms (liberalization) to increase efficiency of energy sector, independent regulator
Carriers & targets of external actors' foreign policy	IFIs' executive boards of directors and staff members; Coordination of policies with other IFIs, the EU, the US and other donors; In recipient country – ruling elites (President, PM, MoF, Central Bank), opposition, societal actors, potential ruling elites			

Source: compiled by the author on the basis of IMF and WB reports

Their strategies and approaches were to a large extent based on the assumption that open economies, including a liberal external trade regime and reduced regulatory and other barriers to market entry, are the key condition to successful transition and reform of institutions.

It should be noted, however, that fiscal consolidation and reforms of governing structures have dominated assistance programs with financial (banking) and energy sectors' reforms receiving particular attention in all three countries. The focus on these two sectors could be seen as an indication of the areas where rent-seeking is most widely practiced and/or reforms are often avoided. More specifically, reforms may be avoided by the local elite with a vested interest in preserving rent-accumulation sources, often hidden behind a bureaucratic 'jungle', which deprives the majority of the population from opportunities to increase their purchasing power and to access public services without personal connections. For example, artificially low prices of gas and heating are used to maintain public support for the closed economic and institutional environment, while still allowing the ruling elite to maintain privileges.

Meanwhile, external trade liberalization has been addressed mostly indirectly, through support of trade liberalization within the WTO accession process, as in the case of Ukraine, and on the basis of the AAs, as in the cases of Moldova and Ukraine. Competition and market entry has primarily been supported by focusing on levelling the playing field in terms of tax regime, removing privileges of state-owned enterprises, and reducing discretion and rent-seeking practices. Particular focus has been laid on reducing incentives for corruption as well as enforcing sanctions for corrupt practices, which also aims at making the business environment more attractive to foreign investors. Increasing the focus on policies aimed at reducing corruption, in particular in the case of Ukraine, is among the most notable features of the IFIs' operations in those countries. However, such measures were most often at risk of only being implemented 'on paper', in a symbolic way, i.e. without leading to the desired outcome.

The attempts to broaden the political and societal support for the country assistance programs and agreed policy reforms have become another exceptional element of the support strategy that has been practiced by the IFIs in EaP countries, in particular in Ukraine. In the latter case, the negotiated arrangements were discussed not only with key figures from the ruling elites and responsible institutions but also with the opposition, societal activists and other important stakeholders. In this respect, all three country cases are different. In Belarus, societal support for transition reforms and the elimination of rent-seeking activities is the weakest, most probably due to the preference for relative stability and order as well as satisfactory living conditions provided to a large share of population, often employed by the public sector. In Moldova, the initial support from the population for reforms around 2010 decreased after the bank fraud revealed how the dominant elites imitated reforms, at the same time using them as a cover up for rent-accumulation. In Ukraine, societal support for reforms has been the strongest, although it also has its limits when confronted with organizations established and funded by oligarchs or when distracted by symbolic reform measures.

The IMF and the WB have practiced a coordinated approach to financial and technical support for transition measures in Central and Eastern European countries. They have coordinated their policies among themselves and other institutions and donors such as the US, EU, EBRD, EIC and others. The IMF has usually played the role of an anchor with respect to unlocking financial support to the recipient countries. Its role, however, has been extended far beyond direct financial support and related conditionality. It has been an important provider of technical expertise, a coordinator of policy advice, an anchor of reform policies and a signalling institution watched by financial markets. At the same time, as the case of Belarus illustrates, the IMF and other external actors' efforts at coordination have also had limited effects because Russia and, to some extent, China pursue different goals in those countries in comparison. Belarus' authorities have been practicing a 'pick-and-choose' approach to their relations with different sources of external support, relying on those that are softer on conditions of funding or less stringent on implementation of the reforms that could threaten the dominant position and rent-accumulation channels of the ruling elite.

The gradualism of the Ukrainian and Moldovan transition processes as well as the more limited reforms of Belarus illustrate the limits of the IFIs' strategies in supporting transition. In all three cases, the IMF and the WB have focused on similar policy areas using similar instruments and policy conditionalities in line with their mandates and the needs expressed by recipient countries' authorities. The need for funding has been the main incentive for the three countries' authorities to engage with the IFIs. However, as soon as funding pressures were eased, either because of alternative sources of support or the improving domestic economic situation, the commitments agreed in country programs were not met and reforms were not implemented. It was usually the economic and institutional reforms that could have eliminated opportunities for rent-accumulation for ruling elites, for example, in the energy and banking sectors, or that could have threatened societal support for the ruling elites by exposing the real costs of policies, that were left unimplemented.

The repeated termination of half-implemented agreements and signing of new ones with an emphasis on the same fiscal and economic stabilization measures, privatization, liberalization, reform of state owned enterprises, and streamlining of regulation for different sectors of the economy, might covey the impression that there has been little change in the approaches and strategies of the IFIs. This would, however, be an incorrect conclusion to draw. The IMF and the WB went through an important learning process as a result of their involvement in the aforementioned EaP countries. The key lessons drawn from their experiences in cooperating with these countries have been: the perceived need for politically inclusive dialogue to broaden the potential support for country programs; the need for strengthening of reform ownership; and greater emphasis on tackling corruption to improve governance. Increasing the focus on institutional and regulatory reforms that could reduce incentives for corruption and opportunities for rent-seeking has gradually become exceedingly important in the cases of Ukraine and Moldova, thus altering the overall strategies of the IFIs.

The record of their involvement also seems to provide the basis to argue that the coordinated efforts of external providers of financial and technical support can have an important impact on economic and institutional reforms (some analysts estimate that in the case of Ukraine, international partners' conditionality contributed to 23 % of its reform index score (Vox Ukraine 2017)). However, it will ultimately depend on the domestic situation, and in particular on the calculations of the ruling elites as well as pressure from civil society, whether these external resources and incentives can tip the balance towards transition. This is also in consideration of the presence of alternative sources of external support offering softer conditionality that does not threaten the dominant position of elites. A genuine transition would need to involve opening up of the economy, a reform of state institutions to make them more transparent, efficient and impartial, as well as the reduction of incentives and opportunities for rent-accumulation, thus promoting the dispersion of economic gains to wider segments of society.

References

Ash, T. (2018) ‘Ukraine – IMF explained’, available at https://www.theubj.com/news/view/ukraine-imf-explained (accessed 24 February 2018).

Aslund, A. (2013) *How Capitalism Was Built. The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia*, Cambridge: Cambridge University Press, second edition.

Aslund, A. (2015) *Ukraine. What Went Wrong and How to Fix It*, Washington D. C.: Peterson Institute for International Economics.

Aslund, A. (2018) ‘Good news: Ukraine finally gets new IMF agreement’, Atlantic Council, available at https://www.atlanticcouncil.org/blogs/ukrainealert/good-news-ukraine-finally-gets-new-imf-agreement (accessed 18 December 2018).

Balcerowicz, L. (1994) ‘Poland’, in J. Williamson (ed.) The Political Economy of Policy Reform, Washington D.C.: Institute for International Economics, pp. 153-177.

Belta (2015) ‘Lukashenko hopes for balanced approach in new IMF program for Belarus’, *Belarus news*, available at http://eng.belta.by/president/view/lukashenko-hopes-for-balanced-approach-in-new-imf-program-for-belarus-85700-2015 (accessed 12 January 2018).

Belta (2016) ‘Lukashenko: Arrangements concerning the new IMF loan should not “choke” the nation’, *Belarus news*, available at http://eng.belta.by/president/view/lukashenko-arrangements-concerning-the-new-imf-loan-must-not-choke-the-nation-95017-2016/ (accessed 5 January 2018).

Bergsten, C. F., Williamson, J. (1994) ‘Introduction’, in J. Williamson (ed.) The Political Economy of Policy Reform, Washington D.C.: Institute for International Economics, pp. 1-8.

Boughton, J. M. (2004) ‘The IMF and the Force of History: Ten Events and Ten Ideas That Have Shaped the Institution’, *IMF Working Paper WP/04/75*, Washington D. C.: IMF.

Broome, A. (2014) *Issues and Actors in the Global Political Economy*, New York: Palgrave Macmillan.

Dabrowski, M. (2017) ‘Ukraine’s unfinished reform agenda’, *Policy Contribution Issue No. 24, Bruegel*, available at http://bruegel.org/wp-content/uploads/2017/09/PC-24-2017-1.pdf (accessed 18 January 2018).

Dobrinsky, R. (ed.) (2016) ‘The Belarus Economy: The Challenge of Stalled Reforms’, *WIIW Research Report 43*, The Vienna Institute for International Economic Studies.

European Bank for Reconstruction and Development (2016) *Lost in transition: 25 years of the EBRD*, London: EBRD.

Forsberg, T., Haukkala, H. (2016) *The European Union and Russia*, New York: Palgrave Macmillan.

Freyburg, T., Lavenex, S., Schimmelfennig, F., Skripka, T., Wetzel, A. (2015) *Democracy Promotion by Functional Cooperation. The European Union and its Neighbours*, New York: Palgrave Macmillan.

Ghinea, C., Chirila, V. (2010) 'EU – Moldova negotiations. What is to be discussed, what is to be achieved?', Conference Report, Romania Center for European Policies, Foreign Policy Association, Soros Foundation-Romania, Soros Foundation-Moldova.

Gorchinskaya, K. (1998) 'IMF, World Bank freeze Ukraine loans' available at https://www.kyivpost.com/article/content/ukraine-politics/imf-world-bank-freeze-ukraine-loans-713.html (accessed 5 January 2018).

Hartwell, C. H. (2016) T*wo Roads Diverge. The Transition Experience of Poland and Ukraine*, Cambridge: Cambridge University Press.

Havrylyshyn, O., Odling-Smee, J. (2000) 'Political Economy of Stalled Reforms', *Finance and Development* 37 (3), available at http://www.imf.org/external/pubs/ft/fandd/2000/09/havrylys.htm (accessed 12 December 2017).

Havrylyshyn, O., Meng, X., Tupy, M. L. (2016) '25 years of reforms in Ex- Communist countries', *Policy Analysis No. 795*, Washington D. C.: CATO Institute.

International Monetary Fund (2002) 'Guidelines on Conditionality', Washington D.C.: IMF.

International Monetary Fund (2005) 'Ukraine. 2005 Article IV Consultation and Ex-Post Assessment of Longer-Term Program Engagement', *IMF Country Report No. 05/415*, Washington D.C.: IMF.

International Monetary Fund (2007a) 'Republic of Moldova. Second Review under the Three-Year Arrangement under the Poverty Reduction and Growth facility and Request for Waiver of Non-observance of Performance Criterion', *IMF Country Report No. 07/275*, Washington D.C.: IMF.

International Monetary Fund (2007b) 'Ukraine: 2006 Article IV Consultation – Staff report; Staff Statement, and Public Information Notice on the Executive Board Discussion', *IMF Country Report No. 07/50*, Washington D.C.: IMF.

International Monetary Fund (2008) 'Republic of Moldova. Fourth Review under the Three-Year Arrangement under the Poverty Reduction and Growth facility and Request for Waiver of Non-observance of Performance Criterion', *IMF Country Report No. 08/320*, Washington D.C.: IMF.

International Monetary Fund (2009) 'Republic of Belarus: Request for Stand-By Arrangement', *IMF Country Report No. 09/109*, Washington D. C.: IMF.

International Monetary Fund (2010) ‘Republic of Moldova. Request for a Three-Year Arrangement under the Extended Credit Facility and Request for an Extended Arrangement’, *IMF Country Report No. 10/32*, Washington D.C.: IMF.

International Monetary Fund (2011a) ‘Republic of Belarus. Ex Post Evaluation of Exceptional Access under the 2009 Stand-By Arrangement’, *IMF Country Report No. 11/99*, Washington D. C.: IMF.

International Monetary Fund (2011b) ‘Ukraine: Ex Post Evaluation of Exceptional Access under the 2008 Stand-By Arrangement’, *IMF Country Report No. 11/325*, Washington D. C.: IMF.

International Monetary Fund (2012a) ‘Republic of Moldova. Fourth Review under the Extended Arrangement and under the Three-Year Arrangement under Extended Credit Facility, and Requests for Waiver for Non-Observance of Performance Criterion and for Modification of Performance Criterion’, *IMF Country Report No. 12/38*, Washington D.C.: IMF.

International Monetary Fund (2012b) ‘Republic of Moldova. Staff Report for the 2012 Article IV Consultation, Fifth Reviews under the Extended Arrangement and under the Three-Year Arrangement under Extended Credit Facility, and Requests for Waiver for Non-Observance and Modification of Performance Criterion’, *IMF Country Report No. 12/288*, Washington D.C.: IMF.

International Monetary Fund (2012c) ‘Ukraine. 2012 Article IV Consultation’, *IMF Country Report No. 12/315*, Washington D.C.: IMF.

International Monetary Fund (2014a) ’25 Years of Transition. Post-Communist Europe and the IMF’, *Regional Economic Issues Special Report*, Washington D.C.: IMF.

International Monetary Fund (2014b) ‘Ukraine. 2013 Article IV Consultation and First Post-Program Monitoring’, *IMF Country Report No. 14/145*, Washington D.C.: IMF.

International Monetary Fund (2014c) ‘Ukraine. Request for a Stand-By Arrangement’, *IMF Country Report No. 14/106*, Washington D.C.: IMF.

International Monetary Fund (2014d) ‘Ukraine. First Review under the First Stand-By Arrangement, Requests for Waivers of Non-Observance and Applicability of Performance Criteria, and a Request for Rephasing of the Arrangement’, *IMF Country Report No. 14/263*, Washington D.C.: IMF.

International Monetary Fund (2015a) ‘Press Release: IMF Executive Board Approves 4-Year US$17.5 Billion Extended Fund Facility for Ukraine, US$5 Billion for Immediate Disbursement’, available at https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15107 (accessed 20 February 2018).

International Monetary Fund (2015b) ‘Ukraine. First Review under the Extended Arrangement’, *IMF Country Report No. 15/218*, Washington D.C.: IMF.

International Monetary Fund (2016a) ‘Republic of Moldova. Requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility’, *IMF Country Report No. 16/343*, Washington D.C.: IMF.

International Monetary Fund (2016b) ‘Ukraine. Second Review under the Extended Fund Facility and Requests for Waivers of Non-Observance of Performance Criteria, Rephasing of Access and Financing Assurances Review’, *IMF Country Report No. 16/319*, Washington D.C.: IMF.

International Monetary Fund (2017a) ‘Belarus: Staff Concluding Statement of the 2017 Article IV mission’, available at https://www.imf.org/en/News/Articles/2017/11/09/ms110917-belarus-staff-concluding-statement-of-the-2017-article-iv-mission (accessed on 15 December 2017).

International Monetary Fund (2017b) ‘Republic of Moldova. 2017 Article IV consultation and second review under the Extended Fund Facility and Extended Credit Facility Arrangements’, *IMF Country Report No. 17/398*, Washington D.C.: IMF.

International Monetary Fund (2017c) ‘Ukraine. 2016 Article IV Consultation and the Third Review under the Extended Fund Facility, Requests for a Waiver of Non-Observance of a Performance Criterion, Waiver of Applicability, Rephasing of Access and Financing Assurances Review’, *IMF Country Report No. 17/83*, Washington D.C.: IMF.

International Monetary Fund (2018a) ‘Quota and voting shares before and after implementation of reforms agreed in 2008 and 2010’, available at http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf (accessed 13 February 2018).

International Monetary Fund (2018b) ‘IMF Executive Board Completes the Third Reviews under the Extended Fund Facility and Extended Credit Facility Arrangements for Republic of Moldova’, available at https://www.imf.org/en/News/Articles/2018/06/29/pr18270-imf-executive-board-completes-the-third-reviews-under-ecf (accessed on 14 December 2018).

International Monetary Fund (2018c) ‘Statement by the IMF Managing Director on Ukraine’, June 19, available at https://www.imf.org/en/News/Articles/2018/06/19/pr18244-statement-by-the-imf-managing-director-on-ukraine (accessed on 14 December 2018).

International Monetary Fund (2018d) ‘IMF and Ukrainian Authorities Reach Staff Level Agreement on a New Stand-By Arrangement’, October 19, available at https://www.imf.org/en/News/Articles/2018/10/19/pr18392-imf-and-ukrainian-authorities-reach-staff-level-agreement-on-a-new-stand-by-arrangement (accessed on 14 December 2018).

International Monetary Fund (2018e) ‘IMF Executive Board Approves 14-month $ 3.9 billion Stand-By Arrangement for Ukraine, $ 1.4 billion for Immediate Disbursement’, December 18, available at https://www.imf.org/en/News/Articles/2018/12/18/pr18483-ukraine-imf-executive-board-approves-14-month-stand-by-arrangement (accessed on 20 December 2018).

Krueger, A. (1997) 'Whither the World Bank and the IMF?', *NBER Working paper 6327*, Cambridge, MA.: National Bureau of Economic Research.

Moshes, A., Nizhnikau, R. (2017) 'Belarus' Disequilibrium. Mounting Challenges and Reluctance to Change', *FIIA Briefing Paper 223*, Helsinki: The Finish Institute of International Affairs.

North, D. et al (2009) *Violence and Social Orders. A Conceptual Framework for Interpreting Human History*, Cambridge: Cambridge University Press.

Olearchyk, R. (2010) 'IMF approves $15 billion loan to Ukraine', *Financial Times*, 29 July 2010, available at https://www.ft.com/content/dd7c63ce-9ae8-11df-ae58-00144feab49a (accessed 20 February 2018).

Rachman, G. (2017) *Easternisation. War and Peace in the Asian Century*, London: Vintage.

Rao, S., Strohecker, K. (2017) 'Ukraine Finance Minister confident of one more IMF tranche in 2017', *Reuters*, 12 September, available at https://www.reuters.com/article/us-ukraine-economy/ukrainian-finance-minister-confident-of-one-more-imf-tranche-in-2017-idUSKCN1BN10L (accessed 20 February 2018).

Reinhart, C. M., Trebesch, C. (2015) 'The International Monetary Fund: 70 years of reinvention', *NBER Working paper 21805*, Cambridge, MA.: National Bureau of Economic Research.

Sachs, J. (1994) 'Life in the economic emergency room', in J. Williamson (ed.) The Political Economy of Policy Reform, Washington D.C.: Institute for International Economics, pp. 501-524.

Shevchenko, M. (2018) 'Ukraine and IMF: Critical Point', available at https://economics.unian.info/10015307-ukraine-and-imf-critical-point.html (accessed 24 February 2018).

Sonin, K. (2013) 'The end of economic transition. Lessons for future reformers and students of reform', *Economics of Transition* 21 (1): 1-10.

Verbyany, V. (2017) 'Lagarde slams Ukraine over crumbling anti-corruption efforts', *Bloomberg*, 7 December 2017, available at https://www.bloomberg.com/news/articles/2017-12-07/imf-joins-criticism-of-ukraine-s-crumbling-anti-graft-efforts (accessed 8 January 2018).

Vlas, C. (2018) 'World Bank provides $10 million loan to Moldova education reform', available at www.moldova.org/en/world-bank-provides-10-million-loan-moldova-education-reform/ (accessed 19 February 2018).

Vox Ukraine (2016) 'Why Ukraine needs the IMF more than the IMF needs Ukraine?', available at https://voxukraine.org/en/why-ukraine-needs-the-imf-more-than-the-imf-needs-ukraine-en/?utm_source=longreads&utm_medium=more (accessed 2 December 2017).

Vox Ukraine (2017) 'Three years of reforms. Has Ukraine reformed enough to survive?' available at https://voxukraine.org/longreads/three-years-of-reforms/index-en.html#form (accessed 10 Janaury 2018).

Wei, S. – J., Zhang, Z. (2006) 'Do external interventions work? The case of trade reform in IMF supported programs', *NBER Working paper 12667*, Cambridge, MA.: National Bureau of Economic Research.

Wesslau, F., Wilson, A. (2017) 'So Far from God, So Close to Russia: Belarus and the Zapad Military Excercises', *ECFR Policy Memo 231*, London: European Council of Foreign Relations.

Williamson, J., Haggard, S. (1994) 'The political conditions for economic reform', in J. Williamson (ed.) The Political Economy of Policy Reform, Washington D.C.: Institute for International Economics, pp. 525-596.

Williamson, J. (1994) 'In search of a manual for technopols', in J. Williamson (ed.) The Political Economy of Policy Reform, Washington D.C.: Institute for International Economics, pp. 9-28.

Williamson, J. (ed.) (1994) *The Political Economy of Policy Reform*, Washington D.C.: Institute for International Economics.

World Bank (1996) From Plan to Market. *World Development report 1996*, New York: Oxford University Press.

World Bank (2000) Ukraine. Country Assistance Evaluation, *Report No. 21358*, Washington D. C.: World Bank.

World Bank (2017a) 'The World Bank in Belarus', available at http://www.worldbank.org/en/country/belarus (accessed 14 January 2018).

World Bank (2017b) 'The World Bank and Moldova' available at http://www.worldbank.org/en/country/moldova (accessed 11 March 2018).

World Bank (2017c) 'The World Bank in Ukraine', available at http://www.worldbank.org/en/country/ukraine (accessed 11 March 2018).

World Bank (2017d) 'Ukraine – Country Partnership Framework for the period FY17-21' Washington D.C.: World Bank Group.

World Bank (2018) 'What We Do', available at http://www.worldbank.org/en/about/what-we-do (accessed 13 February 2018).

Youngs, R. (2017) *Europe's Eastern Crisis. The Geopolitics of Asymmetry*, Cambridge: Cambridge University Press.

The EU and Eastern Partnership Countries
An Inside-Out Analysis and Strategic Assessment

Against the background of the war in Ukraine and the rising tensions with Russia, a reassessment of the European Neighborhood Policy has become both more urgent and more challenging. Adopting an inside-out perspective on the challenges of transformation the Eastern Partnership (EaP) countries and the European Union face, the research project EU-STRAT seeks to understand varieties of social orders in EaP countries and to explain the propensity of domestic actors to engage in change. EU-STRAT also investigates how bilateral, regional and global interdependencies shape domestic actors' preferences and scope of action. Featuring an eleven-partner consortium of academic, policy, and management excellence, EU-STRAT creates new and strengthens existing links within and between the academic and the policy world on matters relating to current and future relations with EaP countries.