

## JOINING INTERNATIONAL FINANCIAL INSTITUTIONS THE ROAD AHEAD

### INTRODUCTION

Following the declaration of independence by the Kosovo authorities, one of the main challenges of Kosovo will be economic development with the goal of alleviating poverty and improving the living conditions of the average Kosovar. Kosovo will have to undergo a series of difficult reforms, to tackle the main obstacles in its path towards prosperity and European Integration. In this endeavor, Kosovo requires the support of the international community. Membership in the International Financial Institutions is one of the assets in this path that Kosovo should use as soon as possible.

After the declaration Kosovo would be able to join the two most important financial institutions of the Bretton Woods system, International Monetary Fund (IMF) and the World Bank (WB). This policy brief recommends the next steps that Kosovo needs to take in order to become a member of the big international financial family. The Kosovo authorities have already started informal discussions with the International Monetary Fund.

Serbia and Russia will try and block Kosovo from international forums. The plan of the UN special representative Marti Ahtisaari did not get through in the Security Council, because of the opposition from the veto-holding member Russia. Therefore, it is highly unlikely that Kosovo will be able to join the UN in the short term. However, there are institutions, membership in which is very important, and where Kosovo's membership cannot be blocked by one country. IMF and the WB are two such institutions

In both of the IFI's that this policy brief talks about, decisions are made by the governing board which consists of member countries, with different voting power in line with their economic power. Decisions to accept new members require the approval of a simple majority of the board of governors (50 + 1 percent). Some of the biggest shareholders of these institutions are the US and several European Countries that support Kosovo's independence. Decision making powers are proportional with the size of the shares that one country has. Below you can see the latest voting power percentages for the most powerful countries.

*“The Board of Governors, the highest decision-making body of the IMF, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. All powers of the IMF are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.” (Source: IMF)*

### **Other membership information and advantages of membership**

A member country is assigned a quota, which is proportional to the size of the economy and the potential that the economy has. A member’s quota in the IMF determines:

- The amount of its subscription - Kosovo needs to pay a subscription fee in line with the quota;
- Its voting weight; the quota determines the voting power of a country (see table below)
- Its access to IMF financing; the borrowing from these institutions is limited;
- Its allocation of Special Drawing Rights (SDR’s) which is used as a unit of account by the IMF and it basically represents a basket of major currencies

For comparison purposes, Montenegro’s quota is .01 percent of the total (27.5 million SDR’s) and it has 525 votes or .02 percent of the total. Albania’s quota is .02 percent (48.7 million SDR’s) and it has 737 votes (.03 percent of the total). (Source: IMF)

Apart from the limited borrowing, the membership benefits include:

- Assistance in structural reforms with the goal of alleviating poverty,
- Funds to achieve these structural reforms,
- Reliable information which could be provided to investors about the economy and risk of investment in Kosovo, which would eventually lead to the credit rating of Kosovo;
- Assistance in policies towards achieving macroeconomic stability etc.

More importantly, at this stage, IMF and the WB are two very important international financial institutions, and membership in these institutions apart from development and financial advantages would strengthen Kosovo’s legitimacy as an independent country.

Therefore, if a critical mass of shareholders is created in the IMF and WB to accept the newest member, Kosovo can become a member of these prestigious institutions.

However, the membership process is not easy and requires a lot of work from the country that is applying for membership. This we have seen from the experience of some of the newest countries in the world that have recently become members of these institutions such as Timor Leste and Montenegro. Montenegro became a member of the International Monetary Fund in January of 2007, seven months after the declaration of independence by the Montenegrin authorities, even though they had done most of the preparations before the actual declaration. Therefore, it is very important that the government of Kosovo initiates the membership process in these two institutions as soon as it declares independence.

Kosovo's potential external debt (half of which is owed to the World Bank) was discussed during the status negotiations in Vienna. The Kosovo authorities expressed their willingness to take over any debt that potentially belongs to Kosovo, once the original debt documentation is reviewed. The Serb authorities who are currently servicing that debt have not provided all the original documentation. This policy brief is not intended to provide information related to the Kosovo debt to the World Bank. It also does not take any positions on the issue. The goal of this policy brief is to raise awareness over IFI membership and give information about the first steps in the procedure.

## PROCEDURE

A country needs to become a member of the International Monetary Fund before it can become a member of the World Bank. Although the World Bank membership also entails quite a lot of procedural work, the first priority should be starting the negotiations with the IMF. **Although a country needs to become a member of the IMF before it becomes a member of the WB, many of the membership procedures can be completed in parallel.**

## PRECONDITIONS

Membership in the IMF is at the same time the most difficult and the most important part of the membership process. To become a member of the IMF, three criteria need to be met:

- 1. The applicant needs to be a country* – IMF does not require UN membership
- 2. The applicant needs to be in control of foreign affairs* – After the declaration of independence, Kosovo authorities will be in control of foreign affairs.
- 3. The applicant should be able and ready to take the obligations of membership* – This includes change in legislation of the applicant country, where Kosovo would undertake the obligations of the membership. For example, Montenegro, in October

of 2007 passed the law on the Membership of Montenegro in the IMF and other Financial Institutions, according to which Montenegro accepted membership in the financial institutions with all the obligations that the membership entails in its agreements, stipulated that the Ministry of Finance would be the fiscal agent of the Republic of Montenegro in the World Bank, the Central Bank of Montenegro was appointed to be the fiscal agent of Montenegro in the IMF. (*Source: the government of Montenegro*). The legislation would allow the applicant to sign articles of agreement with the IMF. Apart from the legislation, the commitments would include the commitment to pay the assigned subscription and other requirements from the articles of agreement.

### **Formal Application and the Membership (quota) mission**

After fulfilling all of these conditions, one country fills the application for membership in the International Monetary Fund. After acceptance of the application, IMF sends a special membership mission to Kosovo that collects all the information and prepares an appraisal document of the Kosovo economy. The mission also recommends the participation of the country in the IMF which is done according to the economic position of that country relative to the other countries.

The membership mission will require from the Kosovo authorities the collection of economic information for the last 20 years. This could pose difficulties for the Kosovo authorities, since information on the Kosovo economy especially during the 90's is not readily available and would require a lot of assumptions. The Kosovo authorities and the IMF have to be ready to address the issue of non-existing data.






















### **Ad-Hoc Committee**

The Executive Board of the International Monetary Fund establishes an ad-hoc committee, which consists of 6 - 8 executive directors from the board who are appointed according to a recommendation of the managing director. This committee is responsible for approving the quota as well as other conditions for membership. The head of this committee then contacts the state to check if the country agrees with the results of the committee.

### **The Vote**






















If there is agreement, then the proposal is sent to the governing board for approval. The proposal requires 51 percent of the votes, to get approval. After the approval, applicant countries have six months to complete legislation. The World Bank procedural process can be done simultaneously, since there are a lot of administration procedures that need to be completed.

Voting Power at the IMF

Country	Quota
1 United States 	17.09
2 Japan 	6.13
3 Germany 	5.99
4 United Kingdom 	4.94
5 France 	4.94
6 China 	3.72
7 Italy 	3.25
8 Saudi Arabia 	3.21
9 Canada 	2.93
10 Russian Federation 	2.74
11 Netherlands 	2.38
12 Belgium 	2.12
13 India 	1.91
14 Switzerland 	1.59
15 Australia 	1.49
16 Mexico 	1.45
17 Brazil 	1.4
18 Spain 	1.4
19 Korea 	1.35
20 Venezuela 	1.22
21 Sweden 	1.1
Total 21 countries	72.35
All the rest	27.65

\*IMF Website

Voting Power at the WB (IBRD)

Country	Quota
1 United States 	16.38
2 Japan 	7.86
3 Germany 	4.49
4 United Kingdom 	4.3
5 France 	4.3
6 China 	2.78
7 Italy 	2.78
8 Saudi Arabia 	2.78
9 Canada 	2.78
10 Russian Federation 	2.78
11 India 	2.78
12 Netherlands 	2.21
13 Brazil 	2.07
14 Belgium 	1.81
15 Spain 	1.74
16 Switzerland 	1.66
17 Australia 	1.53
18 Iran 	1.48
19 Korea 	1.35
20 Venezuela 	1.27
21 Mexico 	1.18
Total 21 countries	70.31
All the rest	29.69

\*WB website

**NEXT STEPS - RECOMMENDATIONS**

It is recommended that the government of Kosovo proceeds with the following steps:

1. Start discussions with the IMF and World Bank to start the membership process;
2. Prepare an application, immediately after Kosovo declares independence;
3. Organize an official Kosovo delegation visit to Washington to meet WB and IMF, where the government of Kosovo would also get more familiar with these institutions;
4. Start preparing for the membership mission;
5. Start preparing for necessary membership legislation;