Fixing Russia's Banks, AGAIN: A POSTSCRIPT

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In late February, a joint International Monetary Fund and World Bank mission arrived in Moscow to study Russia's banking system. In our previous article, "*Fixing Russia's Banks*, AGAIN," we pointed out the failure of previous attempts by the IMF and international accounting firms to construct accurate, comprehensive balance sheets of Russia's commercial banks and its financial system (combining the Central Bank of Russia with the country's commercial banks). Moreover, we have yet to see evidence that the IMF or international accounting firms have remedied their previous shortcomings.

On March 16, 2001, *The Financial Times* reported that Swiss prosecutors were investigating alleged misappropriation of $4.8 billion that the IMF lent to Russia in July 1998, just before the August 17, 1998, default. The issue is whether some of the IMF's funds were diverted to benefit third parties via Switzerland, rather than serve the goals of the IMF. The Swiss have asked the IMF to provide them with a list of Russian banks that received part of the loan.

After the default, at the request of the IMF, the Central Bank of Russia commissioned PriceWaterhouse Coopers (PWC) to conduct an audit of the IMF funds. Citing a confidentiality agreement with PWC, the IMF has not yet fully met the Swiss request. The IMF says it has asked PWC for permission to provide the Swiss with the information they have requested, but that PWC has declined to cooperate.

The Financial Times reported that it has obtained a copy of the audit. It reports that the following crucial words appeared in the audit: PWC "did not attempt to verify the completeness or accuracy of information" on which the audit is based. In short, PWC did not conduct a comprehensive, independent audit. Rather, it took at face value information supplied by the Russian government.

Nonetheless, based on PWC's audit of money transfers between the Federal Reserve Bank of New York, the Central Bank of Russia, and several Russian commercial banks, the IMF said it was satisfied that its $4.8 billion loan was well spent. To this date, the IMF claims the audit shows no misuse of funds.

In Chapters 2 and 3 of *Fixing Russia's Banks*, we demonstrated that the balance sheets of Russia's commercial banks and the monetary survey of the Central Bank and commercial banks combined were inaccurate and incomplete. In addition to that accounting exercise, we also demonstrated in a previous article, "How Big are Russia's Foreign Exchange Reserves," that the Central Bank of Russia was creative in its accounting in 1999, misreporting its reserves to sustain the ruble.

The IMF and PWC are two international institutions that purport to be above reproach in the integrity of their accounting. Given their past track record in Russia, a side-by-side comparison of the PWC audit with an independent, thorough re-audit of the $4.8 billion is likely to produce two different sets of numbers.

Among the principal tasks, two stand out for the evolution of normal, Western-style banks in Russia. First, Russia's ersatz banks must be transformed into real banks. We proposed a solution in Chapter 4 of *Fixing Russia's Banks*. Second, it's also necessary to perform and report accurate, complete accounting of Russia's financial institutions. On this score, the IMF and PWC have failed.