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Disclosure policy review – A glass of information half full or half empty?

The World Bank has been busy presenting and consulting on its approach paper "Toward Greater Transparency: Rethinking the World Bank's Disclosure Policy". Non-governmental organisations have welcomed the Bank's long-expected initiative to review its current disclosure policy established in 2002. An inspiring fact was that the new paper was developed in cooperation with the Global Transparency Initiative.

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Bank 'panglosses' over the facts with new Georgian partnership strategy

The launch last month of the World Bank's new Country Partnership Strategy (CPS) with Georgia, set to guide USD 740-900 million of World Bank lending in the coming four years, provokes memories of previous excessively favourable Bank assessments of the country's development, assessments that to some observers recall the inglorious self-deceptions of Voltaire's Dr Pangloss. And with the promise of much more focus on "renewables" investments, there is equally the suspicion that, as far as the Georgian energy sector is concerned, the surface level view from Washington DC chimes with the Panglossian "everything is for the best in the best of all possible worlds".

Positive progress in Georgian society since the 'Rose revolution' has taken place but an unmistakeable backdrop remains. Persistent problems remain related to corruption, widespread poverty and unemployment, weak social safety nets and weak environmental legislation that es-

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DISCLOSURE POLICY REVIEW – A GLASS OF INFORMATION HALF FULL OR HALF EMPTY?

The Bank held live public consultations in 33 member countries from April until June this year. Initially, the planned consultation period was to last just over two months, though subsequently the NGOs insisted that the Bank extended the consultation period until June 5. Unfortunately, not all meetings were attended by Bank officials directly involved in the policy development, and very often staff present merely promised to send the comments to Washington instead of really processing them.

The document was presented simply as a concept, one though which states that the Bank proposes to shift its approach to disclosure — from today's policy, which spells out what information the Bank discloses (a "positive list"), to one under which the Bank would disclose any information in its possession that is not on a list of exceptions.

During the consultations NGOs presented a range of propositions and comments on how to improve the conception in focus.

For instance, the confidentiality parameters set by the proposed conception are not clear enough. The approach to be used in order to define the list of exceptions must be very well defined and explain the reasons for such.

The Bank proposes to classify information according to four categories: "public", "official use only", "confidential" or "strictly confidential". Some NGOs have proposed another system — "public," "available upon request" and "confidential."

NGO participants also emphasised the need for introducing rules covering receipt of request confirmation, specific timelines for disclosure of prepared documents, and disclosure of special information (if the Bank has to find or prepare it).

The concept document has not deemed to cover the translation of the Bank's documents into local languages. To address appeals from requesters who believe that access to information was unreasonably denied, the concept does however propose the establishment of an appeals panel. Such a body would consist of representatives of the World Bank's management. NGO participants fear that this will not ensure suitable control of the recourse mechanism.

▲ Disclosure review: World Bank reveals something but continues to tip-toe around some central concerns

NGOs also deem it necessary to define how the Bank's transparency standards will apply to third parties, contractors, subcontractors etc. The new Policy must contain the third party obligation to comply with the World Bank information disclosure rules.

The draft new Policy is expected to be ready in time for the annual meeting in Istanbul, and will be followed by a second period of online consultations. But it is absolutely clear that to ensure efficient, thoroughgoing discussion of the new policy, public consultations must be held in every country and involve relevant Bank staff.

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BANK 'PANGLOSSES' OVER THE FACTS WITH NEW GEORGIAN PARTNERSHIP STRATEGY

sentially ignores the basic principles of environment protection. Striking deficiencies continue to undermine the transparency of decision-making and state procurement, as well as the establishment of the rule of law, the independence of the judiciary and the development of democratic institutions.

In recent years, the Bank has sought to prioritise the Rule of Law and the judicial system, yet results have been mixed. The physical refurbishment of Georgia's law courts – while necessary – can not be rated as a major breakthrough or achievement. At the same time, while Georgia has greatly reduced 'micro-corruption' – a major feat for the region – as Freedom House has noted this year, the problem of a selective anti-corruption policy that provides impunity for the president's retinue leaves big issues untouched. Coupled with this, public distrust towards the judiciary is an ongoing highly problematic aspect of life in Georgia.

Indeed Transparency International's Global Corruption Report for 2009 defined corruption in the judicial system as Georgia's number one problem. It is estimated that 37 percent of the country's judiciary is corrupt. Public service is in second place, with 21 percent of public servants assessed as being involved in corruption, while the national parliament comes in third in this roll-call of murkiness.

These problems with corruption are closely linked to endemic lack of information and transparency, conflicts of interest in the public service, and the inefficiency of the State Audit Chamber which still does not have clearly defined functions and responsibilities. According to Georgi. Chkheidze, Georgia's deputy ombudsman, in the judicial system financial corruption has been replaced by so-called political corruption.

One recent example of the rule of law being ignored, or rather laws being introduced without checks and balances, came just a few weeks prior to the World Bank's billing – in its venerable 'Doing Business' report – of Georgia as the eleventh easiest country in which to do business. The country's largest retailing chain Elit Electronics has for the past two years been disputing a USD 4.15 million fine imposed by the government. While the company was still lingering in court, it was forced to close after tax officials seized company assets, relying on a recently adopted tax code amendment to provide legal cover for their actions.

The World Bank may preach sustainable development, but how does this square with what it views as business nirvana in Georgia? Ease in business licensing is one thing, but it comes with unquestionable environmental and social implications. For example, for certain A – or high risk – category projects such as in oil and gold extraction, mining or farming, there is no longer any requirement for environmental and social assessment.

Equally, clear anti-worker regression in the labour code such as inadequate pregnancy reimbursement, the removal of restrictions on working hours, as well as on dismissal procedures (thereby lowering firing costs to some of the lowest levels in the world) – all are being challenged by the European Commission and the International Labour Organisation. Combine all of these elements with persistent ignorance – or just sheer abuse – of the rule of law and the independence of judiciary and it's a recipe that undermines the possibilities for the development of environmentally and socially responsible business.

Perhaps it's possible to get to the heart of the World Bank's rosy prognosis for Georgia when we consider that the preparation of the CSP did not involve a wide public participation process. Whether this sets a precedent for the Georgian government that, according to the same CSP document, lacks communication and dialogue with civil society within the country is another question. The fact, too, that the CSP is largely based on the Joint Needs Assessment (JNA) document prepared by the UN and the World Bank raises even wider concerns – no Georgian lawmakers, politicians, research organisations, interest groups or media were given a chance to take part in the development of the JNA, nor has even the full version of the JNA yet been published.

This raises fundamental questions about the "strong program of knowledge services" that the CPS press release announces will complement Bank investments in the next four years.

"Bank analytical work and dialogue," we are told, "will include analysis of public expenditure choices, poverty, post-conflict monitoring and reporting, strengthening health and education services, and the welfare and economic integration of those displaced by the conflict." Will the most vulnerable in Georgian society be duly reached out to within this 'dialogue'?

Certainly another area where public consultation involving the Bank has been sub-standard concerns Georgia's energy sector. Most recently, the Bank has inserted into its project pipeline the massive Khudoni hydro power plant in the remote and ruggedly beautiful region of Svaneti. It is proposing a commitment of up to USD 60 million in funding for the project – this despite fierce opposition on the ground. Notably the Bank's own Khudoni document seriously questions the benefits of this huge dam's construction for Georgian energy security.

Furthermore, the CPS's express commitment for the International Finance Corporation to participate in Georgia's renewables sector also raises concerns. The Ministry of Energy has noted recently that IFC, together with the European Investment Bank and the European Bank for Reconstruction and Development, are looking with interest at financing the construction of the large ONI hydropower plant Cascade involving a 105 metre dam in the Racha mountains, a region neighbouring Svaneti.

The area is well known for its active seismity. The most recent significant earthquake in Racha, with magnitude of 6.2, took place on September 8 this year. As has happened regularly for decades now, the earthquake is triggered by landslides, and continues to cause major structural damage. Announcing record renewables and energy efficiency lending across the World Bank Group just two days after this tremor, the Bank stated that it will also be "increasing participation in environmentally and socially sound larger hydro power projects". The case has not been made and, in all likelihood, cannot be made for these Georgian dams on the drawing board to meet such criteria.

The development of renewables and energy efficiency in Georgia has the potential to support decentralised energy supply and directly address the needs of local industry and communities. The international community – including the World Bank – needs to deliver on so many stated aims to do more for this sector that holds such potential. They should not, however, undermine such good intentions by promoting and subsidising large hydro projects that stand as relics from the Soviet era.

EBRD, EIB culpable of policy violations in re-settlement of Belgrade Roma

The dust has all but settled on the razed earth beneath the Gazela bridge in Belgrade after the bulldozing at the end of August of a Roma slum formerly located there. But clouds of uncertainty continue to swirl about the future of more than 140 Roma families who once called the area home.

The resettlement, carried out with technical assistance financing from the European Bank for Reconstruction and Development (EBRD), the European Agency for Reconstruction and the UK's Department for International Development (DFID), was a precondition for desperately needed reconstruction works to begin at the Gazela bridge, a project partly financed by the European Investment Bank (EIB).

A recent monitoring mission carried out by Bankwatch and Serbian partner CEKOR has confirmed early fears as the news of the bulldozing was breaking about the sustainability of any such resettlement, since to date no resettlement action plan (RAP) has been agreed among the EBRD, EIB and the city of Belgrade. The RAP is supposed to be a prerequisite for the disbursement of any project financing.

In approving project loans without the RAP first in place, both banks have contravened their own social policies on involuntary resettlement.

Testimonies from different Roma in the four locations scattered around the Serbian capital revealed that chief among their concerns are questions related to the likely lifespan of the infrastructure in the new settlements.

In settlements that resemble ghettos quarantined by chain-link fences, families of up to ten people are living in metal shipping containers of eighteen square-metres. Wastewaters from common sanitation facilities are not being attended to properly in the community of Rakovica, causing effluent waters to stream though the settlement. At the Mladenovac settlement residents demonstrated how installed water systems are pumping impotable water of a murky, yellowish hue.

Many families reported being hastily ushered onto flatbed trucks at resettlement, encouraged not to collect their possessions as new ones were promised at the new locations. But these were not delivered, and missing now are things like the wood stoves that provide not only for cooking but also serve as a necessary heating source in wintertime.

The sheer distance of the resettlement has also had a range of undesirable consequences for the resettled Roma families. In the Barajevo community, the nearest grammar school is eight kilometres away, necessitating reliance on an unreliable public transport system that has resulted in many children having to wander home at dusk. The lack of employment opportunities in Mladenovac has led some Roma to commute 40 kilometres to New Belgrade to continue waste collection, the primary form of economic activity from Gazela.

And threats of xenophobic violence from host communities have been reported in some locations, with fights in schools among children already breaking out.

The situation in the newly resettled communities is far from a sustainable solution for those Roma families whose homes have been destroyed. The IFIs involved should exert their 'value-add' to project design and implementation and withhold any financing until the situation with resettlement is rectified and improved.

See Bankwatch's short film "Bridging the gap – Roma resettlement in Belgrade" online at: http://www.youtube.com/watch?v=9qwVGdhgheg&feature=channel_page

◘ What prospects for this recently 'resettled' little girl?

Heat rising on international public lenders to come clean for the climate

A new report from French NGO Les Amis de la Terre in September has contributed to a growing international chorus of disapproval aimed at the international financial institutions who stand accused of hyping their desire to fight climate change while at the same time continuing to massively finance projects in the extractive industries sector.

The International Financial Institutions and the climate: The great hypocrisy dishes the dirt on the World Bank and the European Investment Bank (EIB), finding that:

- in 2008, the World Bank doubled its investments for fossil fuels projects, and between 2007 and 2008 increased its support for carbon-heavy investments by 265 percent while in the same period Bank investments for renewable energy amounted to only 16 percent of its overall energy investments.

- over the last five years, the EU's house bank the EIB invested four times as much in fossil fuels projects as in solar, wind and biomass projects combined, while also pumping millions of euros into aviation and road transport projects.

Les Amis de la Terre have called on the French government, a key stakeholder within the two institutions, to take steps to ensure vastly improved coherence between IFI lending activities and their pledges to contribute to the fight against climate change.

Anne-Sophie Simpere, the report's co-author and leading the group's public finance campaign, commented that: "The political decisions underpinning investments at the World Bank and the EIB are taken by the same states calling loudest for action to combat climate change. How can they pretend to be bringing an end to the climae crisis while supporting massive investments in fossil fuels, roads and aviation? These double standards are unacceptable. Promises to reduce CO2 emissions can never be achieved while continuing to extract and burn fossil fuels in order to feed our over-consumption."

Detailing how IFI support for fossil fuels aggravates over-consumption in rich countries, profits western multinationals and more often than not generates social inequalites in the South, les Amis de La Terre – a member of the European campaign coalition Counter Balance: Challenging the European Investment Bank – also identifies one of the most troubling unknowns in European public finance: what, let alone climate change, exactly are the EIB's global loans financing?

As the new report points out: "In the last five years, the EIB has loaned EUR 66 billion of public money via the global loans framework ... yet what this money has done remains unknown."

"The International Financial Institutions and the climate: The great hypocrisy" is available in pdf at: http://www.amisdelaterre.org/IMG/pdf/LaGrandeHypocrise.pdf

For more on the EIB's global loans and the problematic aspects of the bank's response to the economic crisis, see Counter Balance's new factsheet "The bank too big to fail to deliver for Europe", available in pdf at: http://tinyurl.com/ydgtqbx

ČEZ chez the EIB – It's invite only to the black masque energy security fundraiser

Sitting atop the commanding heights of the Czech power sector, not to mention its dominance of the front pages this summer in a string of scandals related to crude political influence-buying, the Czech state power monopoly ČEZ quite possibly could not have believed its luck when the word finally came through from Luxembourg in August – the European Investment Bank (EIB) had awarded the company a EUR 200m loan (out of total project costs of just over EUR 1bn) for investments in electricity distribution networks in the Czech Republic.

ČEZ is the largest central-European listed firm with a market capitalisation of USD 28.6bn. It is aggressively advancing a number of nuclear expansion projects both in the Czech Republic and in other countries in the region. It has plans to renew a number of old coal plants which critics say will involve low-end technologies. With such a dominant position in the local and regional markets, isn't it odd for such a mega-player to be benefitting from EIB largesse especially in these crisis times when fledgling renewables companies – those small- and medium-sized enterprises we hear so much about from the public banks – across central and eastern Europe are really struggling?

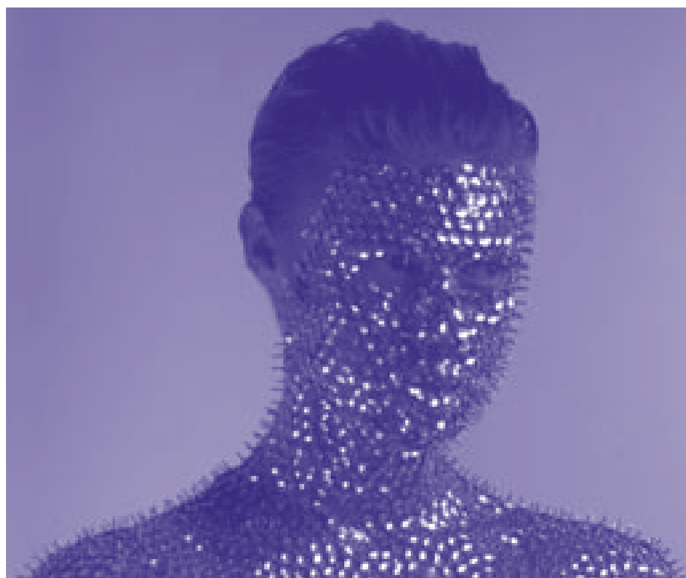
Compare this sigificant loan with a currently proposed EUR 25m EIB contribution to the EUR 65m West Balkan

Energy Efficiency Fund. The fund, targeting small scale investments in the energy efficiency and renewable energy sectors in the West Balkans and Turkey, is being promoted by the EIB, the European Commission and the German development bank KfW – and it will cater for seven, yes, seven countries: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Turkey.

Any money for energy efficiency and renewables is good money, but is it wrong to be just a touch ungrateful and humbly inquire: is that it, is that the extent of the ambition when on both economic and environmental terms the region is crying out for massive ramping up of both energy efficiency and renewables investments? Couldn't we, sir, just have a wee bit more?

Meanwhile, as EIB involvement in the Nabucco gas project grinds discreetly on ahead of any sign-offs on financing, late September saw press reports detailing EIB president Philippe Maystadt's dalliancing with Kazakhstan over a now highly potential framework agreement with the repressive central Asian state. So, under the benign auspices of the 'energy security' mantra, Turkmenistan is now a palatable partner if needs be for Nabucco, and Kazakhstan too for such projects as the financially troubled, and highly controversial, Kashagan project in the Caspian.

The potential EIB money on the table for Kazakhstan collaboration is in the region of EUR 3bn. The message couldn't be clearer. The big money is there for big supply side 'solutions' to the energy security question. Energy efficiency, we keep hearing, is a 'no-brainer' replete with plenty of 'low-hanging fruit'. A beneficial harvesting of that fruit for central and eastern European societies and their environments seems a long way off while western European heads and brains are being so easily turned by the big boys.



▲ Solar panelling reflected through the IFI prism: Approach with extreme caution

IMF's pro-cyclical brakes pile on the misery across central and eastern Europe

A timely new report from the progressive US think-tank Center for Economic and Policy Research discusses the Fund's time-honoured approach to squeezing certain countries in economic distress so that they really feel the medicine. Report author Jose Antonio Cordero here lays out some all too familiar scenarios now unfolding in Hungary, Latvia and Ukraine.

CEPR's recent report "The IMF's Stand-by Arrangements and the Economic Downturn in Eastern Europe" looks at three Central and Eastern European (CEE) countries that have been hard-hit by the world economic recession, and have turned to the IMF for assistance: Hungary, Latvia, and Ukraine. In all three countries there were mistakes in economic policy that increased their vulnerability to external shocks. The governments' responses to the downturn, along with IMF conditions for assistance, are also seen to have caused harm with pro-cyclical policies.

In Hungary, a surge of foreign borrowing allowed the country to run large current account deficits in 2006 and 2007 (7.5 and 6.4 percent of GDP, respectively), as well as a large fiscal deficit in 2006. The current account deficits became much more problematic as foreign capital inflows dried up and then were reversed during the world economic slowdown. Private sector balance sheets were also hit hard when, in response to these reversals, the domestic currency depreciated sharply – since the private sector had borrowed heavily in euros.

The response to the crisis, however, seems to have made matters worse than necessary. The IMF stand-by arrangement included measures to bring the government deficit, as a percent of GDP, down to 3.4 in 2008, and to 2.5 in 2009. This may not have been appropriate, given that Hungary is now projected to undergo a sharp economic contraction of 6.7 percent of GDP. This pro-cyclical fiscal policy has also been accompanied by pro-cyclical monetary policy.

The Fund's forecasts indicate that it did not anticipate the severity of Hungary's contraction, with its November 2008 projection of just -1.0 percent growth for 2009. Also, about a year before the crisis in Hungary's financial sector, the IMF wrote in its 2007 report on Hungary's economy that "the financial sector remains sound."

Latvia also suffered from a large reversal of capital flows that was common to the CEE economies, following a boom fueled by foreign credit, which increased by 60 percent annually from 2002-2006. But here too, a combination of pro-cyclical fiscal and monetary policy – supported by an IMF agreement as well as funds from the European Union – appears to have worsened the contraction. By some estimates, the Latvian economy will contract by as much as 18 percent this year – much deeper than the IMF's projection as of January 2009 of -5 percent.

The decision by the Latvian government, in conjunction with the European Union and the IMF, to maintain Latvia's pegged exchange rate with the euro, has made recovery much more difficult. With the currency fixed rate, the only way to reduce the country's current account imbalance is through shrinking the economy, which reduces imports faster than exports and may also reduce real wages. This is similar to the IMF-sponsored policies in the deep Argentine recession of 1998-2002, where a fixed, over-valued currency worsened and prolonged the downturn until the Argentine currency collapsed in 2002.

Ukraine was also hard hit by the world slowdown. There was a sharp decline in the price of steel (a major export) and, on the import side, a significant increase in the price of natural gas from Russia. Like the other CEE countries, Ukraine also suffered from a reversal of capital flows, threatening liquidity in the banking system. From October 2008 to March 2009 the National Bank of Ukraine lost USD14 billion in reserves in an unsuccessful effort to defend the currency.

The Fund also prescribed fiscal tightening for Ukraine, where GDP is now projected to decline by 9 percent in 2009. The IMF stand-by arrangement approved in October 2008 provided for a zero fiscal balance. This was later relaxed to a deficit of 4.0 percent of GDP. Ukraine total public debt is low – just 10.6 percent of GDP, so it would make sense to borrow in order to finance an expansionary fiscal policy and reduce the severity of the recession.

It is worth noting that the Fund also greatly underestimated the depth of Ukraine's recession, with its December 2008 forecast of a decline of -3.0 percent of GDP for 2009. Ukraine has also pursued a pro-cyclical (contractionary) monetary policy under the IMF agreement.

In all of these countries, it would appear that there were more sensible responses to the crisis that would have reduced the loss of employment and output, cuts in social services, and political instability that have resulted from the downturn. It is worth emphasising that the main constraint for these countries pursuing expansionary fiscal and monetary policies, particularly in a time of falling inflation, is that they have sufficient foreign exchange to avoid a balance of payments problem. The IMF, especially with its vastly expanded resources, is capable of providing the necessary foreign exchange to allow for counter-cyclical policies – yet it has opted instead for pro-cyclical policies in these countries.

"The IMF's Stand-by Arrangements and the Economic Downturn in Eastern Europe: The Cases of Hungary, Latvia, and Ukraine" is available in pdf at: http://www.cepr.net/documents/publications/imf-2009-09.pdf

The silence of the scams no more

Focus on the "social silences" in the world of banking. That's the approach deployed by *Financial Times* journalist Gillian Tett according to her recent 'crisis book' ("Fool's gold: How unrestrained greed corrupted a dream, shattered global markets and unleashed a catastrophe") where she describes how she was practically the only mainstream journalist to have identified and tracked the notorious shadow banking shenanigans for some years before the explosion of "we didn't see this coming" apologias from the high priests of global capitalism this time last year.

One such silence, identified by Tett in her book, is the revelation that back in 1994, the recently opened European Bank for Reconstruction and Development (EBRD) was finding time above and beyond 'Marble Gate' to become effectively the first 'Special Purpose Vehicle' and faciliated the first 'credit default swap' in tandem with JP Morgan. As described by Tett, the specifics of the deal were that JP Morgan was balking at covering a USD 5bn credit line to Exxon in order to cover potential damages resulting from the 1989 Exxon Valdez oil spill. A solution was found – the EBRD agreed to cover the credit risk, earning a fee from the investment bank for taking on the risk, but if Exxon defaulted, then the EBRD would have to cover the losses.

While it's certainly quite a curiousity to discover, after what we now know, that the EBRD was in there at the beginning of the end, any retrospective smirks recede with consideration of quite why a central and eastern Europe-focused public investment bank was taking a not inconsiderable risk, via a US investment bank, on an American company for an oil spill in Alaska that it infamously managed not to be held very liable for.

Perhaps this is simply the way of the market, and as *Bubbling under the surface*, Bankwatch's analysis of the economic crisis in central and eastern Europe, notes: "The EBRD also held in its own Treasury investment portfolio a

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substantial share of residential mortgage backed securities. In 2006 those accounted for 17.4 percent of the Bank's Treasury investments, falling to a slightly lower 14.8 percent by the end of 2007. It is unclear how much the Bank has lost through those investments."

In the 'Treasury operations section' of the EBRD's Annual Report 2007, EUR 8.4 billion of debt securities are noted as assets under Treasury management, as are EUR 1.8 billion of collateralised placements. Further:

"The funds are managed by independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines that the Bank applies to its internally managed funds."

Curiouser and curiouser. But the very real whiff of opacity has not been far away from central aspects of the EBRD's crisis response, that has seen it significantly beefing up its lending this year with a slew of loans to its mostly western-based financial intermediaries and long-time clients.

One of the biggest amongst these has been a EUR 432 million package for the Italian bank UniCredit, based on a Memorandum of Understanding that the EBRD's injection will result in benefits ultimately in UniCredit's central and eastern European operations. Concerns about major commercial banks receiving such aid and hoarding it are not exactly alleviated by comments made by the EBRD's chief economist Erik Berglof, commenting in an EBRD blog post that: "Unicredito has also signed a memorandum of understanding with us that spell out its extensive commitment to Central and Eastern Europe. This agreement is not enforceable in court but it represents a joint undertaking from Unicredito and the EBRD to continue working together in the region."

So, this is not legally enforceable, and it can only be hoped that there is strenuous EBRD accounting for where this bank bailout money is going. Similar vigilance will be required when it comes to the energy efficiency aspect of the Unicredit loans, an aspect of the crisis aid that has been remorselessly hyped alongside "SMEs" by the EBRD in its press releases of the last months. Yet, closer inspection of the project page (on the EBRD's website) for this package involving 12 UniCredit subsidiaries across the region shows that energy efficiency features explicitly only in Kazakhstan, and constitutes roughly 6 percent of the overall EUR 432 million disbursement.

Next to the ever growing relevance that the international public lenders like the EBRD are proudly and publicly cloaking themselves in sit certain fundamental responsibilities, chief among which would be less harping on about bigger, faster lending volumes, and a bit more donkey work to ensure that, to quote the EBRD's president Thomas Mirow speaking at the London School of Economics earlier this year, "the crisis should be the moment to lay the foundations for future sustainable growth".

Whether this is possible is in fact more dependent on wider considerations ongoing within the EBRD and due to conclude in the next nine months – the revision of its transition methdology, a crucial process that to date has featured zero input from the supposed beneficiaries of the EBRD's billions, the people of the region. The need for a radical overhaul of 'EBRD transition" couldn't be clearer from a survey of the fallout of the economic crisis across central and eastern Europe.

Some promising signs of acknowledging these facts are cropping up, and in conclusion it's worth quoting extensively from the Japanese governor of the EBRD speaking at the bank's annual meeting in May, hopefully an input not greeted by the assembled banking ranks with mental silence:

"While the Central and Eastern European countries pursued rapid economic growth, such inherent risks in their economic structures were overlooked as financial markets were insensitive to risks under the great moderation. However, once things started to go wrong, they were exposed to their inherent vulnerabilities. While these growth models are inevitably subject to review due to the crisis, the strategy of EBRD which has supported such models also needs to be reviewed. To assist countries' transition to market economy, EBRD has provided various supports including for privatization of the banking sector. While market economies actually took root in the region, they have turned out to be neither sound nor sustainable after all ... introduction of markets or development of private companies as market players alone cannot bring about long-lasting stable economic growth. True transition impact can not be attained unless EBRD itself is fully involved in the process and ensures that the market functions in a sound manner, and that privatised companies are engaged in sound business activities that are truly desirable for the country's economic development."

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