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## US halts Harvard contract in Russia

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The US government suspended a \$ 14 million contract with Harvard University yesterday, saying an economics professor and another employee had used information from a government-funded project in Russia to profit from personal investments in the Russian securities market.

The contract is the last installment of a \$ 57 million grant awarded to the Harvard Institute for International Development. Since 1992, Harvard scholars have been helping Russian officials privatize government operations and change the country's legal system and its capital markets.

In a letter sent to Harvard yesterday, the US Agency for International Development said a preliminary investigation found that the Harvard institute's general director in Moscow, Jonathan Hay, and the project director, Andrei Shleifer, "abused the trust of the United States government by using personal relationships, on occasion, for private gain."

The agency said Hay "used resources financed by USAID to support the private investment activities" of Shleifer's wife, Nancy Zimmerman. Specifically, the letter says support staff paid by US government funds did the following for Zimmerman: "Buying and selling Russian bonds, tracking deposits and withdrawals from the investments' Russian bank accounts, consulting about tax aspects of the investments and possible additional investment opportunities." The investigators said Hay had acknowledged investing his own money in Russian government bonds while working with the government.

Michael Butler, a Washington lawyer who represents Shleifer and Hay, called the letter "wrong in its conclusions, wrong in its assumptions and inaccurate in its facts and foolish in its rhetoric."

He said Zimmerman had paid for all the work done in connection with her investments while Shleifer and Hay carefully followed all the government's rules. Shleifer is a respected economist who has taught at Harvard since 1991. In an interview, he said he did nothing wrong.

Because USAID had few staff members who specialized in Russia, it asked Harvard to oversee many of its projects after the collapse of the Soviet Union. USAID said it started an investigation after receiving a tip that information from the project was being used in private investing.

"This is a preliminary finding and the investigation is still ongoing," said Don Pressley, the deputy assistant administrator for USAID's Bureau for Europe and the New Independent States. "We don't know exactly where this is

going to lead, but evidence was sufficiently strong that we felt justified in suspending the agreements."

Shleifer said he had been informed that the contract had been suspended - but not because of any investments he made. "This doesn't sound right," he said. "I do know that they have sent a letter to Harvard, which expresses a very different set of concerns."

Shleifer, who co-wrote a recent book called "Privatizing Russia," is a tenured professor in Harvard's economics department. No one answered the phone at Hay's office in Moscow yesterday afternoon.

Butler, the lawyer, said that Shleifer's wife is a partner in a fund that invests in debt around the world, including Russian government securities. He said that Zimmerman did her investments through a for-profit company, ILBE-Consulting, that was a subsidiary of the Harvard Russia project. The consulting practice was established to help the Harvard project become self-sufficient, Butler said.

The Harvard institute advises dozens of governments around the world on economic change. "This is a serious matter," said Professor Jeffrey Sachs, who has directed the institute since 1995, said in an interview from the Central African nation of Malawi, where he is working this week. "We take our work and our responsibility extremely seriously because we're given work of high significance."

A Harvard spokesman, Joe Wrinn, said the university has been cooperating with USAID investigations for about six weeks.

"This is a big deal because Harvard has been put in charge of the much of the portfolio in support of market reform in Russia," said Janine R. Wedel, an associate professor at George Washington University, who is working on a book that examines Western aid to eastern Europe, Russia and Ukraine.

She recently authored an essay critical of the Harvard Institute for International Development in the academic journal "Demokratizatsiya," published in Washington. She wrote that the Harvard Project in Russia wields too much power and plays favorites with a "clique" of government officials and former officials from St. Petersburg.

One of those officials is Anatoly Chubais, who served as Boris N. Yeltsin's first deputy prime minister until he was fired last year. The Harvard Institute then hired him as an adviser, Wedel said. She says that Chubais, who is back in the Cabinet as first deputy prime minister, had used some of the groups funded through the Harvard project for his own political purposes.

Among Harvard's Russian experts, where news of the investigation circulated yesterday, one scholar suggested that Shleifer and Hay were being targeted because they had gotten in the middle of a battle between Russian politicians.

But at USAID, Pressley said, "We don't have any evidence that someone is attacking them or they have been caught wrong vis a vis some political issue." USAID Inspector General Jeffrey Rush, who is heading the investigation, said he doesn't know when it will be completed.

In a 115-page report on the Harvard Institute's work in Russia published last November, the US General Accounting Office found no serious wrongdoing. But it called USAID's management and oversight of the institute "lax."

Marshall Goldman, associate director of the Davis Center for Russian Studies at Harvard, said professors with expertise in the activities of a state government or another country often face a dilemma about whether to make investments based on their knowledge.

Goldman said he tries to follow a rule: "If you want to be an academic, be an academic. If you want to be an investor, be an investor."

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Goldman said it is too early for anyone to accuse his colleague, Shleifer, of doing anything improper.

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