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A Section

## U.S. Sues Harvard Over Russia Aid Project

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BOSTON, Sept. 26 -- What was supposed to be an example of international goodwill and cooperation fell into disrepute today as the U.S. government sued Harvard University for \$120 million, alleging that four individuals associated with the school defrauded a landmark foreign aid program intended to help transform Russia into a capitalist nation.

U.S. Attorney Donald Stern accused the United States' oldest and wealthiest university of "miserably" failing to supervise its staff for the now defunct federally funded project. The suit alleges that Andrei Shleifer, the program director and a tenured Harvard economics professor, and Jonathan Hay, the university's Moscow-based representative in charge of the project, used their contacts and influence to promote personal business interests in Russia and those of their wives and friends. Their spouses are also named in the lawsuit.

"Harvard is responsible for two reasons: It received the money, and like any institution, it has legal responsibility for the acts committed by its agents," Stern said. "What the [U.S. Agency for International Development] thought they were getting was transparency--a conflict-free set of advisers."

The civil lawsuit filed here in U.S. District Court follows a three-year investigation of the Harvard Institute for International Development, which implemented university contracts with AID to assist developing countries such as Russia. It also comes as congressional Republicans have criticized the Clinton administration's policy toward the former Soviet republic.

The Harvard project was intended to aid Russia in every aspect of politics and economics. A total of \$57.8 million in contracts was disbursed under a cooperative agreement between the Harvard Institute and AID from 1992 through 1997, when the fraud allegations first surfaced and the project was suspended, prosecutors said.

Harvard officials said they always have had strong oversight and conflict-of-interest mechanisms and should not be liable for the alleged wrongdoing. Harvard has since closed the institute, which officials said implemented key legal reform programs and helped to privatize more than 30,000 businesses in Russia, among its other accomplishments.

"This was a cooperative agreement and the government itself took on oversight and management responsibilities with respect to the project," said Anne Taylor, Harvard vice president and general counsel. "Yet now . . . it's only Harvard that is alleged to have failed."

Among other allegations, prosecutors claim that Hay, Shleifer, and Shleifer's wife, Nancy Zimmerman, purchased several hundred thousand dollars worth of shares in Russian oil companies and concealed their ownership.

All of the defendants have denied the allegations.

"We are confident that as the case unfolds, the court will confirm that the Harvard program significantly fostered Russian reform and that the government received its money's worth," said David M. Zornow, Hay's attorney.

Lloyd Macdonald, who represents Hay's wife, called the allegations "ludicrous," especially because she was not a Harvard employee and did not receive any federal funds. Earl Nemser, who represents Shleifer and his wife, said the couple had no restrictions on their investment opportunities in Russia because Shleifer was only a consultant to the project. "Basically, the government's case is a non-starter," Nemser said.

The entire episode should prompt a critical examination of U.S. policy toward Russia over the past decade, suggested **Janine Wedel**, author of "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998."

"We need to look at how foreign policy in this very key area of Russian economic development was essentially privatized to a very small group of players on both sides with very little accountability," said Wedel, who teaches at the University of Pittsburgh.

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