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A Saban Center Policy Luncheon:

Restoring Post-War Lebanon

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C O N T E N T S

Introduction:

MARTIN S. INDYK, Director
Saban Center for Middle East Policy;
Senior Fellow, Foreign Policy Studies
The Brookings Institution

Presentation:

CARLOS PASCUAL, Vice President and Director
Foreign Policy Studies;
Senior Fellow, Foreign Policy Studies
The Brookings Institution

Commentary:

MARK WARD, Senior Deputy Assistant
Administrator for Asia and the
Near East
U.S. Agency for International Development

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P R O C E E D I N G S

MR. INDYK: Good afternoon, ladies and gentlemen. Welcome to the Saban Center at Brookings. For those of you who are new to our luncheons here, it is a Brookings tradition to eat and talk at the same time, so please begin your salads. This is of course more of a challenge for the speakers than the listeners, but somehow we make do.

We are delighted this afternoon to have an opportunity to focus on Lebanon, particularly the reconstruction challenge after the last war there over the summer. To speak to the subject, we have both Carlos Pascual and Mark Ward.

Carlos we are very glad to have as a colleague here and, more importantly, as my boss, the Vice President and Director of Foreign Policy Studies at the Brookings Institution. Carlos came to us this year after a very distinguished career in public service. He has a master's from the Kennedy School of Government at Harvard University, and he then has worked in a variety of positions, particularly in USAID and at the National Security Council. In the

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period from 1995 to 1998, he was the Director for Russian, Ukrainian, and Eurasian Affairs at the National Security Council, and Carlos and I were colleagues there for a short time. Then he became Special Assistant to the President and Senior Director at the NSC for Russia, Ukraine, and Eurasia from 1988 to 2000.

After that he was appointed as U.S. Ambassador to Ukraine, and after service there he came back and became the Coordinator for Reconstruction and Stabilization at the Department of State where he undertook a creative and pioneering role in coordinating and establishing new processes for government planning to help stabilize and reconstruct societies in transition from conflict or civil strife. Therefore, he is probably best capable of drawing on his experience in government to assess the needs and capabilities for reconstruction in Lebanon.

With that in mind, Carlos went out there at the end of this last conflict last month together with Ashraf Ghani who was a senior U.N. diplomat who had

responsibility for reconstruction. Together with Bilal Saab from the Saban Center who helped to organize the trip, they spent some time in Lebanon looking at the challenge there, and essentially it is those conclusions that Carlos is going to present to us today.

With him we are very glad to welcome Mark Ward who is the Senior Deputy Assistant Administrator for Asia and the Near East in the U.S. Agency for International Development and as such therefore has responsibility for overseeing America's contribution to the reconstruction effort in Lebanon.

Mark has far greater responsibilities than just Lebanon. As we were chatting here, he was saying that he is responsible for more than half of the U.S. Government's foreign aid budget that covers not only the Middle East, Iraq, Afghanistan and Pakistan, but also tsunami relief and a variety of other major projects.

Mark has his J.D. from the University of California at Berkeley. He has had a distinguished

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career essentially in the USAID, and we are very grateful that he has agreed to come here today to offer some commentary on Carlos's findings. Carlos, thanks very much.

MR. PASCUAL: Martin, thank you. Thank you all for joining us in this discussion. It is a real pleasure to do this with Mark. Mark has been a friend for quite a long time. We worked together actually beginning with issues related to the transition in the former Soviet Union, and especially in Russia. And Mark has also been recognized just recently across the U.S. Government and is one of the finalists who have been nominated as exemplary public servants across all U.S. Government service for the role that he played in post-tsunami relief. Congratulations for that. That is quite an honor to attain.

Mark has just been in Lebanon as well, so I would actually present what he is going to say not so much as just a commentary on my perspective, but indeed as presenting a perspective that he will offer from his own trip out there and his own views of what

is going on and what the Agency for International Development and the U.S. Government is trying to do.

The comments that I will offer as Martin said are based on a trip that Bilal Saab right here and Ashraf Ghani and I took to Lebanon. We had a fairly short time there and it was an intensive time. We probably had several dozens of interviews that we were able to conduct with individuals ranging from ministers to mid-level government officials to indigenous NGOs, international NGOs, the private sector, really quite a cross-section of individuals. So in a short period of time we were fortunately able to get a lot of insights from a range of people.

I left Lebanon in some ways surprised by two things that I did not necessarily expect. One was unity, and the other was opportunity. On unity, I would say that there was an incredibly impressive type of reaction that one saw in Lebanese society which was very much nonsectarian. It is the sense that the Lebanese people had to respond to and overcome the war that they had just been through and the blockade that

they had just been through, and that was the response that you seemed to see. Whether people were Shiite, Sunni, Druze, Maronite or whatever it was, the Lebanese people were going to overcome.

As to opportunity, the perspective was very much driven by a perception of the talent on the ground and especially on the side of financial management in the private sector. As I sat talking with the Governor of the Central Bank and the Minister of Finance, I could not help but think that this was a country that had just gone through \$2-1/2 billion worth of capital flight, at least 500,000 of its most talented people had just left, it had been through a war and a blockade, it had gone through the negotiations on 1701, and through all of this, the currency remained stable, inflation was in check, and the society is in fact actually starting to rebuild.

To be sure, there is a lot of credit that goes to Saudi Arabia and Kuwait for depositing very early on \$1-1/2 billion in the National Bank to bolster reserves, but having worked in the former

Soviet Union and having been responsible for that region in 1998 at the time of the financial collapse, I have seen lots of money put into central banks to bolster reserves and still have had financial collapses, and it really is a tribute to the financial management that we saw and the capacity that we saw in Lebanon, and that is indeed an indication of the opportunity that exists to be able to function and operate differently.

That does not mean that we can be complacent. There are phenomenal challenges, and I would group these challenges into three categories. One is the near-term humanitarian requirements and economic recovery, a second is on building the social, economic, and physical infrastructure that is necessary for the country's long-term viability, and the third, in dealing with some core structural and financial issues that are part of a long-term reform agenda which may not necessarily seem to people as fundamental to the agenda of stabilization and reconstruction, but I would offer that if these issues

are not addressed, whatever is done on stabilization and reconstruction in the near-term will collapse.

The requirement for these, and here Bilal and Ashraf Ghani and I offer this as a quantitative number to use for qualitative purposes, so we offer a figure of about \$5.1 billion. There are needs assessments that are still being done. My sense is that the needs will actually be much higher than this, but I think it is useful to be thinking about those orders of magnitude where the financing requirement is going to come in.

Let me start with the near-term humanitarian and recovery issues. We have seen lots of reports about two-thirds of the country's roads and bridges that have been destroyed and a million who have been displaced. Reports were that about two-thirds of the people who were displaced returned very quickly. There are other reports indicating that some of those people again left because they had nowhere to live. But what we have actually seen is a tremendous level of destruction in the South and in Southern Beirut and

the number of people who are trying to rebuild their lives. And there is a certain urgency to be able to put in place basic resources for shelter, water, electricity, schools, and beginning some aspects of job creation in the near-term. It is important to do as much of this as can possibly be done before the winter really sets in. November is the ideal time frame, November is not very far away, but let's just take this year as a rough estimate. Based on the numbers of families that were displaced and a reasonable per family estimate, it is not crazy to think about a figure of \$600 million that is necessary for this portion of the economic recovery program.

The second part that I would outline is on building the social, economic, and physical infrastructure. For the South, crops were destroyed, tourism has been completely stifled, for many people there is just simply no work, and they need to feel that they and their communities can begin to provide in some way for their livelihoods. They beyond that need support in rehabilitation of physical

infrastructure, bridges, roads, electricity, and water. It is not unreasonable for the requirements here to estimate about \$3-1/2 billion worth of requirements. The Council for Development and Reconstruction in Lebanon has estimated on the order of about \$3.6 billion, others have put the figure out of about \$10 billion. And there is a report that Bilal just gave me of some banks that have done a review and that they were using a figure of about \$10 billion.

There is a fundamental physical infrastructure requirement, but it is important for us to think about this more broadly because if people do not have a way of regaining and retaining their livelihoods, their jobs and their careers, then there will be not only a culture of dependence in the South, but it will fuel a political resentment that has hung over from the period after the civil war. When one looks at the issue of reconstruction and recovery in the South, it is also important to think about the failed expectations that people had after the civil

war where so much of the resources were put through the Council for the South and that was essentially the face of official Lebanon in terms of supporting reconstruction activities, and the work that was done became in many cases synonymous with corruption and with half-finished projects. If there is not a change from that previous experience, there will continue to exist a resentment of what official Lebanon can do and a sense of disappointment of whether or not people can actually rely on the state to provide for their basic livelihoods or help them create a framework for their livelihoods.

The third critical area is on structural and financial issues. As a result of the war and the blockade, the economy is estimated to have moved from what was a pace of growth of about 6 percent to zero growth. The primary budget surplus is now going to become a primary deficit. The sheer cost of this to the economy and government in financial terms is about \$1.6 billion. When we were there, we had estimated

about \$1 billion. More recent reports coming out of the Ministry of Finance put it at \$1.6 billion.

The government has a desperate need for cash support in order to be able to finance this. Lebanon is in per capita terms the most in debt country in the world. Its public debt has been at about \$36 billion. The Minister of Finance is predicting that it is going to go up to \$41 billion. It simply cannot afford it. The government spends about 25 percent of its annual revenues in debt service.

The other critical piece that is absolutely necessary on reconstruction is in the electricity sector. The government spends another 25 percent of its budget in subsidies to the electricity sector, so if 50 percent of the budget is essentially going to subsidies in the electricity sector and to debt service, there is no way that any kind of investments in the reconstruction of the economy are going to be sustainable unless those two basic issues are addressed, some restructuring of the debt, and addressing the fundamental structure of the

electricity sector so that it can be run on a sustainable basis.

There has been a lot of discussion of whether or not there is sufficient money out there, and I have seen a number of different reports that indicate that \$3 billion has been pledged, \$3-1/2 billion has been pledged, perhaps more, and there is a lot of confusion about this because there is a real comparison of apples and oranges.

The figure that I have provided of \$5.1 billion and, in fact, if you use the figure that the Ministry of Finance has come out with now of \$6.1 billion as the requirement to be able to deal with the deficit, that raises it another \$6 billion, \$5.7 billion, for illustrative purposes let's say \$5 billion to \$6 billion in requirements.

Against that, what we have had let's say from the Saudis, Kuwaitis and Qatar, is about \$1.1 billion in commitments for reconstruction, and that definitely should count against that total. Saudi Arabia and Kuwait provided \$1-1/2 billion in reserves.

That should not count against that total. The Stockholm Conference raised \$940 million in pledges. Some said that it has really been \$1.2 billion that has been provided. It has hard to judge exactly how much of that counts because some of it was humanitarian aid that has already been spent and really is not supporting further economic recovery.

Just for planning purposes, I would say that it is probably reasonable to estimate that maybe about \$2-1/2 billion out of a \$5 billion to \$6 billion requirement is in real pledges that are accessible indicating that there is still a huge need there for another \$2-1/2 billion or more that is going to be necessary in this economic recovery program.

Against this, the United States has pledged \$230 million, \$180 million of which specifically relates to economic recovery and reconstruction-related activities and, Mark, I am sure you will say more about that. I personally think that that figure is way too low and my expectation is that the U.S. pledge will go higher, should go much higher, when

there is actually a conference on reconstruction-related activities.

If you look at the level that the United States contributed both looking at private flows and public flows on tsunami relief, it was about 15 percent, which if it were applied to the circumstance would mean that the United States would be providing something on the order of \$750 million, and I think that is probably a level that is more appropriate to think about for the U.S. given the strategic interests that we have in the area.

What this does not count at all, and this is a whole separate topic that is worth getting into, is support that is provided for the military side of the operation because there is a huge requirement there. If you just think about the 15,000 Lebanese troops that have been deployed and what an average cost has been more or less around the world of what we have seen for sufficiently training and equipping those troops, it usually has been a rough order of magnitude of about \$20,000 per soldier, so that is \$300 million

right there. Against this, the United States has pledged maybe about \$50 million in security assistance, and of that \$50 million, only about \$10 million is actually for the Lebanese armed forces. I personally think that that gap is huge. The expectations of what that force plus UNIFIL should be able to do are absolutely enormous, including to be able to monitor the Syrian border and detect whether there are illegal flows of arms.

This does not even get into what the necessary requirements are for some form of surveillance equipment and rapid-response equipment, the availability of helicopters and so forth. So my sense is that there is probably going to be a need on the military side which is well over \$300 million, and probably if you actually deal with surveillance equipment would be more on the order of a billion dollars, and whether the international community will face up to that is another issue.

In terms of how to use these resources, a basic principle which is I think extraordinarily

important is, one, the need to be able to use these resources in a way that strengthens the capability and the capacity of the government of Lebanon, the Lebanese state, to be able to reach out to the Lebanese people and to demonstrate that it can help provide an environment that addresses their basic needs, provides for their security, and allows them to be able to invest in their economy and their society to promote growth.

That is a huge challenge, because on the one hand you have a central financial infrastructure particularly with the Prime Minister, the Minister of Finance, the Minister of the Economy and the head of CDR that are extremely talented, and a Governor of the Central Bank who is extraordinarily talented, yet it is overall a weak structure in being able to manage this whole process of stabilization and reconstruction.

The Ministry of Finance and, in fact, the Minister of Finance, and I underscore the Minister of Finance, is personally responsible for dealing with

pledges that are coming in from the international community. The recovery part of this is being monitored directly by the Prime Minister, and UNDP is setting up a unit in the Prime Minister's Office that is supposed to be able to track the economic recovery types of programs. But to have a Prime Minister of a country overseeing the day-to-day operations and the details of a project like this is an overwhelming task and, frankly, is going to either take the Prime Minister from things that he should be doing, or it is going to cause collapse in the capacity of that part of the program to work effectively.

One of the things that struck me is just a basic question that we would ask many of the NGOs that were talking to over the period that we were there, of the \$940 million worth of these pledges that have been made, if you the NGO community are going to be the principal implementers of most of those activities on the ground, do you have any idea of how to get access to those resources, and the answer in virtually every case except for those who were applying directly to

USAID for funding was no. They really had no understanding of how to link up with the money.

When we asked the government, do you have an understanding of how to tap those NGOs who are working on these issues and have a presence on the ground and to use them as a de facto arm that can indicate that you have a presence, the answer was, no, that they had not grappled with that question yet.

And complicating things further is that the municipalities are under the supervision of the Ministry of Interior which is not directly involved in the economic recovery programs and, in fact, has the principal focus on dealing with law enforcement. So there is a very, very significant public management issue here that needs major attention and where I hope the international community can provide some help and support.

In dealing with some of these problems, there are, quite frankly, some basic political issues at stake as well. Who gets these resources? Who gets to administer them? And based on who administers

them, what power is accorded to different groups within the society? In some cases, almost out of an interest of trying not to have to address this question, the government has adopted some policies which may make sense on the surface, but unless they are rationalized can become really problematic, and one of these is the adopt-a-village, adopt-a-town program. On the surface it seems to make sense. If you have resources, if you are a wealthy Arab state and you have an interest in providing support to a village, than you can provide support. But if there are no guidelines on how this is done and no standards on how it is done, let's just say that there is a real possibility that if you have \$300 million to invest in a community support program, it would not be unheard of if given experiences we have seen elsewhere in the region, that that \$300 million might buy \$50 million worth of work and \$250 million of personal enrichment for others who were involved in negotiating or brokering contracts. So those issues have to be addressed head on because if the standards are not

created, it could really result in a tremendous disruption of how the resources flow.

As just a couple of further things that I will say on the uses of the funds and some of the surrounding political factors, job creation is absolutely critical. One of the things that is a real asset to be able to build on is in Lebanon is a banking system that works. When I think of the time, Mark, that we worked in the former Soviet Union that banks just were not there for much of that period of time, and here we have an opportunity to be able to use private banks where, as many told us, there are few places throughout Lebanon where you cannot get to a bank within 30 minutes.

In discussions that we had with NGOs, we started asking the question, Can you actually use the banks to transfer funds? It is very interesting. Even at the beginning of September, some of the NGOs were telling us, no, you have to move money there by cash. By the end of the month when I went back and asked some colleagues in the NGO community they said,

no, they stopped carrying cash. They were actually now making the transfers to the banks. So this is a huge asset that one can draw on and creates the possibility of finding ways to develop community development types of projects where funds can become available for specific types of programs that are drawn upon for communities and used to actually make direct payments to providers of services in a way that can circumvent some of the difficult political questions about who gets actual control of those resources and, in particular, what is the role of Hizballah in the administration and the allocation of resources, and I will come back to that.

There is a huge need to involve communities in the administration of these programs. These communities need to feel that they have an opportunity to actually make a difference in their lives, and here the NGO community has had tremendous experience and a lot of that experience actually emanated from the reconstruction of Lebanon in the 1980s, it was applied in the Balkans, it has been applied in the former

Soviet Union, of involving community groups and getting them to work together to determine what the priorities are in their communities and to cost-share on many of those investments. So there is a base of experience here that can be drawn upon and examples that can be used of how these programs can actually be administered.

There is a real opportunity to leverage private capital, and one of the things that the U.S. Government has done that I think is very positive is to sponsor a trip by four major CEOs and coupling that with support that OPIC is providing for a facility of I think \$160 million or so that can begin to leverage private capital from the United States. There is a real opportunity to leverage private capital from the region, and I hope Mark will say some more about that.

There are some things that can be done that are not terribly sexy but I hope are really considered like putting money into a fund that can support feasibility studies. Usually that seems really stupid and why would you want to do that, but, again, one of

the experiences that we had in the former Soviet Union was that by putting resources that could be tapped, for example, by the World Bank, we have a colleague here from the World Bank, and how many times have we seen that the constraint of not having grant funds to be able to do a \$10 million to \$15 million feasibility study in effect has resulted in the inability to unleash probably \$50 million to \$100 million worth of lending because that basic work could not be done, and if we can find a way to effectively leverage that capital in Lebanon, I think that there are huge opportunities there.

Finally, one of the things which I hope the U.S. Government and others will pay attention to is to put resources into public-private partnerships among Lebanese to address issues of transparency and corruption. There will be instances of corruption, and if this addressed head on by Lebanese groups who are scrutinizing this, it will have much greater acceptance within the society and greatly increase the perception of the government's interest in tackling

corruption as an issue. The last thing that the government of Lebanon needs is to work in an environment where it is seen as condoning corruption that is detracting from resources that should be going to the Lebanese people and Lebanese communities in their reconstruction.

I think it matters tremendously to be able to help these programs work right now politically. There are issues that have been raised on the role of Hizballah in the South and whether in fact funding for reconstruction programs should go forward and whether they are simply helping Hizballah and increasing or improving the image of Hizballah in the South. I think there are essentially two options. The international community can be engaged in the South, it can work with the government of Lebanon, it can try to find effective means to channel resources using NGOs initially as proxies and increasing using the banking system as the mechanism to transfer resources so that the international community and the government of Lebanon are seen as forces that care about the

State of Lebanon's Shiite community and the people in the South. Or the alternative is that you simply give in to the impression that the only groups that are able and committed to effectively addressing the fate of the Shiite people of Lebanon are essentially organized through Hizballah and that Hizballah is the only actor that is going to have a meaningful presence in the South. And if in fact the international community wants to be able to help Lebanon unite as a state, it has to create the capacity for the government of Lebanon to demonstrate that it can act as a state, so I think that there really is no alternative but to in fact take on this risk.

And there is some degree of risk. Hizballah is a dominant force in the Southern part of the country. But what we also saw during the period that we were there is that needs are overwhelming. Hizballah got off to a very quick start. Many have talked about community groups or groups of teams of four that were going out throughout the Southern part of the country and the Southern suburbs of Beirut

assessing needs and immediately giving people cash. Those teams by all accounts as we have heard from individuals as well as community organizations have been overwhelmed and that there is greater space now for other nongovernmental organizations and for the government to be able to operate, and I think we should take this opportunity.

What is at stake here I think is hugely important. Lebanon has a real capacity to succeed and its greatest asset is the Lebanese people and their resilience and their willingness to keep going back at this. If Lebanon cannot succeed, if there cannot be a change in the momentum of what we have seen in the Middle East and the Gulf, then it will make it all the harder to address all the other issues that we have between Israel and Lebanon, Israel and the Palestinians, the influence of Iran and Syria throughout the region, all of these issue become much, much harder to address if we cannot in fact bolster at this moment the capacity of the Lebanese state to act

as the Lebanese state and address the economic and security needs of the Lebanese people.

Tragic as the events over the past months were, there is an opportunity to actually build on this and turn it into a real opportunity that changes the dynamics economically and politically, and I hope that one of the things that can happen with the support of the international community is to really act on that promise and make a difference on the ground.

MR. WARD: Ambassadors, thank you very much for having me. Thank you very much for this lunch.

What a great ending from Carlos, because when you are in this business of responding to disasters, man made and otherwise, you have to look for optimism or it is hard to go to work every day. What kept us going and continues to keep us going with the tsunami is the terrific stuff that is happening in Aceh. What kept us going and is continuing to keep us going in Pakistan after the earthquake is the opportunity that the United States now has to work in

Azad Kashmir that we did not have before. We are very welcome there and there is no sign that we will not be continued to be welcomed there to really change lives in that part of the country, a very important country for the United States. So what keeps me going now in this third one and the reason I look the way I do responding to things like this around the world is this hope that we can seize some opportunities for real change for making Lebanon an economic hub, a real guiding light for that part of that world. That is what excites us, that is what is really motivating us to work very hard on these issues.

You are going to want your money back, that is why I did not eat very much, because I basically agree with everything Carlos said, so may I go?

(Laughter.)

MR. WARD: I might quibble with you a little bit on some of the numbers and we might have to have a longer discussion about that, but the basic principles are absolutely right, and we can talk about that. I am going to try to keep this short so that we have

some time for questions. Some of my colleagues here from State and I have to run off to a meeting in about half an hour to talk about Lebanon, so forgive us if we have to run out.

Let me start by telling you why I was out there a couple of weeks ago. Carlos mentioned it, and I think it is important because this is an interesting new phenomena that we are seeing, and that is when President Bush asks the private sector to take a lead role in focusing private American attention on a natural disaster, or in this case, a different kind of disaster or different kind of crisis.

President Bush on I think it was September 23rd, I was traveling so I am not sure that was exactly the right day, earlier he had mentioned that he was going to send a delegation to Lebanon, and on the 23rd in fact he provided the specifics and there was a small group of us, three of the four the CEOs that he asked to lead this effort, John Chambers from Cisco Systems, Ray Irani, the head of Occidental Petroleum, Yusif Ghafari, the head of GHAFARI

Incorporated, and then the fourth CEO that did not travel with us but probably will soon was Craig Barrett, the head of Intel. The President asked them to lead an effort not just to visit the country and report back to him on the needs, but to engage in the long-term and taking a look at Lebanon's needs to set up a fund that could receive donations, and that fund has now been established. This is the third time we have done this. We did it with the Pakistan earthquake and I was involved in that as kind of my night job where USAID on the side provides advice to these private funds about how to use the monies that come in to their private funds. We did it after the Pakistan earthquake, we did it after the Central American floods, and now we are doing it with this one.

What I have found very encouraging traveling with this group of three CEOs, these are obviously very busy people, and I was very encouraged, and Carlos talked about optimism after his trip, what got me optimistic was the enthusiasm of these three, I

assume four, men, not just to look at the short-term solutions. The short-term solution would be let's raise a lot of money, let's get it into our fund, let's ask USAID how to best spend it and spend it and call it a day, declare success and move on. That is not what they are talking about.

In fact, I found myself several times on the trip saying, guys, don't forget about your fund. You got to hit the road. You got to do PSAs, you got to do all that stuff when you get back to raise money for this fund. They are thinking about the long-term. They are thinking about what their companies can do. They are thinking about what the companies they compete with can do to rebuild Lebanon for the future, and I found that very encouraging. That has continued, and you may have read while John Chambers was out there he actually made a \$10 million pledge for Cisco itself to invest in Lebanon. Let's hope the others come through with something as well. I am sure they will.

You are if nothing else taxpayers, so forgive me if I spend a few minutes just telling you how we have spent your money. Carlos mentioned the figure of million that was pledged in Stockholm. That is correct. Let me give you a quick rundown on what we have done.

So far on the humanitarian side, as you may know, shortly after the crisis began we mobilized what we call a disaster assistance response team. They are often the first face of the civilian response of the United States. They mobilized and they were there in a very small capacity in July and are still there and are going to be there for a while. They have spent so far over \$70 million on things like continued to the U.N. appeal, we are working on water and sanitation with ICRC, over \$30 million to international NGOs that are working not just on water on sanitation, but on emergency shelter, particularly, as Carlos said, with winter approaching.

Health kits that can be provided to communities that perhaps are cut off temporarily from

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the medical system nearby. Psychosocial counseling for parents and children, children who might be afraid to go back to school, who might be afraid to be separated from their parents. And food and emergency relief supplies, \$10 million worth of wheat and lentils, and millions of dollars worth of work that is being done on unexploded ordnance, as well as teaching children and communities how to stay away from unexploded ordnance and what to do if they see it. Where are we doing this? Obviously, in the suburbs of Beirut, also in the Beka'a valley, and in many communities in the South including Tyre, Nabatiyeh, Marjayoun, and other places.

How do we do it? Lebanon is a challenge on the how question because of concerns about your tax dollars ending up in the wrong hands, and by the wrong hands I do not necessarily mean corrupt hands, I mean bad hands, and we have to be very sensitive to issues about foreign terrorist organizations and foreign terrorist financing. So while we normally in response to the tsunami and Pakistan earthquake, or forget the

Pakistan earthquake because we are challenged with those same issues there, but if you look at the countries hit by the tsunami, there we tried very hard in the relief and moving into the reconstruction phase to use indigenous organizations as much as possible. It is all about capacity building, it is all about sustaining efforts over the long haul and, frankly, it is about keeping costs down.

That is not necessarily the best way to start in a situation like Lebanon where we have concerns about some links of some local organizations. We have to be very careful about it. What we have done initially during this relief phase in Lebanon is focus exclusively and fund exclusively international NGOs and U.N. agencies that have been working there for a long time and know which local organizations they can partner with. These organizations have invested a lot of money in software that allows them to vet and check individual names, names of board members, names of subgrantees, so that we can all be sure that these funds are not going to the wrong

people. If you saw a list, I can give you a quick list of the organizations that we are using so far, it is the U.N. agencies, they are all of course acronyms, CRS, CHF, the Cooperative Housing Foundation, IMC, the International Orthodox Christian Charities, Mercy Corps, World Vision. That is not to say that when we move into the reconstruction phase we are only going to be working with these groups. Absolutely not. There will be some opportunity for other organizations to submit proposals and to do work with us, but these are the ones that we started with.

How much? I mentioned over \$70 million to date, and they are about to commit, to use a technical term, chunk of money for some grants that will probably mark the end of the relief phase and those will focus more on activities that can continue into a reconstruction phase. These will ring true with some of the things that Carlos talked about, livelihoods activities, agricultural activities in the South, but also with winter approaching, we cannot ignore the need for shelter and providing basic building

materials to people so that at least they can have made enough repairs to a damaged dwelling that they have one warm dry room to be sure that they can get through the winter.

As we look into the future then for reconstruction for the next phase after the relief phase, I think everybody knows what President Bush talked about when he announced our efforts. He talked about rebuilding roads and bridges, rehabilitating schools, supporting housing reconstruction, removing unexploded ordnance, and helping with the oil spill cleanup which is so important to livelihoods and tourism on the coast. Ambassador Tobias when he represented the United States in Stockholm added more details about where we are going to be doing some of those activities.

What I try to say whenever I talk to the public, because some of you no doubt represent NGOs and contractors who might be interested in this work, some of those activity will begin with contracts and grants that are already in place, perhaps they started

during the relief phase, perhaps they are already part of our regular Lebanon program -- remember that we had a program in Lebanon before all of this started -- but there will be activities that we will be funding through a competitive process. So I encourage those of you who are looking for work to keep your eyes peeled on the regular places you look for bidding opportunities with USAID.

What is our regular program? Sometimes when these things happen we forget about where your tax dollars were going before the crisis. We were already providing development resources to Lebanon, and I just wanted to spend a minute talking about some of those.

Lebanon is not an infrastructure-starved country, and I do not just mean physical infrastructure. If you look at the health care system there compared to other countries in the region, Lebanon is pretty well off. So we focused more on stimulating the economy and opportunities for creating jobs looking at agriculture and agricultural business, ICT, information and communications technology, and

tourism. We also invest heavily in higher education by providing scholarship funds to the four American universities that are operating in the country. We visited two of them on our trip.

Carlos mentioned the importance of involving communities in decision making which is absolutely important. And we have been working very much in the South with municipalities and their capacity to make the right decisions, to prioritize, to think about things like O&M, operations and maintenance budgets, as they decide how they are going to spend local resources, so we have been working in that area as well.

Then Carlos also mentioned the importance of putting some money aside and focusing on transparency and accountability. We were also working with civil society in the country even before the crisis on some of those issues, and I can assure you that after the tsunami and the Pakistan earthquake we always saved some money for a civil society group to take a look at how we did. We will do that again on this one because

we have to learn where we inclusive enough, were we transparent enough, and we will do that again this time.

Let me spend a few minutes and stop then a little bit more on this private-sector initiative. I think this is so interesting. As I said, I traveled out there with a small delegation, this is the third time we have done this, and what was very interesting after the Pakistan earthquake is that if you look at the pledge that the United States made in Islamabad in November 2005, we pledged over \$500 million. Included in that amount was an estimate of what we thought the private contribution of private Americans, whether private sector, whether church groups, whether individuals, would be for the reconstruction of Pakistan. That was the first time we had ever done that. I do not know whether we are going to do it this time, I will pitch it, but they never listen to me. It is an interesting idea because we are committed to the idea that there are not enough funds appropriated ever to one of these disasters, and the

fact is that private money from the United States, the generosity of the American people, the generosity of the private sector in the United States, is tremendous, and we are getting better at measuring it, we are getting better at advising it. I would not be surprised if when we sum up everything that we do for Lebanon, we don't include our best estimate of what the private giving was, and this effort with these CEOs is very much a part of that.

How is it likely to work? They have set up this fund. You can go to their Web site www.lebanesepartnerhip.org. It is being managed by an organization here in the area called Global Impact which some of you may know about. You can read about the fund. You can also, if you like, click and make a contribution. As funds come in to it, it will consult with us, with Global Impact, with NGOs on the ground, about where the gaps are, and which organizations they can safely work with. This is very important for Lebanon in particular.

A couple of weeks ago I spoke at the Islamic Society of North America Convention in Chicago which was a fantastic event, and I hope we get invited every year. There is a real concern among Muslim Americans about their ability to give safely to a cause like this. Their concern is that when they write a check to an organization, how do they know that that organization won't end up on the foreign terrorist designated list the next day? It is very difficult for the Treasury and the Department of Homeland Security to give them that guarantee that an organization will not show up on the list the next day because that is out of their control. So there is a bit of frustration among the Muslim American in this country and in North America about how they can give.

This fund cannot also provide a 100-percent guarantee, but one of its attractions we hope will be that it works very closely with USAID, it works very closely with our embassy in Beirut, and there will be vetting of any organizations that they decide to fund and so we hope that it will add a measure of

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confidence to people so that they will get out their checkbooks and make contributions. We certainly found that with the Pakistan fund.

The CEOs' priorities which I think you can read about on the Web site I think will please you, education, job creation, and in general, economic development of the region. That is not just going to influence their short-term decisions about how to spend the funds that flow into the fund, but as I said, it is very much on their minds as they think about the investments that their firms will make themselves in the long-term for Lebanon.

Another aspect of their work that is fascinating that Carlos also mentioned is that it is not just money. I do not want any of you to call up the fund and say I have a bunch of used clothing in my garage that I would like to give to the people of Lebanon. Believe me, you heard it here first, the people of Lebanon do not want your used clothing. The people of Bala Kot in Pakistan did not want your used clothing. Used clothing and a lot of in-kind

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contributions are just not that useful. But what about expertise? What about the expertise that is in the private American companies and sitting around this table that be volunteered to help out with breaking some of the logjams on decision making that Carlos talked about, so that maybe the Prime Minister feels like he has to keep all the decisions so close? This is an area where we received some terrific contributions of people and time after the tsunami, and to a lesser extent but still significant after the Pakistan earthquake. I am hoping and hopeful that the CEOs are going to be able to come up with some of those kinds of contributions as well to help the decision makers in Lebanon deal with this.

Enough. Thank you very much. Time for questions.

MR. INDYK: Thank you, Mark, and thank you, Carlos.

In listening to you both, a couple of things struck me as counterintuitive. The first was Hizballah, because the intuition was that Hizballah,

being the first out of the gate with ready cash from Iran, was going to steal a march on the Lebanese government, and as in the case of so many other experiences like this in the Arab world, it is the organizations of the Islamists that have proved much more capable than governments overwhelmed by bureaucratic procedures in delivering the needs of the people. But Carlos seemed to be suggesting, and I wonder what you think of this, Mark, is that Hizballah itself is overwhelmed and that it at least so far --

(Tape interruption)

MR. INDYK: (In progress) -- this battle that is still in contest. So I wonder how you would assess the relative gains that Hizballah has made in the reconstruction effort versus the government. Who is out ahead at this point?

The second thing that was counterintuitive was that not a lot of emphasis in either of your presentations was put on the issue of corruption, and the Lebanese will tell you themselves that the country got into some bad habits during the civil war and

under Syrian control, one might say some very bad habits. The country was renowned for its corrupt practices. How is that issue being dealt with now? You have referenced the need for transparency and so on, but how much of a problem, and have you really been able to get around it by dealing with NGOs that are reliable and have clean records?

MR. WARD: Maybe I will take the corruption one and you can start on the tougher one and then I can maybe respond to it, and if I am lucky I will run out of time and I will have to leave.

Corruption. I don't know how much you know about the way USAID works with your money. We rarely provide money directly to the government. This makes us a bit of an outlier with some other bilateral donors, and one of the principal reasons we do it surrounds concerns about corruption. As we begin to plan our reconstruction strategy for Lebanon, we have already started implementing it in fact, we will use U.S. government financed grants and contracts to carry out the programs.

Does that mean we leave the government of Lebanon out of it? Absolutely not. We coordinate with them every step of the way, but what we do not do is turn the funds over to the Ministry of Finance or the new Reconstruction Authority so that they can carry out the contracting. We do it. And that gives us confidence that while it takes longer and drives me bats because of the delays, that is one reason why my hair is this color, we do not have scandals. The funds eventually get where they are supposed to go, firms feel like they had a fair opportunity to bid on the work, whether Lebanese, U.S., or international. I would be very surprised if we did not follow that practice throughout the reconstruction period.

Occasionally we will make a contribution to a trust fund that is administered by the World Bank, UNDP or some other organization, or the government in that country, to get a seat at the table to be able to participate with other donors that do not have a presence on the ground like we do, who do not have the capacity in country to manage projects, so that we can

influence decisions that are made about trust funds and what projects they will pay for. So it is not like we do not participate at all, if we do something like that in Lebanon, and no such fund has yet been created, but if one is, and I would not be surprised, we may make a small contribution to it, but it will be small relative to the overall effort.

MR. PASCUAL: What Mark describes that it is good policy for the U.S. Government is generally terrible policy for the governments that are involved, and I have been involved on both sides of this. What ends up happening is that you get each individual government that decides that it needs to protect its resources and its funding and has its own procedures, they want to contribute their money in its own way with its own procurement procedures and as a result of that it creates an untenable management nightmare if you are looking at it from a national perspective.

In the case of the U.S. proclivity of working through NGOs and individual contractors, there is a very good reason why I have been involved in

working on these programs and have managed them myself, and Mark describes exactly the reason why control over the resources becomes even more controversial in a place like Lebanon because of concerns of whether or not funds can leak into the wrong hands.

The flip side of this is that in the end, one of the fundamental imperatives in Lebanon is that you have to strengthen the government of Lebanon, and if you are making it yet even more confusing trying to figure out how you coordinate the activities of NGOs, the activities of governments, the activities of a national government, municipal level activities, and the activities of other donors to somehow result in a coordinated set of programs that achieve an understandable set of results on the ground, it is just a lot harder to do, and that is the reality that we are working in right now. The challenge that it poses is how do you create then other proxies that facilitate the coordination of activities among NGOs and among governments so that in fact you can actually

achieve something on the ground which is consistent with national priorities and does what you need to do in strengthening the Lebanese state.

That is the heart of the problem right now on the near-term economic recovery program. It is not that the ideas behind the projects or the programs are bad, they are really good ideas, it is just that there is not the capacity to actually manage this and coordinate it in a way which is strengthening the Lebanese state, which gets at Martin's question of who is winning.

Right now there is not a "who is winning?" [question]. Hizballah is active on the ground and it is providing ongoing cash support. It does not have massive capacity to support targeted or focused reconstruction programs, so there is an opening for other resources and programs to actually have an impact. Some of those programs are having an impact. The U.S. Government has supported a number of constructive activities. Societies have come in, for example, and have the school fees for all kids in the

South that it addresses that issue and it does not create a barrier for kids going back to school.

There is a mish-mash of this stuff going out there, and if you were ask the question not just who is winning, but in effect what does it tell you about the capacity of the Lebanese state, the answer most people would give right now is we do not know. There is not an understanding of whether these are NGOs acting, whether these are NGOs acting for the international community, are they acting for the Lebanese state, are they acting for the municipality. Who do you give the credit to, and there is this sort of confusion there.

For a lot of people it is like, okay, fine, I will just take it, I need the benefit. But part of the opportunity in fact is being lost, and that is why I just come back to underscoring the nature of this management problem and the need to address it I think in a comprehensive and serious way. If anything, Mark, I hope that both USAID can focus on this more, and UNDP. UNDP is putting a lot of resources into

these kinds of things, but it is being done in such a workman like way that it is actually I think missing some of the big picture.

The other thing I would say is on corruption and these funds, this is going to be a huge challenge and the government has talked about an economic recovery fund, it has talked about a reconstruction fund, the Saudis want their own funds, the Kuwaitis and Qatar want their own separate funds, there is a question of whether there could be an Arab fund, there is going to be a U.S. fund or separate resources from the United States, the World Bank will probably sponsor a fund, and if you end up getting different procurement procedures and different reporting requirements, there is going to be more time spent in the administration of these donor processes than actually getting the work done itself. It ends up happening in most every single environment that we get into in a post-reconstruction environment, but it is a tragic reality that we all need to grapple with in the international community to address.

MR. WARD: And that is a great soap box for me, and I know Carlos in his prior job and I know Mark who is here from SCRS, what we have to do, and this is not just us, but it is you as well, let's figure this out when there is not a disaster staring us in the face, because the worst time for us to figure out how to respond to one of these things right is when you are on the phone trying to find out what we are doing, the press is on the phone, the Congress has a hearing, and forget it. If we try to figure it out then, we are going to get it wrong.

What we needed to do was figure this out before it started raining, but we don't. Or we haven't so far.

MR. INDYK: Let's go to questions. Gary Mitchell is first.

MR. MITCHELL: Thanks, Martin. Gary Mitchell from The Mitchell Report.

This is a question that I posed much earlier in the summer to Carlos, and I want to raise it again in perhaps a slightly different way. To put the

question simply, where is Israel in all of this? And to take it a step further, is there or should there be a role or opportunity for Israel to play in the reconstruction efforts in Lebanon? We defeated the Germans, we defeated the Japanese, we rebuilt it, and so I am just wondering whether that is even a discussable subject, and I will end the question there.

MR. PASCUAL: I think the answer is yes, and how it is managed and handled is obviously difficult on both sides.

One of the issues that kept coming up in all the discussions that Bilal and Ashraf Ghani had was how do you give the Lebanese people a sense that tomorrow there is not going to be another war? Israel's engagement is part of the answer, and it is as much political as it is in terms of practical support.

One thing which we heard that is extraordinarily constructive is that the Israeli Defense Forces, the Lebanese military, and UNIFIL, are

meeting on a weekly basis to coordinate activities and exchange information. It has gone extraordinarily well, and it has reached a point now where consideration should be given as to whether it gets further formalized perhaps into some form of a joint monitoring committee that is done in the spirit of the 1949 Armistice Agreement.

Martin raised this at a previous session that we had, and the 1949 Armistice Agreement at least provides a legal framework for the Israelis and the Lebanese to be able to sit at the same table, and "in the spirit of" is an important dimension to add to this because the armistice agreement is out of date and some feel that to try to amend it formally at this stage would create too many political complexities that are more than the traffic can bear right now.

But there is I think an important opportunity here to in fact continue to look at how to elevate and formalize the degree of cooperation and contact that we have seen among the Lebanese, the

Israelis and UNIFIL and to do that it in that trilateral framework.

In terms of specific areas to work, in my view, the most important area is on addressing border issues. Obviously there is not a demarcated border here, but there has to be cooperation between the Lebanese military and the Israeli Defense Forces on this issue and so it is an obvious area for them to exchange both information and perhaps where the Israelis can provide technical assistance and advice.

In an op-ed that Martin and I submitted some month and a half ago or so, one of the points that we raised was whether Israel will consider raising with the administration and the U.S. Congress the possibility of allowing some of its annual \$2.3 billion in foreign military financing to be allocated for support in Lebanon in particular because there is a near-term need for these resources and if they can be used in a way, for example, that addresses border security issues, something like that between the political impact and the practical impact on the

ground is going to be as useful to Israel as any other investment of those resources.

So, yes, there are possibilities here. They are sensitive. They are tricky and they are going to be controversial, but I think that they need to be pursued.

QUESTION: Marcus -- and I actually work for Carlos's former office, SCRS.

MR. INDYK: I am just going to interrupt you for a minute because Mark has to go, and I just want to take the opportunity to say thank you very much for participating today. I really appreciate your contribution.

MR. WARD: I am sorry I couldn't stay longer. I will grab a cookie on my way out.

MR. INDYK: Take two.

MR. WARD: Maybe I will say something. These kinds of forums, keep it up. Your timing is great. Discussions are underway. It is good for us to get the kinds of questions that you are asking and the proposals that you are making. I really

appreciate it. Invite us. Sometimes we will avoid questions like that last one, but these are working all the time, so I appreciate the opportunity to hear from you. And I am available for a phone call or an Email and it is pretty easy to find me at mward@usaid.gov.

MR. INDYK: Yes, please.

QUESTION: I was going to add that Carlos actually hired me, so if he does not like the question, he only has himself to blame.

I think the underlying assumption in the two presentations is that you have a permissive security environment to carry out reconstruction and stabilization. Carlos alluded to this when he talked a little bit about assistance to the military, the Lebanese armed forces and how important that was, SCRS has a coordinator in the ground in Beirut right now and when she sat down with the country team and we looked at what value added we might have since we had \$5 million, being money from the Defense Department, the need that came forward indeed was security. It

was providing training for the internal security forces in and around Beirut since the armed forces have transferred down to the South.

I wondered if you could elaborate a little bit your thoughts on that, Carlos, in terms of it seems to me that for the government to have credibility in reconstruction, et cetera, it really does have to establish credibility in the South which is a part of the country where the Lebanese army had no presence until they moved down after the cease-fire. But if the government is to do the kinds of things we all want to see it do, it has to replace Hizballah in the South as a credible force to ensure security and the internal security forces in the other parts of the country have to assume a greater security role. I am wondering during your trip there whether you had discussions along those lines and conclusions that you reached.

MR. PASCUAL: I am glad to answer, and I don't know, Martin, if you might want to add something to it.

The security issues are very, very large, and establishing a security presence in the South for the Lebanese state is absolutely crucial. For the most part, the Lebanese state had no presence in the South, and, even worse, was discredited. And Martin, this goes to your question of corruption, what people saw in the South was that state resources resulted in half-finished projects that created a legacy of corruption and made the people feel that in fact the state did not really care and was part of creating the space for Hizballah. So part of gaining credibility there for the state is to be able to act in a responsible and effective way, and part of it is to actually have a security presence.

The immediate challenge is to equip and be able to have a trained formal military, but the internal security forces as well, and we met with the Director of Internal Security. The internal security forces need help and support. There needs to be the capacity to coordinate effectively with a military and there needs to be the capacity to exchange information

and to respond rapidly. There is no surprise that their capabilities are weak. If you think about the capacities that we have in the United States to coordinate effectively between intelligence services, military services, federal investigators and domestic police forces, they did not exist in September 2001.

So are they weak in Lebanon? Yes. Is there a major need for strengthening of those internal security forces? Yes.

Are there basic needs in just even training for basic security requirements for officials in the federal government? Absolutely. If one were to get from the diplomatic security services a list of 10 things that you should not do in protecting an important diplomatic installation and you compared those with the security procedures outside the Ministry of Foreign Affairs or the Ministry of Finance, there is a lot to worry about. So I think it is absolutely right to pay attention to this issue and that there are going to be major significant needs there, but I think that to address just the security

question and not address the political question and not address the reconstruction question, you are only going to get part of the answer.

QUESTION: Apart from corruption, Lebanon has had a long history of various illicit economies including drug cultivation and smuggling, but smuggling with a gamut of illicit goods, and various insurance and maritime fraud schemes. Quite surprisingly, many of these economies really subsided during the 1990s partially as the legitimate economy recovered.

To what extent has these economies started to pick up after the war right now, and what can be done short of rebuilding very rapidly the legitimate economy and especially livelihoods for people to prevent the spread and real deepening of these illicit economies again especially as they are very easily captured by nonstate actors?

MR. PASCUAL: I would ordinarily know absolutely nothing about this other than Bilal and I had an opportunity to have a fascinating discussion

with a businessman who has been involved in the South for about 50 years. His field is in agriculture and actually knew the details of this quite well. If there was a positive element of the Syrian occupation it was that it essentially eradicated the cultivation of illegal crops, both opium and hashish, and they have not come back since the Syrians have left.

The threat that exists is that if there are no effective alternatives provided for people in the South, people are going to ask the same basic question they ask everywhere, how can we make money. If that becomes the most viable alternative to make cash in the near-term, there is a tremendous risk and that does need to be looked at. It is not an issue yet I think, but it is a critical question that needs to be put on the agenda of things to try to prevent as one looks at the reconstruction program.

QUESTION: I was surprised and encouraged to hear that Hizballah seems to run out of money to give to the people in the South with regard to rebuild their houses and that this has created an opening for

the government and for others. The question is if there is an even bigger opening with regard to those who actually got that \$12,000 per house from Hizballah, because I have no idea what the average price of a house is in the South, I assume it is not like in Potomac, Maryland, but at the same time, I assume it is more than double the \$12,000. So if the government or if others give more than \$12,000, then actually probably there is an opening who already got the \$12,000 from Hizballah and especially if it is much more than \$25,000 which I assume it is per house, then it is possible to work those people as well and actually get their gratitude for giving more money than Hizballah for those who already got the \$12,000.

MR. PASCUAL: I'm sorry, I missed the last part.

QUESTION: To get credit for giving more than half the price of a house on the assumption that a house in South Lebanon costs more than \$25,000.

MR. PASCUAL: First of all, just for clarification, I do not mean to suggest that Hizballah

has run out of money. I do not think they have run out of money. I think that the challenge that they are facing is harder and more difficult than they anticipated and so they are slower in acting on it. Fewer people are getting the resources, it is going to take more time, and they probably do not have sufficient resources to do everything that wanted to do. But I would not take that as a statement that they have run out of money.

In terms of how to handle the housing issue, I frankly do not know enough to give a complete answer to it. I would just offer a couple of observations. The livelihood that you can do this with straight cash grants and cash transfers is extremely low. The more likely possibility is if there is a creative financing program that is set up through banks, and there are, again as I said, banks that function that have a history of experience in handling mortgages.

An area where the international community could be really helpful is in taking part of the risk in either providing partial guarantees or in being

able to provide financing on terms that allow the lending period to be extended so that it is not just 3 years, but maybe can be extended to 8 to 10 years. If I personally were looking at it and went on the ground and had to design a program, that is where I would start from that perspective, because it is extraordinarily difficult with any sense of equity to be able to figure out how to divide up these cash grants to families and ensure that you are not double-counting, to figure out if they were enough, to find out whether or not it was going to translate into a house or whether you are going to really fix a room, or whether somebody is just going to take it and still remain without a house but they are going to spend it on something else. If you do it in a way where you are essentially building up capital in the private banking system and allowing that to work more effectively, I think you end up doing two things. One is you reinforce the private banking sector, and the other is that you have greater assurance that it is

actually going to be used for the purpose that you intended it.

MR. INDYK: Carlos, thank you very much and thank you all for coming. I think it was a very great presentation and a very good discussion on an important subject, and I think we should pursue it and come back and do an assessment later on to see how it is going. But in the mean time, thank you very much.

(Applause)

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