

THE BROOKINGS INSTITUTION
FALK AUDITORIUM
TWENTY YEARS OF U.S. ECONOMIC ASSISTANCE
TO EASTERN EUROPE AND EURASIA

Washington, D.C.
Monday, July 22, 2013

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P R O C E E D I N G S

MR. INGRAM: Thanks for joining us this afternoon. I'm George Ingram and I'm a senior fellow here at Brookings, and we're here for the public unveiling of a report by the Europe and Eurasia Bureau at AID on 20 years of USAID economic growth assistance for Europe and Eurasia.

We will shortly, probably this afternoon or tomorrow, send you the link. Everybody who RSVP'd for the panel, for the discussion this afternoon, we will send you out a link to the report, which should be available later this afternoon or tomorrow.

I've had the advantage of having been able to read the draft report. I can tell you it is not a quick read. It's not a report that I would scan, it's a report I would read every page. It is very meaty, it is very substantive, and it's very important not just for documenting what AID did in the region for 20 years, but particularly for the lessons learned and how we can build future programs on the rather unique experience in this part of the world.

We're fortunate having with us four people who probably know more about the programs that we carried out in that region than any other four people around. We're going to start out with an introduction of the report by Paige Alexander, the assistant administrator in the E and E Bureau and her colleague Stephen Eastham.

Paige probably knows more about the region than anybody else today. She worked at AID for eight years in the 1990s, most of that time in the E and E Bureau and she's now been the assistant administrator for four years, five years. And you also will see her fingerprints elsewhere in AID because the leadership has found out that her calmness, her clear judgment, her organization skills can benefit the agency beyond E and E.

And Steve has been the honcho on this report. He helped design the structure of it, managed the consultants who wrote the report, and has been heavily involved in getting a good, clean, edited product.

And with that, I would like to invite Paige up to the podium.

MS. ALEXANDER: Thanks. Let me add to my welcome to everyone who came for this, this is really sort of the birth of love by the E and E staff, and at AID we had done something similar back about 9 months ago with the democracy rights and governance part of the portfolio to look at the last 20 years. And, so, we wanted to do that for the economic growth piece.

I want to thank the Brookings Institution, specifically George Ingram for agreeing to host this event and for working so hard and effectively at assembling such a distinguished panel. I also want to thank our panel, Don Pressley, Craig Buck, Ambassador Bill Taylor because as many of you know, they were all my mentors in the '90s. I worked for all of them at one stage in my life, and, so, it's really wonderful to have them up here telling us a little bit more about what went on behind the scenes during that time.

The U.S. Government through USAID played a major role in helping the Europe and Eurasia region become free, whole, and at peace. This was what Congress has mandated when the FREEDOM Support Act and the SEED account were first moved forward, and, so, this is what AID took on as our mandate as time went on.

So, following the collapse of the Berlin Wall in 1989, the communist regimes fell and we jumped in with over \$20 billion worth of assistance over the last 20 years, primarily in the economic growth area and in democracy rights and governance. So, as you'll see in the report that George had referenced, there's an Appendix 6, which goes through the exact amount of funding that we did for all of these programs, but it was

about \$10 billion for economic growth.

So, as our programs were originally designed to address humanitarian assistance in Russia when there were food shortages, throughout the caucuses when there was electricity and gas shortages, through the Balkans after the conflict, the overarching intent was always to assist the stability and the economic prosperity to move these countries towards graduation. So, you could think of our work actually as a long, delayed completion of the spirit of the Marshall Plan, because that was the intent was really to transition quickly, as Congress reminded me constantly. It was a 3 to 5-year program, which now we're celebrating the 20th year. So, we didn't move as quickly as had initially been anticipated, but the progress was slow and steady and you'll see in this report and through the conversation today where we went forward and where we moved back and what some of the factors were related to that.

So, this report really documents efforts targeted towards expanding the economic growth and private sector development and providing lessons learned. So, as Teresa started making calls, don't you remember Carlos Pascual called and said really, another report? What is the purpose of this? And, so, I laid out the objectives as we had intended and as Steve and his team had really designed it.

It was to make a contribution to the development literature based on the cumulative experience of having done this for 20 years at this point, to disseminate the assistance experience in the community the lessons that we've learned because as we look at Haiti, Cuba, Burma, the Middle East, there were lessons learned, there have been, and we want to continue to make sure that as practitioners, all of you and all of us take these in mind as we work forward in designing our programs.

We also wanted to acknowledge that extraordinary progress to date. We obviously didn't do this on our own, we have host country governments who were real

partners in this and that moved us forward in many ways. And to engage and stimulate the dialogue among yourselves for the use and potential of this future programming, as I said.

So, we also a compendium of an addition report on enterprise funds and the enterprise funds are important because they were about \$1.2 billion worth of our \$20 billion worth of assistance in this process. And, so, then we have them in 10 countries and the total spent by the U.S. government on this exercise, we had successes and we had failures and since we wanted to address that in a separate lessons learned document, which we'll also send out.

The enterprise funds continue to be highly visible in the development community and in Congress, and, so, as these are being used to look at Pakistan, at other countries throughout Africa and within the Middle East, we want to make sure that we've taken some of these models and taken the best steps forward.

So, the context, I want to remind everyone of the context because, as I said, when we began in 1989, there were 29 countries that had collapsed after the fall of the Berlin Wall and we started very slowly in each of these countries; first in Europe and then later in the Eurasia region and we wanted to create, as Congress had said, create a market economy associated with stability, democracy, and peace.

And, so, for 20 years, that's been our guiding principle and it's important to now acknowledge that U.S. economic assistance was swift, it was significant, it was focused on creating building capacity for market economies and because we were very focused, I think "embedded" had not been a term that it started yet as it did in Afghanistan, but we really having embedded people into these ministries and worked in partnerships with the government, we were able to move very quickly with this technical assistance.

It accelerated reforms, it helped to transform the region on a path to private sector-led economies and one example is that trade has really proliferated. If you look at 2012, the trade with Russia just alone, the U.S. exports with Russia were more than \$10 billion and that doesn't include anything that was created within Russia, the McDonald's, all of the other corporations that are now there. That's just U.S. exports to Russia. So, that was half of the total economic assistance over the last 20 years.

So, out of the original 29 countries, we've really had a lot of successes that AID was active in participating with the graduation of 11 countries, the 17 had joined WTO, 11 are now members of the E.U. It is 11 with Croatia now, I think, and 12 who've been invited to join NATO. So, you can see that we have actually had successes. You don't look at a lot of regions that USAID is active in and say you've been able to graduate all of these countries. So, it's actually fairly remarkable in the assistance role to have done that.

But there are still challenges remaining. The Eurozone economy is now contracted and for the last six consecutive quarters, the IMF has revised its 2013 downward trend to negative .6 and banks really are too weak to lend because the E.U. region will continue to struggle to grow without this lending.

So, I want to introduce Steve Eastham, who really led this report with his team. He runs our Economic Growth and Market Transitions Team and he'll tell you what the report is and help set the stage a little bit more for George to moderate the discussion.

So, thank you for coming and thank you to our panelists.

MR. INGRAM: Thank you, Paige. (Applause)

There are six seats in the front up here and a couple over here. So, please don't be shy to come on up and grab a seat.

MR. EASTHAM: George, I think we should have sold tickets for this.

(Laughter)

MR. INGRAM: Could have made money.

MR. EASTHAM: Yes. Good afternoon. I wish to add my welcome to Paige's and offer my thanks to George Ingram and our distinguished panelists with whom I have shared a lot of work over the past 23 years in this E and E region.

Some of you may have seen an earlier 10-year report that Don Pressley authored on the E and E region, and, so, we thought it would be a good chance to update that and take into account the accomplishments and successes over the last 10 years, as well as a few of the failures.

So, this paper starts out by describing the legislative mandate and USAID's response in the region. U.S. assistance to the countries of Central and Eastern Europe and the former Soviet Union from early on had the strong support of the Congress, the executive branch, and the American people, and because of that support, our assistance was able to be designed, staffed, and implemented very quickly. As many of the you know, the circumstances we faced at that time were urgent and unprecedented in their scope, with 29 countries undergoing a historic change from communism to market-based economies and it all happened really quickly and I think most people would say it happened fairly unexpectedly, also.

Once on the ground, we faced a huge challenge. There was an almost total absence of the critical institutional framework for a market economy. Seventy years of communism in the former Soviet Union and then forty years in Central and Eastern Europe were significant obstacles to liberalization and reform.

Again, if you happened to live or work there at any time in the early days, you realized that there was virtually no experience with living and working in a market

economy across that region. There was no financial intermediation, there was no contract law, nothing resembling a western-style bank existed, there was familiarity even with the concept of investing or what it meant to be a shareholder. The idea of starting a business that you, not the state, would actually own was not easily embraced. And, actually, the concept that you might remember of being an entrepreneur sort of had a negative connotation. So, that's enough of the context.

The six technical areas that we cover in the paper are macroeconomic and fiscal reform, privatization, financial sector and capital markets, private enterprise development, energy and infrastructure, and agriculture and land. Paige went over some of the key results and I'll just mention a couple of them in just a little bit more detail, but some of the key results, as she said, 11 countries in E and E region achieved economic and political transformation to the level that allowed them to continue the transition process with their own resources and eventually exceed to the E.U. And at that point, our assistance was phased out.

Six western Balkan countries have improved their economic and political environments, but are still far from meeting E.U. accession criteria. The current projection is that the soonest that any western Balkan country could become an E.U. member is at least 10 years away, like 2023.

In Eurasia, while we see progress in some areas, and more than 50 percent of the economy there is in private hands, none of those countries are really nearing the minimum transformational measures they need to move on.

Just a few highlights of some of the impact that we had. Literally thousands of enterprises and banks were privatized, dozens of financial sector regulatory bodies were established based on international standards and staffed by well-trained professionals, electricity supply reliability was greatly improved and energy efficiency

reforms are underway today. We're still supporting that. Hundreds of business advocacy organizations were created and helped improve the business-enabling environment and tens of thousands of small and medium enterprises were established or upgraded which in turn created literally millions of new jobs and increased incomes.

So, in the lessons learned area, which I hope everybody will get a chance to read, we tried to just summarize into a number of lessons. I'm just going to go over a few of those today, but, again, I hope you'll see the whole report.

First of all, again, Paige mentioned USAID received a clear mandate from Congress, and this was very important. We were asked to help transform these countries from centrally-planned to market-oriented economies and I think looking back, that clarity of objective was a major factor in being able to achieve our assistance goals.

Another lesson learned we had was that the sense of urgency that existed, with this sense of urgency, USAID was able to develop a nimble and flexible operational framework for implementation which supported the goal of meeting the transformational objectives.

Another lesson learned was that in addressing such a comprehensive, massive undertaking, a comprehensive approach is needed focused on establishing the fundamental elements of a market economy.

One of my favorites, well-functioning institutions staffed with well-trained individuals are essential to sustain economic progress. While much of our early assistance was focused on privatization, and that got a lot of attention, over time, we began to realize and focus more on building the institutions that are needed to sustain a market economy.

Another lesson learned was that economic transition requires scaling the assistance resources that we have to be consistent with the level of political commitment

to reform and if political will is ever seen to be waning at time, we still need to stay engaged, but assistance levels and expectation should probably be more modest.

Economic and democratic gains are closely correlated. Let me say that again, economic and democratic gains are closely correlated. One doesn't work well without the other and the linkages run in both directions. USAID's role in providing technical assistance is complementary to other IFI funding and helps countries meet reform criteria and actually unlock other donor funding.

And the last lesson learned I'll speak about here is a sustained flow of private investment capital, both foreign and indigenous, is a critical indicator that the key elements of a market economy are in place.

So, that's the lessons learned and some of the context from the broader paper.

Now, just to focus here a few minutes on the enterprise funds and the impact they had, I don't know how many of you are familiar with them, but there were 10 enterprise funds, so-called "investment funds" created in the Europe and Eurasia region. They covered about 19 countries. These funds were modeled after what we think of as western-style venture capital funds. AID provided in total for these 10 funds \$1.2 billion in grants. And from that \$1.2 billion, fast-forward 20 years later and we have approximately \$1.8 billion in proceeds that has been realized from those investments. So, \$600,000 of additional over and above the grant. And then also that \$1.2 billion grant leveraged about an additional \$6.9 billion in private capital from other investors.

At the end of these enterprise funds' active investment phase, with the agreement of Congress and AID, the E and E enterprise funds retained approximately \$1.3 billion to endow 10 new legacy foundations, which will continue to assist private sector development in this region for many, many years, some of them in perpetuity.

And as a taxpayer, another favorite here, collectively, the E and E enterprise funds will return approximately \$430 million from the original \$1.2 billion grant to the America people. In my experience, there are not many assistance projects where we can see significant developmental achievements and then also wind up with a financial profit of over \$600 million over and above the original grant after paying all costs of operating the grant for 20-plus years.

So, some of the lessons learned on the enterprise funds. The enterprise funds are not a magic bullet. They need to be part of a comprehensive economic assistance effort and should be implemented in parallel with the work of USAID missions, other donors, and host country leaders. We think it's important to have a dual mandate. Wasn't really clear. We didn't really define that from the beginning, it kind of evolved over time, but we eventually called this mandate the dual mandate, which is now popular in social investing, and by that we meant a focus both on development impact as well as profitable investing.

And expectations and design of investment funds need to be relevant to each country's stage in the economic transition process. Not all countries are suitable for an enterprise fund. At one extreme, some countries simply do not have the legal and financial support to operate a fund successfully. And then at the other end of the spectrum, you have more advanced countries that have existing private sector financial firms and a new U.S. government investment firm might well be seen to be competing with those firms. So, we have to be careful. It doesn't fit every place.

Future investment funds should review carefully the E and E enterprise funds before committing to a specific structure. There are many areas where these funds were uniquely successful and also in many areas where in hindsight important features of their structure and oversight could be improved. It's important to note that the U.S.

government and USAID should not be involved in making specific investment decisions. This is the role of the funds' board and management.

And really important, the quality of board members and management is critical. If you get that right, everything tends to work out pretty well.

And, lastly, very important, USAID needs to maintain regular involvement and oversight of the enterprise funds' boards and management. With the large amount of grant funding provided, there are always opportunities for things to get off track and we need to be particularly careful to recognize and correct any actual or perceived conflicts of interest.

And Paige mentioned a few challenges remain. So, those are lessons learned from the enterprise funds, and, again, they're in more detail in the paper. I hope you get a chance to read. Challenges remaining, there are still some in the region. Even with all the assistance from AID and other donors and all that these countries and their citizens have legitimately accomplished, there still remain some significant challenges.

The Eurozone financial crisis, this region has been hit disproportionately hard by this crisis. At first, it was not thought that it would affect these countries as much because they weren't as involved in the global financial crisis, but over the last several years, we've seen that there was a boomerang effect and it has affected them greatly.

One of the other challenges is chronic and increasing unemployment. You've got at least 20 percent unemployment in many countries in the region, 40 percent in Kosovo, 35 percent in Macedonia, and I think 25 percent in Serbia. And a lot of that's not measurable really totally, but it's very high and too high.

There's been real stagnant growth. Today, several countries in the E and E region are still below their 1989 GDP levels. There's also a statistic which surprised me the first time I saw it. There's extremely low labor productivity in countries

where we still provide assistance.

As an example, in the Western Balkans in Eurasia, their productivity is about \$10,000 per person annually compared to \$80,000 per person in the E.U. 15.

And, finally, in many countries, there has been very slow progress towards E.U. accession. The failure to generate sustainable economic growth remains a significant impediment to achieving the economic criteria required for these countries to ever have a chance towards E.U. accession, and as mentioned earlier, the E.U. themselves estimate that the country in the Western Balkans that is closest to E.U. accession is at least 10 years away.

So, I hope some of these highlights of economic growth work in the region is helpful and will provide a useful basis for the panelist remarks and a good discussion with the audience. Thank you again for welcoming us here today. (Applause)

MR. INGRAM: Thank you, Paige and Steven. We're now going to spend about 30 minutes, the conversation with the panel, and then open the floor to the audience.

I'm not going to go into depth on these three gentlemen's background. You've got their bios if you picked them up out front. I'll say a couple of relevant things.

Ambassador Bill Taylor comes with one of the most unique backgrounds and résumés of anybody that's probably ever worked at the State Department. One could say he cut his teeth on coordinating assistance with the former Soviet Union and moved on from there to Iraq, Afghanistan, now the Middle East, and he probably, except for two people who I don't know in OMB, has the broadest perspective of what the 26 U.S. government agencies do that are involved in multiple aspects of assistance.

Craig Buck, for those of who came to see Barbara Turner, you're going to have to channel Barbara through Craig. She apologizes for not being here. She had a

death in the family and had to be out of town today.

Fortunately, Craig did not have to do any studying over the weekend to be up here. He was one of a dozen people who met here two months ago to vet the early version of the report. He had 34 years in AID, was head of 6 different missions; four of them in the E and E region. He just suggested to me that if you count Central Asia, which is a regional mission in charge of 5 countries, you really were in charge of 11 different countries during your tenure at AID.

And Don Pressley, who also had a full career as USAID, mission director in Poland, was then deputy assistant administrator of the E and E Bureau and then assistant administrator and ended his career at AID as the acting administrator. And Don is now with Booz Allen in Abu Dhabi. So, anybody who's looking for a job in Abu Dhabi, you can see Don after the conversation.

I have a question for all three of you. I'll let you start, Bill.

You've all been involved in the region for a long time, you've seen the report. What are the critical lessons learned from our 20 years of experience there? And also this was a part of the world that essentially was unknown to us when the Berlin Wall came down. What significant things didn't we anticipate, what did we get wrong and had to correct? There clearly was a lot of learning in the early days, but mainly focus on what the important lessons learned are.

Bill?

AMB. TAYLOR: I can start. Well, thank you very much for having me, George, Paige. It's great to be here. I see a lot of familiar folks in the audience here. I'm amazed the number of people here who are going to come talk about the former Soviet Union and Eastern Europe.

Lessons learned. George mentioned, Paige mentioned that this was a

bit of a surprise when the Berlin Wall came down, when the Soviet Union imploded. So, the United States government wasn't ready for this, USAID was not ready for this. We didn't have people who spoke Russian or Ukrainian to go into these places. In terms of development, this was not an area that we had studied and weren't prepared for this. So, the Ukrainians and the Russians and the Cossacks were surprised to see these Americans showing up with some advice for them on how to restructure their economies and how to develop their governing structures. Be we learned and they learned.

One of the lessons that I take is that we do need to understand these countries in terms of being able to provide advice. We can't give advice just based on our own experience. I mean, it's just not good enough. We need to be able to understand where they're coming from, understand their societies, understand their politics, and to do that, we need to study in advance.

One thing, George, that I did look at the paper, and you're right, it's not for a quick read, but I will tell you that on the last page of this paper, on page 101, the last 2 words of the paper are "grand corruption." Check it out when you get this.

So, these are the kind of things that we need to worry about as we're providing a lot of assistance and when we're talking about how much money, Paige mentioned over \$20 billion in Iraq, we provided \$18 billion right up front. Craig will recall in Afghanistan, we started off slow and then moved up. As we go up, as we increase the size of these assistance programs, we worry about corruption and that's one of the big lessons, I think.

Last thing I'll say is on mindset. My own sense is the way we can change mindsets in these countries is by bringing young people in particular to the United States. And, so, my favorite programs across these areas have been those that have brought young Ukrainians and Russians and Cossacks and now Egyptians and Tunisians

into this country to live with families and learn how democratic governments work, learn how market economies work, learn how our society works, and then go back and be able to apply those.

USAID, I will say, is now -- someone talked about being "nimble," Paige, Steven. USAID was about to kick off one of the largest scholarship programs in the world, bringing thousands of Egyptians to the United States and this is a USAID program. Now, the Egyptians have detoured, they made it difficult for us to provide assistance to them at this point. So, I'm hoping that that will still come, but in terms of mindset, in terms of USAID's ability to make those kind of changes, we've learned some good lessons.

MR. INGRAM: Good.

Craig?

MR. BUCK: Thanks, George. I think that the report itself points out that the need for a long-term commitment for the restructuring activities, it's not something that can be done overnight and that I think the report recognizes this requires a commitment on the part of the America people and on the part of the international community to this effort.

I think that the report also points out, but I don't think really elaborates on the dual nature, the correlation between good governance and economic growth and to me, that is absolutely critical and I think one of the reasons for the failure of the economies where I've been associated, particularly in Central Asia or in the Balkans, is the lack of a vigorous civil society, the lack of a demand for accountability, the lack of a free press, the lack of enforcement of contract law, the lack of a commercial society that is recognized by all people and demanded.

So, we can't have the economic growth that we want without having the

structures of good governments and our investment began on the economic reform part and we've tried a number of things on the governance side. I'm not certain we as an external agency have the answers. So, we've done a number of things, OTI has done wonders in terms of being on the ground particularly in post-conflict areas, but building a society that demands accountability demands enforcement of the rule of law is a major impediment to economic growth.

I mean, one other thing that we did not recognize was the vibrancy, the entrepreneurial spirit, the commitment of many of the people in the area to make reforms.

When I look at Central Asia, of going overnight from a society in which the only three goods available were vodka, Fanta, and Snickers to one in which all consumer goods and capital goods were available within an extremely short period of time, very entrepreneurial people that need a little assistance to capitalize on the strength that they have, and that to me is something that the program has been able to capture, but is something that we didn't recognize initially.

MR. PRESSLEY: George and Steve, thank you very much for including me on this panel. It's really hard not to be nostalgic as we think about the past 20 years and the work of many of you in this room, the great counterparts that we have had the fortune to be able to work with in countries that really wanted to make progress to welcome our assistance and to work together.

The selection of panelists is interesting because I think we represented three different institutional perspectives on what to do and as you might imagine, those perspectives were usually quite different. You had a strong country director who always wanted to do his thing, you had the institution of USAID trying to look at it from a more regional or holistic perspective, and then you had the coordinator who was taking into account the broader foreign policy objectives. And out of that process, I think we made

some pretty good decisions overall.

We certainly made it work as a result of that, and when we couldn't, it was easy, we'd turn to Paige Alexander and said what do you think? Figure it out for us. (Laughter) So, it is nice to be here.

As I think back over the past 20 years, I'm trying to figure out what are the lessons learned? In some ways, it's really tough because it was a unique point in time in history, it was a unique set of countries that were coming from a communist command system and we were trying to help them move to market economies and you don't quite have that same set of circumstances that exist in many of today's world, where we are still trying to provide economic growth assistance to fledgling, emerging market economies and democracies.

But I do think there are some important approaches that can be applied no matter what the specific circumstances are and the report does an excellent job in my view of flagging those. I would just mention three.

One is this holistic approach of working in the economic sector, in the democracy sector, and working on the people-to-people programs. I think our strategic framework, as we called it, was called Partnership for Progress and that partnership involved all those elements and together I think that program was better as a result of that approach.

I think certainly in the early days a country-focused approach as opposed to government-to-government, as we had done prior to that point in time, paid off because we were able to work with organizations and institutions that represented the variety of the country's interest, not being limited to a minister of planning or a minister of economy who channeled his own or her own viewpoints into a relationship with the U.S. government. And, so, again, I think that paid off in many ways. And I do think the

institutional approach as opposed to trying to tie ourselves to a particular government official, but really try to build the institutions that would survive long-term over changes in government and changes in the economic conditions of the country is also paying off.

So, there are other lessons learned in there, but in my mind, those three really stand out.

MR. INGRAM: Great, thanks, Don.

Don, you raised an issue which I wanted to ask you and Craig particularly to get into and Bill may or may not want to comment on it, and that is the relationship between the missions and headquarters, and you were both a mission director and one of those evil people at headquarters that put demand on missions. And Craig was one of those mission directors who knew much better what should be going on then we did in Washington.

So, Don, start off a conversation talking about those relationships. What the complications were, what made them work, and, again, what the lessons are for the future on those.

MR. PRESSLEY: Well, in a budget-constrained environment, and as you're always going to find yourself, the question is: What are the right priorities?

The mission on the ground understands or should understand the country's priorities much better than the Washington folks. But what the AID bureau was trying to do was to be able to work in a way that allowed lessons to be replicated rapidly across the region. So, if you put in place a stock market program and you learn lessons from that, you want it to be able to move that across the region, and, so, you want it to build on that rather than have the mission in Kazakhstan say oh, no, we're not at all interested in stock markets.

And, so, it was those kinds of tradeoffs that I think we were always

struggling with to try to come up with programs that would help the whole region that would benefit from lessons learned from other countries and then be able to move out smartly.

Janet Valentine, who happens to be here in the office, she used to make me sign in blood, she would say, on the annual program and Dick Morningstar and I had to sign in red ink that okay, this is the program, we accept what the mission is saying, and we're going to back you up as you try to implement it. It was those kinds of very vigorous debates that I think led to a much better set of programs, benefit was simply one or the other or the third.

MR. INGRAM: Craig?

MR. BUCK: I think Don has really encapsulated the issue. Like how you see it out on the field, we saw it from one perspective and Don and his colleagues brought another and there was what I would consider to be a very good iterative process, the discussion between the field and Washington. And ultimately, I think that whatever our ideas in the field, benefited from what Washington offered and our programs were improved.

I don't really consider it to be a particular issue. I mean, I thought it was healthy, it was a good debate, and fortunately, we had the support of people like Don. I can recall at one point when the agency came up with one of its new requirements for massive amounts of documentation and we in Bosnia at that time did not have the staff to do it and Don asked me if I would do it, and I said no, we can't do it. We'll either implement the program or we'll do the documentation. Don said I'll support you in Washington of not having to go through it. And that's the sort of support that we wanted to have and I think that we were able to get our program done because we had the support from people who could interpret our program back in Washington.

MR. INGRAM: Bill, I traveled out to a few missions with you for mission review days. You saw this tension, you saw this cooperation.

What are your observations?

AMB. TAYLOR: Well, from AID Washington and the field, I think Don and Craig have described this well.

The other debate that went on, George, as you will recall in some of these, also was the result of a lesson from Janet Valentine, who described the relationship between AID mission directors and the ambassadors in the field and hers was based on her experience with her ambassadors when she was the mission director, suggested the importance of the AID development effort and the AID assistance effort to the foreign policy in that particular country.

And that was an important piece of the way we thought about, also the way that the AID implementers thought about how are we supporting the U.S. foreign policy in this country? It's not divorce, it's not just development, it's not just foreign policy, but it's an integration of those two and that's the other piece that is important for this discussion.

MR. INGRAM: Craig?

MR. BUCK: Yes, I just wanted to add one thing, that the issue I didn't see as an issue between the field and AID in Washington, as we had many masters back in Washington. We had the assistance coordinator, we had someone that was the point person for the administration for that country, we had the State Department's bureau, we had the AID bureau, we had three or four offices in AID Washington that all felt that that country was their baby, and we had the AID administrator. And I made it a point to get it back to Washington as frequently as possible to touch base with everyone. And occasionally, the guidance would be completely different coming from one office to the

other.

Besides that, we had to consult with the Hill, who had a number of different perspectives on it. So, I think the field was left with you had to use your good judgment, always knowing that hopefully the AW would support you.

MR. INGRAM: Good. Bill, you raised a topic in your earlier comments that I wanted to raise with you and that is: As you've gone on to these other coordinating jobs elsewhere in the world, what have you taken from your E and E experiences with you, the former Soviet Union, Eastern Europe, and specifically the mention of the way we ramped up and didn't ramp up aid to Afghanistan and Iraq.

And it seems like to me one of the lessons learned in the report is ramp up the assistance in parallel with the building of the capacity for the capacity in the country, don't start off with the big program. And you have lots of other experience now and would love to have your comments on that and other lessons and programs, such as the exchange programs that were very important to the former Soviet Union and Eastern Europe.

AMB. TAYLOR: Yes, I mentioned the exchange programs. So, we'll go through that, but those are key, and we have brought them into Egypt and Tunisia. Just last week, we started off with we now call it the Thomas Jefferson Scholars from Tunisia, and there about 60 of them already and more coming. Very pleased about this, and as I mentioned that we're trying to do in Egypt.

Enterprise funds started, as we all know, in East European, former Soviet context. We're going to try them, and as Steven said, we're going to try them in Egypt, I think, and Paige mentioned the same thing, Egypt and Tunisia.

One of the lessons that you mentioned was the importance of getting good leadership, and, so, we've got Jim Harmon, known to many people in this room as

the chairman of the board for the Egypt Enterprise Fund. And we go Bo Cutter, also known to people in this city, who's the chair of the Tunisian Enterprise Fund.

The circumstances though are very different. Tunisian and Egyptian financial systems' infrastructure are much better developed, much better developed than they were, than the ones that we all saw in Poland or in Ukraine or in Russia, where there weren't mortgages and there weren't financial instruments. In Egypt, there are, and there are firms operating there. So, this is going to be an experiment to see how they work.

George, you asked about ramping up, and one of the lessons about kind of having the size of the program kind of somewhat related to the absorptive capacity in each of these countries, that's hard. As we know, I mean, Craig has mentioned folks on the Hill, I mean, the appropriations don't tend to come based on the absorptive capacity of the recipient countries.

I mentioned when I got to Iraq, which is a year after we invaded Iraq, but during that year, the administration had convinced the Congress that we need a whole lot of money. And, so, we were just beginning to program \$18.4 billion right there. It was all there. We had it, but we had to program it. That's a mistake. That's clearly a mistake.

I had the unfortunate experience twice while I was in Baghdad to evaluate the programs that we were providing at the time and we reallocated, we took what had been promised and had been designed and hadn't been really programmed at that point, but we had some consultations with folks, with ministers in Baghdad on water, on electricity, and on sewage and treatment. And when we reevaluated, we got there and it turned out that the circumstances had changed from the time that they had first thought about these to the time when I was there and the security had gotten worse and it turns out that General Petraeus was training the armed forces and the police and we needed more funds for that effort and less funds -- and limited resources, as Don points

out, we'll always be under. We had to take some from another.

So, I had to go talk to the minister of Water and tell her that remember those water treatment plants that we had promised you, well, we're not going to do those. We have to take some money out of those programs.

Six months later, we focused on electricity. As the summer heat got higher and higher and more intense and the electricity demand we knew was going to go up, so, we wanted to try to deal with this because this was fueling the uncertainty, which was growing. I had to go back to that same minister and tell her that more of the water stuff was not going to happen and she told me never come to my office again. Which I didn't, I followed her advice on that. (Laughter) So, that was a mistake.

Now, on the other hand, Craig and I were in Cabal at the beginning of that exercise and we had a very small budget relative to the way that they have it now. Very small. And it has ramped up, but then you get into this concern about grand corruption, and, so, there are problems associated with each of these.

MR. INGRAM: Good. Don and Craig, the report notes that the E and E Bureau had some nontraditional ways of doing business. It allowed it to be more nimble and responsive. It had notwithstanding authority; it had a lot of technical experts it was able to hire outside the agency. It had a quick turnaround on new programs and projects.

Give us a little bit more detail on those and were these that much different than the other bureaus at AID operated? And were there downfalls; were there shortcomings on some of these unique mechanisms?

Don?

MR. PRESSLEY: Yes, I started out in the Europe bureau when things very first happened and --

MR. INGRAM: And you were aware before that?

MR. PRESSLEY: I was in the Asian-Eurasia Bureau.

MR. INGRAM: Asian-Eurasia Bureau, okay.

MR. PRESSLEY: Well, it wasn't even a Europe Bureau at the time.

Europe was a little add-on to the Asian-Eurasia Bureau because as Bill said, we weren't doing work in that part of the world at the time and AID had developed this very complex, very thoughtful way of designing programs that went through a two-year cycle. And, so, from concept paper to actual implementation was a two-year plan.

And when we started off in Poland and Hungary, clearly, we couldn't go through that kind of process. The first coordinator, Ambassador Bob Berry said, as Paige pointed out, this will be over in three years. You guys can't take two years to do it. Well, he was a little wrong on one part, but on the other part, he was right. And, so, we cut out a lot of the planning documentation and we sort of went with quick assessments, talking to key people in the country about the needs of the country. And I think as a result of that, we were able to move much faster, but it also meant we weren't as thorough and thoughtful as we should have been and we were making mistakes as we went along.

The other thing that we needed to do was to speed up the contracting process. And, so, in effect what are now known as indefinite quantity contracts really came from that need to create vehicles that would allow AID to find contractors that could work on a task order basis, move in quickly, get something done in short order, and, so, that was one of the elements that we put into place at that point in time.

The other thing was the regional approach. Instead of having country-by-country plans, which would be ideal, we took a regional approach and said okay, we are going to impose on these countries a set of programs from which we won't vary. We chose 12 priority areas and within that, each mission, each ambassador could pick and choose somewhat, but, again, we were trying to build on lessons learned and be able to

use things in a very rapid response way. That was the key that we wanted to help these countries make this transition to a market economy. We knew the difficulties they were going to go through from a democratic process standpoint, and, so, we wanted to get as much of the economic underpinning in place as possible as quickly as possible.

By the time the FREEDOM Support Act was written, it was a different set of countries, a different way, and, so, we were able to do more country planning and have more country-specific programs and then we kind of blended the two together over time, taking lessons learned from the Europe experience and from the Eurasia experience as we created the Europe-Eurasia Bureau and put the two programs together.

Craig?

MR. BUCK: I was on the Egypt desk in 1976, 1977, when we opened up the program there and that was one of the administration's highest foreign policy priorities at the time, being part of the Middle East peace process. And there was nothing like the enthusiasm and interest and commitment in 1976 and 1977 like I found when we had the opportunity to go into Europe and Eurasia and I think that one of the things that describes a significant difference. We had a commitment, we had a mission, we had objectives, we're out to do what we all wanted to do when we were in college; we were out to change the world and we had the opportunity to do so, be present at the creation.

And, so, I think that we had this sort of mindset that we could change things and that that idea, this commitment, this enthusiasm permeated the E and E Bureau and that was a willingness to take risks, to be innovative, to do things differently, to stop insisting upon enforcing the FARs and let's look at what our objective is and how can we best accomplish it? And, so, the overall attitude made an enormous amount of difference on what we were able to do.

Don has pointed out the contracting mechanisms that we had, the omnibus vehicles were absolutely critical for us getting the programs underway and one of the reasons being is we had the attitude on top, but it permeated the agency. People in Washington who were in the technical bureaus, looked at themselves as being a member of a USAID mission. And many of them spent half their time out in the field, and as an extension of really of our USAID staff.

And, so, we were able to draw on contracting authority to hire supplemental personnel, but by and large, we were able to use a lot of people that were already onboard within Washington. So, we had the contracting mechanism, we had the personnel, and we had the commitment, all of which I thought made it an enormous amount of difference where we were able to get things done much more rapidly because it's so extensive, let's make the world different because of what we're here to accomplish.

MR. INGRAM: Good. All right, one last question with some quick comments before I throw the panel open to the audience, and that is: As Steve has presented the report, is accompanied by a very informed report on enterprise funds. As Bill has evidenced, every time there's a new opportunity post-crisis, it seems that the enterprise funds is one of the go-to mechanisms. And the report is nicely balanced in pointing out that the enterprise funds had successes and failures and may not be appropriate in all circumstances.

Don and Craig and then if you want to wrap up this conversation on that, Bill. What do you see as the role of the enterprise funds and where they're appropriate and where they may not be appropriate?

MR. PRESSLEY: Well, I'm biased towards the enterprise funds. I'll admit that. A little known historical fact, I wrote the concept paper that created --

MR. INGRAM: Okay, that's all. We don't want to hear anymore.

(Laughter)

MR. PRESSLEY: So, the thing we wanted to try to do was to add to the institutional government-oriented approach of the U.S. government and investor-oriented approach that would help spur foreign and domestic investment in these countries prior to a normal investor being willing to come in and operate there. So, it was intended early on to be kind of a game-changer, a prime the pump kind of operation so that it would become attractive to investors using non-U.S. government funding.

So, Steve is exactly right. We didn't articulate it that well in the early days, but we did see the dual purpose of these organizations. We wanted the private sectors profit orientation, business-like approach to doing things to be the driver of the investments themselves and then the overlay of U.S. government funding providing that second purpose of helping these countries achieve the goal of spurring a middle class and a small business approach that would require this kind of an investment activity.

I do believe where it worked the best was where the AID mission and the enterprise fund management worked together to achieve those objectives and where it didn't work so well is where there was conflict between the two. And it's unfortunate that in those early days there was some confusion around what was the role of AID, what was the role of U.S. government, how much authority did the enterprise fund boards of management really have, were they completely autonomous or did they have to answer to the U.S. government? We went through years, unfortunately, or sorting that out, but where it worked the best was where there was cooperation.

I'll just give one example where in Poland, which was one of the most successful ones, the enterprise fund wanted to start a mortgage bank and the AID mission helped the government create a mortgage lending program and set of laws so that you could actually have mortgage banks. And those two working together created a

tremendous industry that is a key part of Poland today. One couldn't have been as successful without the other.

So, I think that, to me, is one of the key lessons in how you want to operate, whether it's Tunisia, Egypt, or wherever you try to set it up.

MR. INGRAM: Craig?

MR. BUCK: Yes, I think that stimulating foreign investment on developing the domestic investment needs to be done on a generous basis and you need to look at each case individually and I would not suggest that an enterprise fund is necessarily the way to approach Pakistan or Tunisia or other countries. I think it all has to be situationally-based.

There are significant resources available for these and I would think before one puts resources into an enterprise fund because they are sexy or because they are glamorous, you might want to look at leveraging these resources along with those of other donors, along with those with the IFIs in creating the conditions that will make those investments and bring in that foreign investment that you want as a possible better use of those funds.

AMB. TAYLOR: We should open this up here, George.

MR. INGRAM: All right. I know from the faces I see in the crowd that there are not only going to be questions, but they're going to be opinions. And comments are welcome, but I will tell you that if you go on too long, I will cut you off. Because there are already a lot of hands up. There's a microphone that will come up and let's start right there. In the back, yes. And give us your name, even though we know your name. And state your comment or your question.

MR. YALOWITZ: Ken Yalowitz, former ambassador to Georgia and Belarus and very, very good to see all of you again and congratulations on the panel and

your past very, very good work.

Bill, you mentioned very briefly the relationship between the ambassador and the AID director. Again, from past experience, most of the time, it's harmonious. It wasn't always. And I wanted to just get your sort of lessons learned. AID was new to the former Soviet Union. People had never been in those countries before and they came up, the missions grew pretty large and pretty quickly. And it was not always eye-to-eye with the ambassador.

But what did you take away from that experience, watching the relationship between the State Department and AID and particularly the ambassador and the aid country director in terms of what you've seen since?

MR. PRESSLEY: Hold off. Let's take two more questions and let's start in the back, Steve, and then we'll come up to the front in the second round.

So, raise your hand again so Steve can see you. There you go.

MR. TRINKL: Thank you for the excellent overview presentations from the three points of view.

Garth Trinkl, Department of Commerce. I worked in Poland on AID 20 years ago, so, this is sentimental for me as well as you.

I don't know about Pakistan and Afghanistan, but I wanted to go back to one of the opening questions about the hope was that lessons learned could be quickly diffused across regions, and I wanted to ask from a friendly critical point of view: What happened between the success of Poland and the delay in transferring success to Ukraine, Belarus, and Moldova and Georgia and Azerbaijan that allowed for this growth of the Euro-Asian, this competing economic block?

You said this is marking 20 years. This sounds like there could have been a panel like this 10 years ago in which more probing criticisms of the program might

have led to a different world in which perhaps Romania and Bulgaria would not be in the E.U. and NATO, whereas Moldova, Turkey, Ukraine are somewhat behind a new iron curtain.

Thank you.

MR. INGRAM: Okay, one more question. All right, right there, yes. No, right there, right next to you, Steven. Then we'll come to the front on the next round.

MR. LIEF: Hi, Eric Lief with the Stimson Center. Nice to see old friends again.

Just a real quick sidebar on enterprise funds. As I understand it, before my time, USAID was very much into the business of development lending and then it went out of fashion. Everything was supposed to be current. And the enterprise funds were viewed as an innovation because we were back into the business of what we'll call investment lending.

There were downsides to USAID lending that I think led to its demise. Do you see any of those downsides in the enterprises?

MR. INGRAM: Okay, Bill, do you want to take Ambassador Yalowitz's question to start off?

AMB. TAYLOR: I will take Ambassador Yalowitz's question because it's an easy, and Ken pointed out sometimes the relationship between the mission director and the ambassador is very good and sometimes it's not so good. And it obviously works better in the former case than in the latter.

In Ukraine, our country team was remarkable in that the AID mission director, the station chief, the econ counselor, and others -- and Mike Scanlon I think I saw walk in. There's Mike. Can you describe the synergy that comes from having people from all over these different not just agencies, but also different backgrounds and

different experiences that they brought to the country team?

And, so, the AID mission director may know a whole lot about an area that you would never expect. He or she -- I actually had two, one was a he and one was a she, and they had great experiences, even the chief of station brought things from his earlier counselor work on this kind of thing. So, it was remarkable that kind of synergy that can work.

And the other thing in Ukraine, and people who have visited there will recall that up until they moved in the new embassy, the AID mission and the rest of the embassy is together, they were separated when I was there and when many of us were there. That made it very difficult. So, the AID mission was down here on the mission in the nicer part of town and the embassy was up in the main part of town. We had to work, you had to work to make it work and we did it did, but it didn't always work. So, you're exactly right, Ken.

MR. INGRAM: So, the second question is on why weren't the lessons learned transferred quicker from Poland to other countries further east?

Don, do you want to start that and everybody comment on it?

MR. PRESSLEY: Well, one is the country themselves. Poland was just really ready to get into the E.U., to move to a market economy. They had entrepreneurs who were ready to go. And that was not the case in Ukraine and further east, unfortunately. They had had a longer period of generation under a communist approach and they had some structural issues that we were not able to quickly overcome.

Ukraine, Bill and I both worked closely on those programs and I assure you we tried to transfer those lessons learned, but it was just a much harder way to go and I think Central Asia, yet again, was at that time -- I'm not current -- but was proven to be quite difficult to transfer those lessons.

Bill?

MR. INGRAM: Craig or Bill?

MR. PRESSLEY: Oh, sorry.

MR. BUCK: No, I think you touched it. It's the differences in the countries and then you add in that the problems of post-conflict and the ethnic problems and ethnic tensions that are keeping several of the Balkan and Central Asian countries from working together is an added issue why they have not worked to adapt reforms is what we --

AMB. TAYLOR: There were structural problems, as you say, there are historical problems, there were personality and political problems, domestic and political problems. We got very close to having Ukraine in NATO.

MR. BUCK: Yes.

AMB. TAYLOR: Very close, and then a new prime minister came, went to Brussels, and said we don't want to be in NATO. So, there's a lot that you can't kind of predict.

MR. INGRAM: Don, as the godfather of the enterprise funds, do you want to take Eric's question?

MR. PRESSLEY: Yes, I think that AID has now developed their own development credit program. Is that what it's called, Steve? And they are back in the business of development lending. I think the enterprise funds were more than development lending, but it is, Eric, a question of do you focus at the micro level or the macro level and I think that institutions that are not formally part of the U.S. government are going to be able to do that better.

I almost smile at the thought of the AID being "nimble," but certainly not as nimble as C funds and enterprise funds and organizations like that that are working at

the micro level. I think that's a big difference.

MR. INGRAM: Okay, second round of questions.

MR. PRESSLEY: Now, this will be a tough one.

MR. INGRAM: I know.

MS. LUBIN: Thank you, George. (Laughter)

MR. INGRAM: She was involved in the region before any of us were.

(Laughter)

MS. LUBIN: I was going to be nice, really. No, thank you.

MR. INGRAM: Introduce yourself to everybody.

MS. LUBIN: Oh, I'm sorry, I don't want to now. (Laughter) I'm Nancy Lubin. I'm with JNA Associates, Inc.

And was talking with I think all these guys way back in the '90s or early 2000s and my question is really what we were talking about back then, as well, where I remember fondly some really good discussions about corruption and what you can do. Corruption as the biggest impediment, probably, to democracy-building, to developing market economies, particularly in Central Asia, where I work, but all through the caucuses, but all through the former Soviet Union. And it was a big question that none of us had a real answer to.

So, I'm just curious, 20 years later, as you look back, really a 3-part question with, one, are there programs or projects, particularly in the former Soviet Union, where you feel we can look back and say we really did address, lessen corruption in some way? Are there others where you feel that, you know what, we might have inadvertently made corruption worse? And thirdly then, are there some lessons learned about how to navigate what we're now calling grand corruption instead of using it as a footnote in the background and continuing as if it wasn't really there because we don't

know how to handle it?

MR. INGRAM: Okay, right there. The lady.

MS. WERMAN: Hi, Orié Werman with the Europe and Eurasia desk at Treasury.

I'm wondering what you think the implications are for Ukraine and Kirgizstan's specifically if they decide to accede to the Eurasian Customs Union. That's an issue we've been looking at.

And I'm also curious about what you think the presence of USAID is in the customs union and the development objectives, if they change.

MR. INGRAM: Okay. Now, sir.

AMB. JOLEVSKI: Thank you very much. My name is Zoran Jolevski. I'm ambassador of Macedonia.

And, first, I would like to express thanks from Macedonia to American people for your technical assistance to Macedonia and it's a great program and we enjoy a lot of benefits.

Let me give you some small comments on a couple of issues because I had the opportunity to be on the other side, the decision side during my work in the government, and in one period, I was working together, providing technical assistance to my government and for six years now in Washington, looking from this perspective.

First, I would like to say that partnership is very important, partnership between USAID Embassy and also the receiving government. We had always a huge partnership between the USAID and the Macedonia government and a lot of programs we have done together and that helped the programs to succeed after USAID programs were over. And there are a number of examples and I would just mention a couple of them or two of them.

One of them I remember when I worked for the president, we managed to get the computers for computer lab in every high school, but we could not have a content and train the teachers. USAID came, helped us with that and also we had a problem with getting Internet for those schools because we had a monopoly and it was very expensive. Working together with your embassy and USAID, we have worked to liberalize the telecom market in Macedonia.

So, it shows you that scholastic support is really important and now we have a computer for every student. Something we started 11 years ago just to have a computer lab in every high school, now we have a computer for every student.

Or another important -- sometimes it's more amount of funds you can achieve a lot when you work as a partnership. I remember in 2006, when at that time I was an assistant administrator and I was approached, we had the reception and was approached by the minister of Finance and deputy prime minister asking me for support in the so-called (inaudible). That was not part of our mandate, but it was the support was focused, but also flexible, which is very important and thanks to that small amount of money, we spent probably \$80,000. Macedonia the next year was the third best reformist government in the world according World Bank doing business.

So, USAID has done a lot of good things in the region, working not just in economy, but also democracy and education, which is very important and I would like to express thanks from my people for you.

MR. INGRAM: Thank you very much for that comment.

MR. PRESSLEY: Thank you.

MR. INGRAM: Okay, one last question right here.

SPEAKER: Thank you (inaudible) embassy of Azerbaijan and I appreciate an opportunity to be here and I'd like to echo what the ambassador of

Macedonia said, specifically as far as the beneficiary countries are concerned.

But let me disagree with some of the panelists here who referred specifically to some problems being attributed only to countries. I can speak only on behalf of Azerbaijan, and I would say very proudly that we have been contributing together with USAID financially to ameliorate our problems together.

And in 2009, we, in fact, signed a very successful MOU with USAID co-financing 50 percent, say \$20 million U.S. dollars of programs that are being implemented in Azerbaijan, and, in fact, the next round of this MOU is a view to be signed, hopefully very soon. I'll get back to you on that, but we are hopeful for approximately similar financial commitment.

But let me throw a question to the panelists. We've been listening to very important lessons and points that you specifically refer to when you were on missions specifically covering our part of the world, but apparently, USAID is not the only development agency, assistance agency in the regions. I would really appreciate your views on how you managed or not managed to evade or sort of contribute to duplication of efforts or problems were there and what probably needs to be done to sort of help mitigate the negative consequences because there are so many aid agencies, specifically in the European context that really want to be helpful and duplication is one of the serious problems, as least as far as another part of the world is concerned.

Thank you.

MR. INGRAM: All right, thanks very much. I think all of can handle Nancy's question on corruption and my only comment is in a particular trip to caucuses, let interagency led by Bill Taylor, he assigned to me the responsibility to handle the topic of corruption and I don't know if he scheduled it for 2:00 in the afternoon after long lunches in Armenia and Azerbaijan, but at least people at the table had a good excuse for

not paying attention to me.

Who would like to start off on the issue of corruption? Bill?

AMB. TAYLOR: Whenever I talk about corruption, I always point it out that corruption is a problem in every country. It's a problem in our country and I always would say that in every newspaper across the United States, you could pick it up and there will be some senator or congressman or mayor, governor, attorney general who is accused of corruption. So, this is a problem.

When I was in Ukraine, I made that point, as well, and I said the difference is in the United States, we press charges and we take people to trial, we convict them, we put them in jail. And the only Ukrainian official who was in jail was in jail in California because they didn't do that and that was a lesson that they got. They understand, Ukrainians understood this entirely.

But the other big thing is press. If what we did, what USAID did, and others have done in terms of open press and investigative journalism, that is maybe the single best thing that I think we can do that can be done, certainly is true in this country, true in other countries, as well, to be able to identify, put the spotlight on corruption.

Again, Mike Scanlon will have some advice for us on that. (Laughter)

MR. INGRAM: Craig?

MR. BUCK: I think that it goes back to the broader issue of building a society that demands accountability from its people and has a long-term investment. It's not something that can be accomplished overnight, is getting away from a sense of centralized decision-making and telling people how they have to react and how they have to respond to every situation to people making demands upon their government and demanding accountability on the part and that is a longer term development effort and it requires investment and that, to me, is a remaining issue that we have in particularly

Central Asia and the Balkans area.

With respect to your question of have our projects contributed to the problem? Yes, I think they have. And in the particular case of Bosnia, we found, for example, that we were rehabilitating electrical power systems from which funds were not being collected. We insisted upon collection. The money then went into the SDA political party. We then had to correct that problem.

So, responding to this is an entry sort of process on a micro basis, and, so, I don't think that we can correct a problem looking at it on a tiny issue by issue approach; it has to come from developing a society that demands accountability on the part of their leadership.

MR. INGRAM: Don?

MR. PRESSLEY: Yes, agree with both of those very, very important points.

I think the third thing is that the programs that create sustainable institutions, the issue is that government officials are underpaid and their systems are not set up for them to act in a way that doesn't make them want to try to figure out how to be corrupt. And, so, strengthening those institutions over the long term along with the freedom of the press and along with the people holding them accountable, I think those are key factors, but Bill's also right. You're never going to eradicate it completely; it's a matter of degree and I think that these programs overall have contributed to lessening corruption in these countries.

I think the privatization programs created a lot of room for corruption and we did pay enough attention to that element when we were designing those programs. I think that is one of the mistakes that we made early on as we were in such a hurry to get property into private hands that we left room for a lot of mistakes in that regard, but I think

from a lessons learned standpoint, I think that what we can actually do, what we can actually influence is the freedom of the press and being sure that we're supporting a press that highlights incidences of corruption.

MR. INGRAM: The one bias I came away with was to be very dubious about the credibility and use of government-appointed corruption commissions.

(Laughter) The second question on the customs union. Anybody want to handle that? Not an issue I can deal with.

MR. PRESSLEY: Well, one answer I have, and we probably aren't as current on this as we should be in order to give you an up-to-date answer, but I thought that a regional approach would make a lot of sense, that getting these countries to be able to find mechanisms and create treaties and economic agreements that would cause them to trade among themselves was a good idea. The issue that we ran into when I was still in government was that this was perceived by Russia as an interference in their influence in the region. And, so, they wanted to push back on those things and they wanted to set up a customs union that they controlled. And, so, from a foreign policy standpoint, that was the attitude that we ran into.

In terms of how we're engaged in custom unions now, I really don't know.

AMB. TAYLOR: Well, the other point, of course, is the Ukrainian and maybe the Kyrgyz, I don't know, but the Ukrainians do have a choice here. I mean, they're looking one way or the other way and, of course, probably most people in this room would agree that they would do better to join the European Union and its set of customs and not the customs unions that the Russians are talking about.

MR. INGRAM: And the last question, which is that AID is not the only game in town. Bill, you have a range of experience in this area at a macro level and Don and Craig have it at the country level.

AMB. TAYLOR: I would just say that, yes, we've worked with the Europeans, we worked with the Japanese, we've worked with a range and the best mechanism for international donor coordination that I've seen is where the host country chairs or at least co-chairs a meeting, a regular discussion among donors on what they're doing, what they want to do in the future, the funding, the projects. If it's done on the outside, even if it's done by the World Bank, and the World Bank does it in a lot of places and they do a good job, but if it's not chaired by or owned by the host government, it's not going to be designed well for it.

Don, Craig?

MR. BUCK: No, just to add to what Bill said is having a presence on the ground, that day-to-day contact on a project-by-project basis certainly is much more important than donor coordination meetings, which are largely filled with rhetoric, but not focusing really on specifics.

MR. PRESSLEY: I just would say if you can figure out how to coordinate the donors, you are way ahead of anyone I've ever met. (Laughter) Good luck.

MR. INGRAM: I agree with Bill that where it works best is where the country owns it.

MR. BUCK: Yes.

MR. PRESSLEY: Yes.

MR. INGRAM: Well, thank you, panel. We are two minutes from our witching hour. We started with Paige having the first word and we're going to conclude with Paige having the final word.

MS. ALEXANDER: So, this was very much like taking notes for George and Don and Bill back in the day. Writing the notes so I could make sure I told them what actually happened during the meeting that they sat through.

So, I think one of the reasons I get back to AID and to the Europe and Eurasia Bureau is because the bureau was always an exception to the rule. We had whether it was, as Don talked about and George talked about, the notwithstanding authority, the ability to hire PFCs, to bring on other staff, the omnibus contracts that allowed us to move very quickly or post-Dayton the fact that we entirely designed the Bosnia program in a three-week furlough between 1995 and 1996.

And these were things that we were able to do then that aren't necessarily things that we can do now, but it did allow us to take some risks and be very innovative.

And I think now we're starting to see the pendulum to swing. As we started in our regional approach, as Don mentioned, we looked at how to do things in the regional mission for Europe, how to do things on the regional level. Then we staffed up and moved to country-specific and now with our funding going down, we're moving back to a regional model and looking at metrics about energy trade across borders and things of that nature. So, it really has been a pendulum swing in how we designed our programs.

Taking risks and being innovative, I think the scalable programs, it was funny that you mentioned Ukraine, Ambassador Yalowitz, because I remember one of my least favorite government acronyms, PAUCI, the Poland American Ukraine Cooperation Initiative, which we tried to look at the lessons that we have learned in Poland and move them to Ukraine with the oversight of Americans being involved in it.

It just didn't work. It wasn't a success and as much as it looked like it should work, there was also a lot of tension between the ambassadors at the time and between the mission directors at the time saying it's never going to work. But back in Washington, we thought it looked good on paper.

So, as the ambassador and as my colleague from Azerbaijan mentioned,

a small amount of funding can go a long way. And, so, as we look at these programs, whether it was \$1.2 billion invested in enterprise funds or whether it was much smaller investments or the MOU that I loved to go back to Baku and actually sign, or Kosovo buying into a development credit authority loan to allow the banks in Kosovo to start loaning into a program that we began, these are the partnerships that we're looking for and this is the way that we can scale these programs.

The relationship between the ambassadors and the mission directors cannot be underestimated. I think that State Department in its infinite wisdom has taken our previous coordinators like Bill Taylor, like Tom Adams, hopefully, they won't Maria and Dan, and move them to other countries because other country and regional coordination programs because if the relationship between Tom Dine and Don Pressley and Bill Taylor had not been as good as it was or between Dan Rosenblum, Maria, and myself and Jonathan now, we would never be able to do these programs.

So, that's a real lesson learned, that if you're going to have someone coordinating, you better be working together well and that goes with the ambassador and the mission director.

And I think the last point, which is one that's very important to me, the mutually enforcing objectives of economic growth and democracy and governance cannot be understated.

As Craig talked about, which I was surprised that it was coming from Craig, to be honest, the importance of rule of law, civil society, freedom of the press, these are really the things that do hold us accountable to grand corruption. It really is the ability to take some of the private sector growth that we've seen and some of the independence in this area to a new level that citizens actually buy into, that citizens recognize as this is the direction our government is going.

And, so, I think that that mutually reinforcing objective is one that Congress will continue to see and for those who study the congressional budget justification, you'll continue to see us push forward as how our programs are going to be designed in the future. These regional programs with the objectives of EG and DG mutually reinforcing each other.

So, thank you again. For many of us here, this is a passion.

It's not surprising to me that so many people showed up for Europe and Eurasia. I'm sure more people would show up for the Middle East, but the fact that you all have stayed involved and that you've shown an interest in this, hopefully, I think you'll find the report that Stephen and Jonathan and others have worked so hard on, you'll find it very interesting, you'll recognize a lot of yourself in each of those programs. So, thank you. (Applause)

MR. INGRAM: Let me just close by congratulating Jonathan and Steve and Neil and Paige on a superb report. It is well worth your time to read. We'll send the link out to it in the next day or so and let me thank Bill, Craig. Don, this is a great excuse to get you all back together. Thanks very much. (Applause)

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