

**Statement by Kent R. Hill, Assistant Administrator
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United States Agency for International Development**

**United States Senate
Senate Foreign Relations Committee
Oversight of Foreign Assistance Programs
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Introduction

Chairman Lugar, Senator Biden, and other distinguished members of this Committee, I am delighted to have the opportunity to participate in your examination of U.S. Foreign Assistance Programs. I look forward to providing the USAID perspective on assistance to Europe and Eurasia.

I want to begin by expressing my appreciation to Deputy Assistant Secretary of State for European and Eurasian Affairs Charles Ries, Tom Adams – State Department’s Acting Coordinator for Assistance to Europe and Eurasia, and his team for their fine collaboration in the region with USAID. Together we have been able to accomplish much in this vital region of the world. I also want to acknowledge at the outset my profound respect for the personnel with whom I work at USAID, both in Washington and in the field, who effectively implement U.S. foreign policy objectives in an area of the world which is vitally important to our country’s interests – the former Soviet Union and Eastern Europe.

Most of today’s testimony is focused on our assistance to the transition countries in the region, as authorized by the Support for East European Democracy (SEED)¹ Act of 1989 and the Freedom for Russia and the Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act (FSA) of 1992. We also oversee economic support programs in Cyprus, Northern Ireland and the Republic of Ireland, and Turkey (see map, Annex 1).

The September 2001 attacks on the World Trade Center and the subsequent war on terrorism have heightened the importance of U.S. foreign assistance. USAID programs are aligned with U.S. foreign policy goals and support U.S. national interests abroad. For this reason, it is important that the Europe and Eurasia (E&E) region continues to make headway in the transition to democratic freedom and economic opportunity. A peaceful and growing region expands possibilities for U.S. trade and investment and encourages the integration of these countries into regional organizations and global markets. The United States also looks to this region for cooperation on a range of critical national security issues, ranging from the war in Afghanistan and Iraq to the future make-up and viability of trans-Atlantic institutions.

¹ Appropriations made under this authority are also known as the Assistance for Eastern Europe and the Baltic States Act (AEEB).

The purpose of this written statement is threefold: to provide an overview of USAID assistance to the E&E region, taking a look back to the inception of the program; to highlight the tremendous progress that has been achieved as well as some of the critical obstacles we still face in accomplishing our goals; and to discuss how we have shaped our program and budget for this year and next in order to respond to the changing world in which we are operating.

Overview

When Congress authorized the SEED and FSA programs, Europe and Eurasia (E&E) was a new frontier for U.S. assistance and the challenge was daunting: to assist in the transition of the formerly communist region into 27 democratic, independent states with market economies. In coordination with the U.S. Department of State and other U.S. Government entities, USAID quickly mounted a large program focused on the simultaneous transitions of economic, political, and social systems to market-based democracies. Through FY 2003, Congress has authorized a total of \$15.9 billion for this transition, of which USAID has managed about 65%.

It has always been our assumption that this assistance would last only as long as necessary to ensure that the transition to market-based democracies was solidly on track and not likely to be reversed. Indeed, eight of the 27 formerly communist countries have “graduated” from being major recipients of U.S. foreign assistance.² But elsewhere in the region, events during the 1990s produced setbacks and obstacles. Thirteen significant conflicts – including two major wars in the Balkans – rekindled latent ethnic hatreds, demonstrating the fragility of stability in the post-Cold War era. The 1998 collapse of the Russian financial system had severe repercussions throughout Eurasia, underscoring the vulnerability of the economies in the region. Authoritarian rulers – initially in Southeast Europe and still in many Eurasian countries – have stalled the pace of democratic transition and broad-based economic growth.

Despite these obstacles, tremendous progress has been made. Fourteen years later, we find this part of the world to be a very different place than it was during the communist era. From Poland and Slovenia in the west to the Russia Far East, the economic and political changes that have occurred since the fall of the Berlin Wall are truly profound. Where the state once controlled nearly every aspect of economic activity, free enterprise and entrepreneurship are flourishing. Where individuals were once afraid to assert their needs and beliefs, E&E citizens are finding their voices through multi-party elections, the independent media, and the actions of thousands of non-governmental organizations (NGOs). Where power and decision-making were once almost exclusively concentrated in Moscow, municipal governments, small businesses, and NGOs are working together to resolve problems and improve the delivery of basic services in communities across the region.

President Bush’s National Security Strategy, which embraces the development of democracy and market economies as a fundamental pillar of U.S. foreign policy, is

² Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

bearing fruit in the Europe and Eurasia region. These nations are becoming America's allies. In Europe, Hungary, Poland, and the Czech Republic became members of the North Atlantic Treaty Organization (NATO) in 1999. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia are poised to enter by 2004. Their backing in the international war on terrorism and of U.S. policy toward Iraq has been unwavering. So has been the support of the Caucasus countries (Armenia, Azerbaijan, and Georgia) and the Central Asian Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). Indeed, sixteen of our recipient countries in Europe and Eurasia are active supporters of Operation Iraqi Freedom.

With USAID assistance, the European countries are working toward meeting the requisite criteria for accession to the European Union (EU). Eight E&E countries that we have been assisting are scheduled to become EU members by 2004, with Romania and Bulgaria strong candidates for EU membership later in the decade. And, as noted by Assistant Secretary of State for European and Eurasian Affairs, Ambassador Elizabeth Jones, in her testimony before the subcommittee of the House International Relations Committee, the Eurasian countries will become Europe's "new neighbors" after EU enlargement.³ A prosperous and stable Eurasia will reinforce Russia's growing relationship to the Euro-Atlantic community and expand U.S. economic opportunity in that sub-region.

While all these changes are impressive, they are complex, and issues remain. Some countries have moved quickly toward democracy and market-oriented economies, others have moved unevenly, and a few much too slowly. On the economic side, a number of problems persist, including high unemployment rates and sectors that cannot compete in global markets. On the democratic front, the region has a long way to go to provide for the many systems and checks and balances we take for granted in established democracies – including the consistent application of the rule of law, strong and independent media, and transparent and responsible governance at national and local levels. While we continue to press for broad-based reform, other problems have set in -- particularly the deterioration of social conditions, the rapid spread of HIV/AIDS, and the significant growth in human trafficking.

Our challenge, now, is to address the most urgent transition issues while consolidating assistance gains and planning, over time, an appropriate end of assistance. The experience we have acquired will guide our program choices and enable us to make prudent investments. I believe we have developed a budget and program for FY 2003 and FY 2004 that address all aspects of this new challenge and promote the ideals embodied in President Bush's vision for global development: just rule, investment in people, and economic freedom.

³ Testimony of Assistant Secretary of State for European and Eurasian Affairs, Ambassador Elizabeth Jones, before the House International Relations Committee, Subcommittee on Europe, March 13, 2003.

USAID Assistance to the Region

Peace, prosperity, and regional stability are the underlying principles of USAID engagement in this part of the world. E&E programs focus on three goal areas: economic restructuring and growth; democracy and governance; and social transition. In each of these areas, our strategy has been to target policy reform and institutional strengthening at national and local levels, and citizen involvement through grass-roots organizations. As needed, humanitarian assistance has been provided as a bridge from emergency relief to transition programs.

Experience has shown that this broad, multi-sector approach produces important synergies. Democratic elections and growing civil societies strengthen the resolve and robustness of economic reforms; credible rule of law is essential to fighting corruption and fostering economic investment and growth; and fiscal reform is key to the sustainability of social services and protection systems. Through FY 2002, USAID has allocated about 53% of its resources to economic programs, including energy and environment; 17% to democracy; 10% to the social sectors, including health; and 20% to humanitarian assistance.

USAID has prepared a set of funding charts to illustrate the manner in which USAID resources have been used over time (see Annex 2). These graphs depict SEED and FSA appropriation levels since 1992, USAID's portion of these funds over time, recent shifts in funding levels by country, and resource allocations by sector.

A Snapshot of Progress and Obstacles

A few facts demonstrate the progress that has been made in the transition to democracies and market-oriented economies in the E&E region:

- In 1990, the private sector share of gross domestic product (GDP) was 12%; in 2002 it accounted for 62% of GDP, region-wide;
- Freedom House ranks 21 of these former communist states as free or partly free;
- Macroeconomic stability has been impressive -- a majority of countries have reduced inflation to single digit levels;
- Sixteen of the 27 transition countries have achieved full membership in the World Trade Organization⁴;
- Ten countries are on track toward full EU membership within several years⁵; and
- After years of economic contraction, the region has recorded positive economic growth since 2000, despite a downturn in the global economy.

While region-wide trends are generally favorable, there are significant differences among the sub-regions.

⁴ Albania, Armenia, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Slovakia and Slovenia have acceded to full WTO membership. Except for Turkmenistan, all other E&E transition countries have applied for WTO accession.

⁵ Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia are set to join the EU in 2004. Bulgaria and Romania hope to accede by 2007.

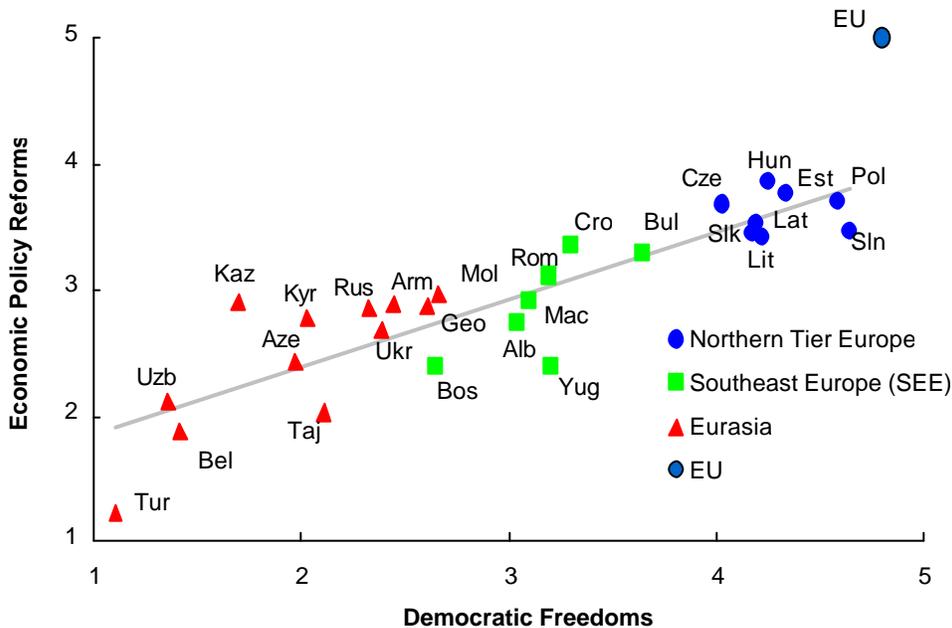
In Northern Tier Europe (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), countries have achieved democratic freedoms roughly on par with some Western democracies, but they have farther to go to meet EU economic reform standards. Due to the strength of their transitions, seven of the eight had graduated from USAID bilateral assistance by 2000 and USAID's office in Slovakia closed March 31st.

In Southeast Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Romania, Serbia and Montenegro), resettlement of war-torn areas is progressing rapidly following a decade of ethnic violence. Most of these countries now appear to be pulling ahead and following the transition path charted by the Northern Tier. However, stability is not yet a given, as demonstrated by the recent assassination of the Serbian Prime Minister, Zoran Djindjic. Other challenges include weak labor markets across the board, and poor human capital in select countries. Corruption remains an issue throughout the sub-region. We are also concerned that ethnic clashes could easily re-emerge without mechanisms for inter-ethnic understanding and cooperation, particularly given the scheduled decline in donor assistance.

The Eurasia picture is more complex (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, Ukraine, and the Central Asian Republics -- Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan). While progress in economic policy reform has been positive, income inequality is increasing and long-term growth does not yet appear sustainable. Eurasian economies are highly dependent on primary commodities, and Russia dominates the economic links within the sub-region. Depletion in human capital is a major concern, given the decades-long deterioration of health and education systems. With widespread corruption and an incomplete reform process, public trust in government and private institutions continues to weaken.

The slow pace of democratization in Eurasia reflects an ongoing struggle between proponents of broad-based participation and the tradition of autocratic leadership. Political leadership in Belarus steadfastly resists political and economic reform and Ukraine has yet to fully embrace democratic reform. The Central Asian and Caucasus countries struggle with a mindset more in keeping with Soviet times, rather than with a post-Soviet, fully democratic era, and Turkmenistan is particularly unreceptive to transition.

**Economic Policy Reforms and Democratic Freedoms
in Central & Eastern Europe and Eurasia: 2002**



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002) and Freedom House, *Freedom in the World 2002* (December 2002) and cover events to December 2002. Economic policy reform ratings are from EBRD, *Transition Report 2002* (November 2002), and cover events through September 2002. Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

As for the Central Asian Republics who have provided particularly strong support for Operation Iraqi Freedom, regional stability, particularly in the conflict-prone Ferghana Valley, is a particularly nettlesome issue that we are helping them address through employment-generation programs, community development activities, and support for civil society development and advocacy. Other issues they face include harnessing their vast energy resources in a manner that will produce benefits for their people and politically sensitive items such as human rights, conflict prevention, and the rule of law.

Successes and Lessons

Since I joined USAID in 2001, I have traveled to nearly every country we assist in the region. I have seen first hand what USAID has accomplished with the resources appropriated by Congress. Our in-country presence is most opportune, constituting an exceedingly valuable asset. It enables us to adapt to changing circumstances, design projects that work well, apply resources where it counts, and achieve results.

Our ability to make small investments that reap multiple benefits has been proven repeatedly. For example, in Russia, USAID supports indigenous think tanks as an effective way to promote policy reform at the national level. One of these think tanks has played a pivotal role in helping a Presidential Commission develop a new concept for intergovernmental fiscal relations. Another has been a key advocate for a variety of laws

that have opened the doors to the private ownership and sale of land, private mortgage lending, and the introduction of means-testing in the delivery of social services. Not only does this approach produce policies that are sensitive to the Russian context, it builds local institutional capacity that will continue to advocate for reform long after USAID departs from the country.

Once many of the basic reforms are in place, USAID has found it important to ensure the benefits of transition reach beyond the capital into secondary cities, towns, and rural areas. In Bulgaria, USAID established the Partners in Local Economic Development and Government Effectiveness (PLEDGE) program to target opportunities in regions with the highest poverty and unemployment rates. PLEDGE brings together participants from the public, private, and NGO sectors to discuss business conditions, make economic choices, and build partnerships. Over four years, the program has reached some of the poorest communities in Bulgaria through 197 economic development projects that have produced 534 new partnerships, 88 new businesses, and 3,535 new jobs. In 2004, the PLEDGE system will be incorporated into the Bulgarian Ministry of Labor and Social Policy and its Social Investment Fund. The Bulgarian government plans to allocate \$40 million over the next five years to continue this local economic development process.

Where central governments lack the political will to implement reforms or deliver services to towns and villages, we focus our resources at the local level. In Azerbaijan and Georgia, community mobilization programs are inspiring hundreds of communities to collaborate on the design and implementation of local improvement projects, from rehabilitating schools to cleaning out irrigation systems vital to agriculture. Over time, these efforts are augmented with support for micro business and NGO development. As these organizations mature, they become part of a growing constituency for change. Similar approaches have been used in Bosnia and Herzegovina, Kosovo, Macedonia, Serbia and Montenegro, and the Central Asia Republics to rehabilitate communities and promote inter-ethnic cooperation after a period of conflict.

In the last several years, USAID has advanced a highly participatory dialogue on the social aspects of transition. Because the impact of change on basic human welfare in Armenia has been so harsh, USAID initiated a comprehensive social transition program that coupled policy and systems reform with targeted direct assistance to the most vulnerable. Significant progress has been made in establishing the legal and regulatory framework needed for implementing fair and transparent social insurance and assistance systems. Pension reform also has met with considerable success in Bulgaria, Croatia, Kazakhstan, and Macedonia. In Croatia, for example, surveys among members of the workforce showed that acceptance and understanding of pension reform had increased from 30% to over 80%, following implementation of a USAID-supported public education program that provided details of this reform to the general populace. Workers are now signing up in large numbers to contribute 5% of their pensions to newly-created, private funds. USAID is continuing to support pension reform by working with the regulatory authority to ensure sound management of the private pension funds.

We have had some impressive successes in the health arena. For example, we have helped introduce modern approaches to tuberculosis control in the former Soviet Union and contributed to a significant reduction in abortion rates through reproductive health programs. USAID's women and infant health initiative has helped Russia achieve a dramatic (23%) decline in infant mortality since 1996. In Ukraine, the government was so impressed with USAID's 12 model primary health care centers that the Ministry of Health has now replicated the model to over 260 centers. Also, a USAID pilot program in Ukraine has demonstrated a 50% reduction in mother-to-child transmission of HIV. Understanding that efficient health services and healthy populations are critical to successful democratic and free market transitions, we are committed to expanding and strengthening our programs in combating HIV/AIDS, tuberculosis, and other priority health challenges facing the region.

Urgent Issues

In light of these many successes, however, we also face several large and growing problems -- which, we believe, are causing backsliding in economic and democratic reform and could put the transition of some E&E countries at risk if they are left unattended. These issues are the rapid spread of HIV/AIDS, human trafficking, endemic corruption, latent conflict, and a need for greater attention to be focused on the fundamental values needed to create thriving democracies and market economies that will last far into the future.

HIV/AIDS. Experts on the spread of HIV/AIDS are warning of acute dangers in the near future because of the sharp rise of cases of HIV/AIDS in the region. Concerns are particularly focused on Russia and Ukraine, which have some of the highest HIV/AIDS rates of growth in the world. Although the disease is presently confined mainly to illicit drug use and prostitution, there is growing evidence that HIV/AIDS is moving into the general population. Access to illegal drugs, the coincidence of injecting drug use and prostitution, unprotected sexual relations, human trafficking, lack of blood security, and inadequate health systems, as well as unemployment and feelings of despair among youth are all contributing factors.

Human Trafficking. Trafficking in persons is an explosive human rights abuse and a highly lucrative, illegal and dangerous global business. An estimated 175,000 persons are trafficked in and through the E&E region, representing about 25% of all persons trafficked around the world. Most of the countries in the region are source and transit countries and some are becoming destination countries.

Corruption. Despite USAID efforts to address the issue of corruption across all sectors of its program, long-term gains have not yet been realized. Transparency International reports that corruption is perceived to be higher in Eurasia than any other region in the world. In Southeast Europe, it is roughly the same as found in Latin America. The cost of corruption is enormous. It deters private investment, debilitates the institutions intended to serve citizens' needs, and undermines basic codes of conduct, trust, and cooperative behavior between individuals and groups.

Latent Conflict. While the outbreak of violence in E&E countries has diminished, the risk of conflict has not been eliminated. The lack of social cohesion, growing inequities in income and access to services, and a general distrust of government are all potential sources of conflict. The risk is particularly acute where democracy has stalled or declined, since the potential for conflict increases exponentially when groups within a country lack channels to voice their issues and petition for equal access and opportunity.

The Issue of Values. There is a common issue that permeates many of the transition obstacles discussed above. It is a failure to understand the importance of cultivating values that make democracy and private enterprise work for the greater good in society. A particularly serious problem in the region is the fundamental misunderstanding of what capitalism and democracy are. Too often, capitalism is understood to be individual greed. In fact, in the West, capitalism in its essence is a system of economic freedom within the context of the rule of law, which rewards initiative, hard work, and creativity. Furthermore, the evolution of free markets in the West has included the broad concept of societies providing a “social net” of protection for those individuals and their families who, through no fault of their own, have significant needs. Philanthropy is an important component of Western, free market society.

Democracy, also, is frequently misunderstood. Too often it is defined as “majority rule.” But, free and honest elections do not alone ensure democracy. Such a truncated definition of democracy can be indistinguishable from fascism. Just because the majority -- even the overwhelming majority -- votes to commit genocide against a minority, it does not make it right or democratic to commit such an act.

Democracy must always be understood to consist of a whole series of elements: minority rights, religious freedom, separation and limitation of power, a vibrant civil society including an independent media, elections, rule of law, and a free economy. We must steadfastly affirm that the foundation for a full democracy, a free economy, and a healthy, compassionate society must be a bed-rock of values – values appealing to that within each human being which transcends narrow self interest.

Democracy and the Islamic Context. Examining the issue of values also provides an opportunity to look at the apparently growing divide between much of the Muslim world and western democracies. Among E&E transition countries, eight are historically Islamic while several more have significant minorities with Islamic roots. If these populations are economically or politically marginalized during the post-communist transition, the stability of the region can be put at risk. Unemployed and disillusioned youth in historically Islamic areas may be particularly vulnerable to the rhetoric of Islamic political radicals – radicals who often come from outside the region.

The FY 2003-2004 Program and Budget

Current Budget Trends

After 10 years of high assistance levels to the region, the FY 2003 budget and FY 2004 request reflect a realignment of priorities, including a significant decline in levels for key countries owing, in part, to progress made in reforms. The SEED appropriation for FY 2003 is approximately \$522 million, of which USAID manages \$357 million (68%) of the total. For USAID, this represents a funding decline of 16% from FY 2002. In FY 2004, the SEED request totals \$435 million, of which \$296 million (68%) is proposed for USAID programs. USAID's allocation represents a funding decline of 17% from FY 2003.

Reform progress in many of the Southeast Europe countries is permitting fairly dramatic budget reductions. Croatia and Bulgaria are now on a "glide path" towards graduation, with a final request for bilateral assistance funding coming in FY 2006, provided progress on reform continues. Pending further review, Romania may be put on a similar phase-out schedule. As the U.S. Government begins preparations to leave this sub-region, it will look increasingly to the Europeans to support the integration of Southeast Europe into regional institutions.

The FSA appropriation for FY 2003 is \$755 million, of which USAID manages \$452 million (60%). This is only a slight decline from FY 2002 levels, before two large budget supplementals related to the war on terrorism increased FY 2002 resources. The FSA request for FY 2004 totals \$576 million, of which \$418 million (73%) is proposed for USAID programs. The proposed drop for USAID funding between FY 2003 and FY 2004 is 7.5 percent. However, proposed changes in some country levels are even more telling.

In FY 2004, proposed USAID funding drops significantly for Russia (by 33%) and Ukraine (10%) in comparison to the current FY 2003 budget. Levels for Russia are declining, as the U.S.-Russian partnership in global matters continues to mature and economic assistance becomes less central to this relationship. Ukraine's lower funding level reflects difficult budget choices that had to be made among competing priorities, including increasing funding for the front-line states of Central Asia. Finally, I would note that the lower funding levels for all FSA recipient countries reflect the shift of roughly \$110 million in funding for professional and educational exchanges from the FSA to the Educational and Cultural Exchanges account in the Commerce, State, Justice appropriation.

For their part, the Caucasus countries have been U.S. allies in the war on terror. They have much to accomplish in their transitions. They will, therefore, continue to receive significant resources. As for the Central Asian Republics, funding has increased significantly, starting in 2002, as a result of the heightened importance of this region since September 11. Country budget level trends for FY 2001-2004 are illustrated in Annex 2.5.

The Program

USAID's challenge is to maximize and sustain the impact of assistance for both countries that will continue to need our help and those expected to graduate in the near to medium-term. To do this, USAID is adapting its assistance strategy by adjusting core program areas to reflect transition progress and urgent issues; planning strategically for the phase-out of USAID country programs; and emphasizing critical crosscutting themes, such as values cultivation, to help sustain the transition over the long run.

Core programs. We are incorporating new ideas into our core program areas of economic, democratic, and social transition to reflect the advances and vulnerabilities in transition status. Two emerging themes in the economic growth area are building trade capacity and increasing competitiveness. These initiatives pragmatically "marry" macroeconomic reforms and microeconomic foundations for business growth and link these efforts to demand in the marketplace. We also continue to have a significant role to play in working with micro and small business, in providing business development services, and in building access to finance, together which will help reduce unemployment – a significant issue within the region.

In the democracy area, we firmly believe that our overall accomplishments in transition cannot be accomplished without consistent improvements in civic and political freedoms, particularly in Eurasia. To this end, we are augmenting our traditional programs (NGO development, independent media, judicial and parliamentary strengthening, and local governance) with the intention to emphasize even more than in the past those universally recognized values that buttress a full understanding of democracy. These include majority rule and minority rights, good governance, freedom of speech and press, rule of law, religious freedom, human rights and civic participation. USAID is also including conflict prevention programs and modules into strategies for at-risk countries, such as Georgia, Macedonia, and the Central Asian Republics.

In the social area, we will continue to develop awareness and targeted initiatives to broaden access to the benefits of reform, thereby sustaining support for the transition to democracy and free markets. We are redoubling efforts to fight the spread of HIV/AIDS, stem the growing tide of human trafficking, and mitigate the adverse impacts of transition, including such programs as public-private partnerships for social insurance and pension reform.

Planning for program phase-out. In the face of lower resource levels, considerable adjustments to USAID's bilateral and regional transition programs are required. In keeping with the State Department's Balkans Assistance Policy, USAID is using increasingly scarce monies to place greater emphasis on civil security, including the rule of law, independent media, and democratic reforms. An overriding theme in phase-out planning will be to find ways to decrease the region's vulnerability to conflict and ensure that political and economic instability do not provide a seedbed for terrorist activity and financial networks. In Eurasia, highest priority will be given to assuring, as much as possible, the irreversibility of the economic transition, to focusing on accelerating

progress in democracy and governance, and to helping to control the spread of HIV/AIDS and multiple drug resistant tuberculosis (TB). These emphases are reflected in resource allocations across sectors (see Annex 2.4).

Systematic planning for the eventual end of assistance enables USAID to ensure the sustainability of assistance gains in a number of ways. These include: focusing resources on the most critical vulnerabilities and gaps in a country's transition, determining areas that may need attention after USAID departs, and preparing for an orderly close-out of activities. Phasing-out a bilateral program is by no means the end of our connections. We have continued our close connections, including some modest funding, to the eight European Northern Tier countries, and we will do the same with those who "graduate" in the next few years. These countries are our allies and friends, and we seek their partnership in addressing a range of development issues, such as trade and investment, infectious disease control across borders, and drugs and human trafficking.

Building on our experience with the European Northern Tier graduates, USAID is exploring appropriate post-presence initiatives as a way to consolidate assistance gains and carry support for democracy and markets into the future, even after a local USAID mission is closed. Post-presence initiatives include wrap-up activities that complete work already underway, support to local organizations – such as NGOs – to sustain results already achieved, and legacy mechanisms and partnerships, which could be of a bilateral or regional nature.

For example, one of the legacy mechanisms created as the European Northern Tier countries prepared for graduation was the Baltic American Partnership Fund, which continues to provide an environment for Baltic NGOs to be forces in sustaining the transition to market democracies. Another is the Polish-American Freedom Foundation (PAFF), which was established with earned proceeds of the USAID-supported Polish-American Enterprise Fund. PAFF is a private, nonprofit organization that uses income from investments to promote economic and democratic reform without requiring active USAID involvement. Recently, the newly-formed Balkan Trust for Democracy was set up jointly by USAID, the German Marshall Fund, and the Mott Foundation. This public-private partnership establishes a \$25 million Trust that will provide continuity and grass-roots support for democracy and good governance through a small grants program.

This partnership with the German Marshall Fund and the Mott Foundation is but one example of USAID/E&E Bureau's commitment to developing private-public alliances under our Agency's Global Development Alliance (GDA) business model. In FY 2002, the Bureau obligated nearly \$15 million that was matched by nearly \$39 million from private sector partners, much of which was devoted to the Earthquake Zone Alliance in Armenia. With the support of USAID's GDA Secretariat, both Washington-based and field staffs are receiving training in the identification and development of public-private alliances. We expect each of our overseas missions to redesign past activities or design new ones to leverage additional funds from the private sector.

Crosscutting themes. To augment and support the efforts of our Missions overseas, we are allocating part of the regional budget to fund interventions intended to incorporate values into core programs. Specifically, we will invite qualified partner organizations to propose innovative ideas that cultivate and strengthen universally recognized values in support of USAID's program goals in the economic, democratic, and social transition. USAID also is committed to promoting democracy and human rights in an Islamic context and to minimizing opportunities for violent extremism in historically Islamic areas.

Corruption and conflict are also critical crosscutting issues and relate substantively to the E&E Bureau's new initiative on values. Overcoming corruption requires not only the strengthening of laws and institutions, but also cultivating the capacity for honesty and good will inherent in all societies. Reducing the risk of conflict within and between countries necessitates a respect for the dignity and worth of every human being, regardless of their religion, ethnicity, or worldview. To this end, we are helping our field Missions to systematically analyze current portfolios through corruption and conflict lenses and to incorporate these types of assessments into new program development. Our Washington headquarters office is also developing a system to track conflict-related trends to enable cross-country analysis and better targeting of resources in this area. Finally, we are working in tandem with USAID's new pillar bureaus to address these issues. For instance, during the past year, the new Conflict Management and Mitigation Office with the Democracy, Conflict, and Humanitarian Assistance Bureau helped our Missions in Armenia, Georgia, and Kyrgyzstan to conduct conflict assessments as part of strategic planning preparations.

In all our programs, we will continue to emphasize themes such as democratic and economic governance, host country ownership, performance, and accountability, themes that have assumed even more importance with the President's landmark Millennium Challenge Account (MCA) initiative. The issues of improved economic, democratic, and social governance -- key themes of the MCA -- traditionally have been at the heart of all the Bureau's transition work. We endorse strongly the MCA premise that economic development assistance in poor countries works best when sound policies are pursued that are conducive to growth. We also will redouble efforts to get other members of the donor community to focus on these themes, a key point made in the publication "Foreign Aid in the National Interest," a report promulgated by our Administrator -- Andrew Natsios. In sound policy environments, every dollar of aid attracts two dollars of private capital.

Assistance from the Foreign Relations Committee

You asked in your invitation to us if there was any way that you could help us out. In general, we are most pleased with the authorities that you have accorded us. They provide us considerable flexibility and latitude in our programming. We especially appreciate "notwithstanding authority." That has really helped us in program implementation and is one factor contributing to the impressive development results that we have been able to achieve in such a short time.

We are also finding one tool to be excellent – Development Credit Authority, although we recognize that it has been appropriated but not authorized. It permits us to leverage significant support for our recipient countries at small budgetary cost to the U.S. government. We already are reaping considerable benefits from the use of this innovative tool, e.g., a \$20 million housing facility for Croatia and a \$6 million Ukraine agri-business program.

We are reviewing other areas where legislative changes could provide flexibility to address the new challenges that the E&E region is facing, including HIV/AIDS, Muslim World Engagement, Trafficking in Persons, clean air emissions, and other pressing priorities. After we review the types of changes needed within the Administration, we look forward to discussing any needed changes with the Committee.

Cyprus, Northern Ireland and the Republic of Ireland, and Turkey

Outside the E&E transition countries, USAID is managing program resources in other areas. Traditionally, Congress provides Economic Support Funds (ESF) to Northern Ireland and the Republic of Ireland and Cyprus to promote reconciliation and conflict resolution through local, bi-communal initiatives. The FY 2003 appropriation for Cyprus is \$15 million and \$25 million for Northern Ireland and the Republic of Ireland (excluding the Walsh Visa Program). The FY 2004 request proposes \$7.5 million for Cyprus (\$7.5 million reduction) and \$8.5 million for Northern Ireland and the Republic of Ireland (a \$16.5 million cut).

The FY 2004 budget request also proposes \$200 million in ESF funds to Turkey for debt servicing in support of its economic recovery.

Conclusion

USAID remains committed to the important task of promoting democracy, free markets, and social stability in Eastern Europe and the former Soviet Union. We are proud of our successes, and yet we are very aware that there is much left to be done. The remaining work to further stabilize the Balkans and Eurasia is closely connected to U.S. strategic interests to promote stability, nurture important allies, and reduce opportunities for the spread of terrorism where stability is not present. As new priorities emerge in other parts of the world, I urge the distinguished members of the Senate Foreign Relations Committee to provide continued support to the program in Europe and Eurasia so that we can achieve the worthwhile and strategic foreign policy objectives which are so vital to U.S. and regional interests in this important part of the world.

Thank you, Mr. Chairman. I would be most pleased to answer any questions you or the Committee may have.

Annexes

Annex 1: Map, noting SEED, FSA, and ESF Countries

Annex 2: SEED and FSA Funding Trends