

# U.S. FOREIGN AID PROGRAMS TO EUROPE

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON EUROPE AND  
EMERGING THREATS  
OF THE  
COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES  
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## U.S. FOREIGN AID PROGRAMS TO EUROPE

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WEDNESDAY, SEPTEMBER 14, 2005

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON EUROPE AND EMERGING THREATS,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 1:30 p.m. in room 2200, Rayburn House Office Building, Hon. Elton Gallegly (Chairman of the Subcommittee) presiding.

Mr. GALLEGLY. We will call to order the Subcommittee on Europe and Emerging Threats. I would just like to say at the outset, I am going to keep my comments very brief. I want to get to the witnesses. We have just been asked by Chairman Hyde to make a very important markup at 2 o'clock p.m. sharp. We are going to need to be there and the Subcommittee will then have to adjourn. We will try to have a very abbreviated hearing today, with your indulgence.

Since the last congressional hearing to evaluate the progress of the Support for East European Democracy (SEED) Act and the Freedom Support Act (FSA) programs was held well over 2 years ago, I think it is appropriate that we hold this hearing today to review the current status of these programs and others that are providing aid to Europe.

The SEED Act was established in 1989 and the creation of the FSA, which followed shortly thereafter, became the foundations for United States assistance to Eastern Europe, the Baltic States, and the Caucasus region.

The SEED and FSA programs were created to promote the foreign policy and security of the United States by enhancing democratic governance, economic development, and internal and external security in target nations. The President's fiscal year 2006 budget for SEED and FSA totals \$864 million. Other countries that are provided assistance to programs under the Economic Support Fund (ESF) are Cyprus, Northern Ireland, the Republic of Ireland, and Turkey. The President's budget request for those programs was \$42 million.

In its 16th year of operation, the top priority of SEED continues to be programs that increase civil security, effective governance, and private sector-led economic growth. Already the SEED program has a strong track record of success.

Eight of the original 15 countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—have “graduated” from the program and are no longer receiving United States aid. Three more countries—Bulgaria, Croatia, and Romania—are predicted to graduate in 2007. Eight recipient countries—

Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia—joined the North Atlantic Treaty Organization (NATO) in March 2004. And eight recipient countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—joined the European Union (EU) in 2004, with Bulgaria and Romania expected to join in 2007.

Similarly, in 1991, there was concern in both Congress and the Administration on how to assist the former Soviet Union as it became increasingly unstable and appeared headed toward dissolution. Our chief concern then, and which remains today, was the large nuclear, chemical, and biological weapons arsenal in Russia and other former Soviet States. Congress responded with the Nunn-Lugar legislation and the Freedom Support Act.

The FSA continues the United States commitment in Eurasia's integration into the Euro-Atlantic community, and today assists these front line states in the war against terrorism.

United States assistance to Europe remains important. They continue to help build stable democratic governments and free market economies, and support nonproliferation activity. Nevertheless, progress in some countries has been uneven. It is our oversight responsibility to question the effectiveness of these programs and determine if revisions should be made.

Today we are fortunate to have two witnesses who have direct responsibility for United States assistance in these areas of Europe. These programs have helped the United States achieve numerous political, economic, and security objectives in Europe. However, we must ensure that any future expenditures, which are underwritten by United States taxpayers, are effective and further long-term United States foreign policy and security interests.

I look forward to the testimony of our two witnesses.

[The prepared statement of Mr. Gallegly follows:]

PREPARED STATEMENT OF THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE AND EMERGING THREATS

Since the last congressional hearing to evaluate the progress of the Support for East European Democracy or SEED Act and the Freedom Support Act programs was held well over two years ago, I think it is appropriate that we hold this hearing today to review the current status of these programs and others that are providing aid to Europe.

The SEED Act was established in 1989, while the creation of the FSA, which followed shortly thereafter, became the foundations for U.S. assistance to Eastern Europe, the Baltic States and the Caucasus region. These programs signified our commitment to support the transition of former Communist nations to democracies after the collapse of the Iron Curtain.

The SEED and FSA programs were created to promote the foreign policy and security of the United States by enhancing democratic governance, economic development, and internal and external security in target nations. The President's FY 2006 budget for SEED and FSA totals \$864 million. Other programs that are included within the Economic Support Fund, allocate assistance to Cyprus, Northern Ireland and the Republic of Ireland, and Turkey. The President's budget request for these programs was \$42 million.

In its 16th year of operation, the top priority of SEED continues to be programs that increase civil security, effective governance, and private sector-led economic growth in Eastern Europe, including the Balkans. Already, the SEED program has a strong track record of success:

- Eight of the original fifteen countries (The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) have graduated( from the program and are no longer receiving U.S. aid.

- Three more countries (Bulgaria, Croatia and Romania) are predicted to graduate in 2007;
- Eight recipient countries (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia) joined the North Atlantic Treaty Organization (NATO) in March of 2004; and
- Eight recipient countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) joined the European Union in 2004 with Bulgaria and Romania expected to join in 2007.

While this should be a time to commend the accomplishments of the SEED program, it is also a time to question whether this program continues to fulfill its mission.

Similarly, in 1991, the thrust of the debate between Congress and the Administration was whether and how to assist the former Soviet Union as it became increasingly unstable and appeared headed toward dissolution. Our chief concerns then, and which remains today, was our concern about the large nuclear, chemical and biological weapons arsenal in Russia and other former Soviet states. Congress responded with the Nunn-Lugar legislation in 1991 and then in 1992, with the Freedom Support Act.

The FSA continues the U.S. commitment to Eurasia(s) integration into the Euro-Atlantic community, and today, assists these front-line states in the war against terrorism.

U.S. assistance to Europe remains important and I am pleased with the achievements that are being made through these programs. They continue to help build stable democratic governments and free market economies, and support non-proliferation activity. Nevertheless, progress in some countries has been uneven. It is our oversight responsibility to question the effectiveness of these programs and determine if revisions should be made.

Today, we are fortunate to have two witnesses who have direct responsibility for U.S. assistance in these areas of Europe. Gentlemen, during this hearing we expect to receive your assessments of the current status of the programs, their continued appropriateness, and the overall objectives of the assistance. These programs have helped the U.S. achieve numerous political, economic and security objectives in Central and Eastern Europe. However, we must ensure that any future expenditures, which are paid by U.S. taxpayers, are effective and further long-term U.S. foreign policy and security interests.

I look forward to the testimony of the witnesses.

Mr. GALLEGLY. I would like to introduce our first witness, Mr. Thomas Adams, the Acting Coordinator of U.S. Assistance to Europe and Eurasia in the Bureau of European and Eurasian Affairs of the Department of State. Prior to his current position, Mr. Adams was the Director of the Serbian Sanctions Task Force. He was also the Deputy Coordinator for East European Assistance in the Bureau of European and Eurasian Affairs, working primarily on the reconstruction of Bosnia and Kosovo.

I will introduce Mr. Luten in a moment.

Mr. Adams.

**STATEMENT OF MR. THOMAS C. ADAMS, COORDINATOR OF U.S. ASSISTANCE TO EUROPE AND EURASIA, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. ADAMS. Thank you very much, Mr. Chairman. We will be brief knowing that you have to rush out of here a little before 2 o'clock.

I greatly appreciate the opportunity to be here again in front of this Committee to talk about United States foreign assistance in the Europe-Eurasia region. This is a vital foreign policy tool for achieving our foreign policy goals and this assistance very much remains in our interest. We greatly appreciate the past support of this Subcommittee and the Full Committee for our assistance pro-

grams in Europe. This support has been consistent and it has been strongly bipartisan ever since the passage of these two pieces of legislation. Without that support, our achievements over the past 15 years, and there have been many, would not have been possible.

My charge from Congress as laid out in the Support for East European Democracy Act and the Freedom Support Act is to ensure that our foreign aid in Europe and Eurasia is tightly linked with United States foreign policy objectives. We also work to maximize the value of each taxpayer dollar, constantly examining whether our programs are having the desired impact, and seeking good coordination among program implementers in the field and between the United States and other donors such as the European Union and the international financial institutions.

I am extremely pleased today to be joined by my good friend and colleague from USAID, Drew Luten. Over the years State Department Assistance Coordinators have developed a very close and productive relationship with the largest implementer of our programs and that is USAID's Europe and Eurasia Bureau. We have also developed good working relationships with 20-odd other United States Government (USG) implementing agencies.

Mr. Chairman, it is hard to overstate the importance to United States national security of a stable, democratic, and market-oriented Europe and Eurasia. In the 15 years since the fall of the Berlin Wall, considerable progress toward that goal has been achieved.

Some of the successes are obvious. As you have mentioned, there are 10 new NATO member countries strongly committed to the goals of the alliance; eight new EU member countries, with two more, Romania and Bulgaria, expected to follow within the next 2 years. Former Warsaw Pact countries have been the bulwark of our coalition operations in Iraq and Afghanistan. It is no accident that we receive such strong support from these former Communist states. It is the result of lots of difficult and persistent diplomatic engagements over the past 15 years and has something to do with the investment we have made over those years through our assistance programs in the transition to democracy and free markets.

Their gratitude is manifested in many, many other ways. I should mention that in response to Hurricane Katrina, of the 27 countries covered by the SEED and FSA Acts, some 21 have offered assistance in coping with the hurricane damage. There are some others who are considering what they might be able to do to help.

Not all of the achievements of our assistance are quite so obvious, however. Before the Rose Revolution in Georgia, or the Orange Revolution in Ukraine, or the Tulip Revolution in the Kyrgyz Republic, one might have thought that hundreds of millions of dollars of assistance might have been largely wasted in those countries. Corrupt regimes appeared to be entrenched and democratic norms were under attack. But oftentimes change is going on beneath the surface. Encouraging this change, helping those who want to bring democracy and free markets to their countries is what our long-term assistance programs under SEED and FSA are all about.

United States assistance alone did not cause the recent democratic breakthroughs in Europe or Eurasia. Many other ingredients were necessary. Chief among them were the courage and resolve of ordinary Ukrainian, Georgian, and Kyrgyz citizens who refused to



allow their democratic rights to be stolen. But United States democracy programs played a very important role. In the runup to the elections we helped improve the legal framework and electoral administration, we supported balanced media coverage, we helped to educate voters about their rights and provided legal recourse when rights were violated. We strengthened political entities to participate effectively in elections, and we enabled civil society groups and international organizations to monitor that progress.

Perhaps even more importantly, the sustained response of political parties, NGOs, and independent media to electoral fraud was a testament to the vibrancy of civil society. There is no doubt that the training grants and exposure to new ideas provided through U.S. assistance and exchange programs over the past 13 years helped create that vibrant civil society.

Before I get too caught up here in self-congratulation, Mr. Chairman, I want to stress our awareness that many challenges remain. I am just going to mention a few before I stop.

The first one is that the revolutions in Ukraine, Georgia, and the Kyrgyz Republic were really just the first step. The hard part starts after the revolution. Much work remains to consolidate democratic gains, root out corruption and establish rule of law, and improve conditions for investment.

The recent democratic breakthroughs have provoked a counter-reaction in other Eurasian countries. Authoritarian regimes have clamped down even harder on civil society and political opposition, especially in Belarus and Uzbekistan. In Serbia and Bosnia, the legacy of violent ethnic conflict is still felt, good governance is still elusive, and the economies are failing to provide jobs and prosperity. Stability in Kosovo remains fragile.

Throughout the Balkans, organized crime remains a serious threat and undermines government capacity. The impact of this transnational crime spills out over into our own country. All of these countries face the onslaught of cheap heroin from Afghanistan as well, and throughout Eurasia the social sector is in bad shape and ill-equipped to deal with emerging health crises like HIV/AIDS or even Avian Flu, which has now arrived in Russia, Kazakhstan, and perhaps even Georgia. Unfortunately, humanitarian programs still must play a role, assisting those in dire need and responding to emergencies.

Mr. Chairman, I have submitted a longer written statement for the record which goes over past successes and current and future challenges in greater detail and outlines the role foreign assistance will play in meeting them.

Again, I want to end by thanking this Committee and its Members for your strong and continued support for our assistance programs. Thank you.

[The prepared statement of Mr. Adams follows:]

PREPARED STATEMENT OF MR. THOMAS C. ADAMS, COORDINATOR OF U.S. ASSISTANCE TO EUROPE AND EURASIA, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman and other distinguished Committee members, I am pleased to participate in your examination of U.S. foreign assistance programs. U.S. assistance is key to achieving our foreign policy goals in Europe and Eurasia, and we greatly appreciate your current and past support in providing us with this important diplo-

matic tool. With me today is Drew Luten, Assistant Administrator for Europe and Eurasia at the U.S. Agency for International Development.

As Assistance Coordinator, I am charged by Congress to coordinate and oversee all assistance going into our region. My office helps ensure that foreign assistance is tightly linked with U.S. foreign policy objectives in a way that maximizes the value of each taxpayer dollar. The office also helps ensure effective interagency coordination among assistance implementers as well as with our embassies in the region.

*Assistance Advances American Interests*

Mr. Chairman, in Europe and Eurasia you will find a case study of how foreign assistance can serve America's national security interests in the short, medium, and long-term.

Many of the countries of the former Soviet Union and communist Eastern Europe, all of which have received substantial U.S. assistance since the early 1990s, remain bulwarks of our Coalition operations in both Afghanistan and Iraq. Nineteen of them were active supporters of Operation Iraqi Freedom, Operation Enduring Freedom, and/or the International Security Assistance Force in Afghanistan in 2004. At the same time, many of these transition countries are strongly engaged with Euro-Atlantic institutions, and it is clearly in our long-term foreign policy interest to encourage their aspirations for closer relationships with NATO and the EU. We can try to do this through dialogue alone, but diplomacy is much more effective when it is coupled with foreign assistance. The Foreign Military Finance (FMF), International Military Education and Training (IMET), and Peacekeeping Operations (PKO) accounts are helping countries make the operational and structural changes they need to integrate with NATO security structures. Political and economic transition assistance through the FREEDOM Support Act (FSA) and Support for East European Democracy (SEED) Act are helping build constituencies for reform and, once countries are committed to meeting EU or NATO standards, giving them the necessary tools to be ready for the responsibilities of membership. Since this Committee examined our foreign assistance in Europe and Eurasia one year ago, eight more Central and East European countries (the Czech Republic, Hungary, Poland, Slovenia, Slovakia, Estonia, Latvia, and Lithuania) have joined the EU and seven have joined NATO (Latvia, Lithuania, Estonia, Slovenia, Slovakia, Romania, and Bulgaria). Albania, Macedonia and Croatia are members of NATO's Membership Action Plan. Croatia is also preparing itself for opening accession talks with the EU. Both Ukraine and Georgia have affirmed their Euro-Atlantic orientation, and Ukraine and Moldova have signed Action Plans with the EU. All of these countries, however, have hard work left to do.

We can clearly see how, in the short and medium-term, many countries in this region are moving from being consumers of assistance to being contributors to our global security interests. It is sometimes more difficult to recognize the longer-term trends. For many years now, this Committee and many others in the Congress and in the Administration have expressed frustration with the slow pace of democratization and economic reform, particularly in the former Soviet states. Some have questioned the efficacy of our assistance and wondered whether the twin ills of official corruption and popular apathy might cause these countries to remain indefinitely in a post-Soviet twilight zone.

Recent events have demonstrated that the U.S. Government's strategy of the past 15 years—which has involved intensive engagement with governments and with the broader society through technical assistance, training, grants, and exchanges—is beginning to bear fruit. First in Georgia, then in Ukraine, and most recently in the Kyrgyz Republic, we witnessed the extraordinary expression of democratic spirit by ordinary citizens who refused to allow the will of the people to be subverted. Many ingredients were necessary for these breakthroughs to occur—the courage and resolve of the Ukrainian, Georgian, and Kyrgyz people chief among them—but U.S. democracy programs also played an important role. There is no doubt that our long-term investment in training, civil society grants, and exchange programs helped support the foundation for effective action by many actors including civil society, independent media, political parties, parliaments, and judiciaries.

In addition to our long-term programs, we targeted short-term election-related programs during key elections to: improve the administration of the elections where possible; support more balanced media coverage; educate voters about their rights and provide legal recourse when rights were violated; increase the ability of political parties and candidates to participate effectively in the elections; and enable civil society groups and international organizations to monitor the process. Our assistance played an important role in increasing expectations for democratic elections and spotlighting electoral fraud, thus laying the basis for the people of Georgia, Ukraine,

and the Kyrgyz Republic to challenge manipulated results. In all three countries the sustained and ultimately effective response of political parties, NGOs, and independent media to electoral fraud was a testament to the strength of civil society in these countries. While it is too early to call any of these so-called “revolutions” an unqualified success, the breakthroughs present new governments and civil society activists with a real opportunity to make good on the public’s demand for serious reform.

Democratic gains in Ukraine, Georgia, and the Kyrgyz Republic must be consolidated, and here, too, our assistance will play a crucial role. Georgia has made significant progress in economic and democratic reform in the year following the November 2004 Rose Revolution. Tax revenues have greatly increased; corrupt officials have been made to account for past actions; effective law enforcement institutions are being created; civil service reform has begun; and the government has begun to think strategically about issues such as energy and education. At the government’s request, the United States has provided funding for advisors to six government ministries.

Ukrainian President Yushchenko aims to integrate his country with Europe and Euro-Atlantic institutions as quickly as possible. Our task over the next months and years will be to work with the Ukrainian Government to consolidate the country’s recent democratic gains, promote the rule of law, and advance its economic reform and integration with the European and global economies. Mr. Chairman, I would like to take this opportunity to thank the Committee for the support provided in the Ukraine supplemental bill—these funds are helping the new government make immediate progress on consolidating recent democratic gains.

In the Kyrgyz Republic, the presidential election was an opportunity to realize the promise of the March 24 revolution and establish new democratic benchmarks for the rest of Central Asia. But, as in Georgia and Ukraine, the election is only the first step. It will be up to the new president and government to ensure that the people get the change they demanded. We will work with the Kyrgyz Republic to consolidate democratic gains, fight corruption, support the rule of law, promote economic growth, and alleviate poverty. Constitutional reform is a key first step and it will help establish a greater balance of power, including a stronger parliament and an independent judiciary. We will also continue to support the further development of civil society and independent media. These are the vital institutions of a vibrant democracy and strengthening them will be a high priority for U.S. assistance

The Georgian, Ukrainian, and Kyrgyz democratic breakthroughs have reverberated throughout the region. In addition to these democratic breakthroughs, we continue to work with our Russian partners to consolidate and advance reform in Russia. Speaking in Brussels in March, President Bush said “Russia’s future lies within the family of Europe and the transatlantic community,” an outlook that President Putin has articulated as well. It is this future that our assistance programs in Russia aim to help secure. More than any other country in the Eurasia region, Russia’s future stability, which is linked to its democratic development, directly affects U.S. national security interests. We are aligning resources within FSA funding for Russia to focus on support for democracy. In 2005, over half of the Russia budget is dedicated towards democratic political processes, civil society, rule of law, and independent media, and we expect to dedicate an even larger proportion of the budget to these priorities in FY 2006, in preparation for upcoming parliamentary and presidential elections in 2007 and 2008. We greatly appreciate the supplemental funds the Congress provided for the Northern Caucasus and plan to accelerate both humanitarian and development assistance programs to the region working with the World Health Organization, UNICEF, and U.S. and international NGOs that are active in the region.

In Belarus, using the upcoming July 2006 presidential election as a focal point, supplemental funds provided by Congress will enable us to expand our work with opposition parties, increase the flow of independent information available to the Belarusian people, and strengthen civil society activists in their struggle to promote democracy in Europe’s last dictatorship. These efforts are facing increasing obstacles from the Belarusian government and so we are looking more and more to supporting them from outside of Belarus. We are also working to coordinate democracy promotion in Belarus with the European Union and interested European governments.

#### *Old and New Challenges*

When the FSA and SEED accounts were created, the focus was on economic and democratic transition. There was a sense that if only the transition countries could get their political structures and economic policies “right,” stability and prosperity

would follow. And it has in fact turned out to be generally true that the level of commitment to reform has correlated to economic growth and internal stability.

But new factors, not anticipated by the authors of SEED and FSA, have complicated the picture. Familiar transnational threats, such as organized crime, terrorism, and the illegal narcotics trade, have grown in scope and virulence. Relatively new challenges—extremism, human trafficking, HIV/AIDS—have arisen, threatening to undermine political and social stability. Vastly increased poppy production in Afghanistan is flowing into Central Asia and on into Russia, the Balkans, and Western Europe, leaving a trail of corruption in its wake. Organized crime is especially entrenched in the Balkans and is a major obstacle to establishing good governance and the rule of law. HIV/AIDS is poised to ravage these transition countries, most particularly Russia and Ukraine. And now avian flu has appeared in parts of Central Asia with the potential, if it spreads and becomes transmittable among people, to further inhibit the development of human capital in these countries.

Furthermore, the creators of SEED and FSA did not foresee the complete collapse of the Communist-era social service infrastructure, which has resulted in an alarming decline in health and education indicators in many of these countries. In Ukraine, for example, the number of deaths surpasses the number of live births by a ratio of 197 to 100. In Tajikistan, secondary school enrollment is half what it was at the end of the Soviet Union. These are but a few of the manifestations of declining quality of life that may eventually be reflected in political and social instability.

Countries where political, economic, and justice sector reforms are incomplete or completely absent, as in Belarus or Turkmenistan are the most vulnerable to the destabilizing effects of transnational threats and deteriorating social conditions. That is why, even as we direct an increasing proportion of our SEED and FSA assistance to address transnational threats and social sector problems, we continue to focus the largest share of these accounts on fundamental economic and political reform.

In the Balkans, we have energetically pursued the downsizing of the international military presence in a region recovering from more than a decade of violent ethnic conflict. In Bosnia and Herzegovina, defense reform took a quantum leap forward with the creation of a state-level Ministry of Defense, on December 2, 2004, the NATO-led Stabilization Force (SFOR) that had ensured the peace and stability as civilian reconstruction progressed, successfully completed its mission and a European entity, the European Union Force (EUFOR), assumed responsibility for stability. But Euro-Atlantic integration cannot be completed until Serbia and Montenegro, Croatia, and the Republika Srpska entity in Bosnia cooperate fully with the International Criminal Tribunal for the former Yugoslavia (ICTY), most notably with the arrest and transfer to The Hague of Radovan Karadzic, Ratko Mladic, and Ante Gotovina. In Kosovo our policy objective is to help build a secure, self-sustaining, stable, and multiethnic society that can eventually be fully integrated into Europe. U.S. assistance is helping Kosovo achieve that goal through implementation of the Standards for Kosovo. In keeping with a decision made by the Contact Group in November 2003 and endorsed by the UN Security Council, UN Envoy Kai Eide is now conducting a review of progress on Standards implementation, and if results are sufficiently positive, the international community will move toward a process to address Kosovo's future status.

Mr. Chairman, in addition to supporting peace and stability in the Balkans, ESF funds have promoted peace and reconciliation in Cyprus and Northern Ireland, and social and economic development, including women's rights in Turkey. In Cyprus we are supporting bi-communal programs that empower Cypriots to lead reconciliation efforts. In Turkey our efforts focus on social cohesion, solidarity, and women's rights as the country undertakes deep rooted political, social, and economic reforms. These efforts will further anchor Turkey in the values and institutions of the West. Finally, in Northern Ireland we are fostering cross-community interaction and reconciliation between Catholic and Protestant communities.

#### *Looking Forward: Strategic Priorities*

The fall of the Berlin Wall and the breakup of the Soviet Union fundamentally changed our world and challenged us to develop new foreign policy approaches, backed up by new foreign assistance programs. Fifteen years later, we are faced with a new set of complex challenges and new resource constraints that are forcing us to reorder priorities.

Following President Bush's January 20, 2005 statement that "it is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in

our world,” the list of key priorities we have set for our assistance programs over the next few years includes:

*1. Promoting democracy:* As the President said in his last State of the Union address, democracy is a priority, “because democracies respect their own people and their neighbors; the advance of freedom will lead to peace.” The experience of the past fifteen years and recent breakthroughs have shown us the value of well-coordinated and strategic support for democratic transition. We have three objectives under the broad democracy rubric. Our first objective is to work with reform-minded governments to consolidate democracy in the breakthrough countries in the Balkans and Eurasia. Here we need to help these governments deliver tangible benefits to citizens, especially economic growth, improved social services and reduced corruption, and we need to ensure the sustainability of civil society and independent media. We cannot let democracy fail in these countries. Our second objective is to accelerate the spread of freedom by pushing for further democratic change in Eurasia where conditions are ripe. We must provide assistance and support to energize civic groups, independent media, and monitoring organizations. We must ratchet up the pressure for free and fair elections, coordinating our diplomatic messages with our assistance efforts. Our third objective is to continue proven democracy programs in countries where progress is slow, including in Turkmenistan, Uzbekistan, and Tajikistan. In these countries we must continue our work with civil society, democratic political parties, independent media, judiciaries, legislatures, and local governments to build the foundation for future change.

*2. Supporting Partners in the Global War on Terrorism.* As I have mentioned, many countries are already contributing to international peacekeeping efforts and to the Global War on Terrorism. These partnerships are nascent and it is in our interest to help these countries do more. If not for the participation of these countries in the Balkans, OIF, OEF, and ISAF, the burdens on American and other Coalition troops would be greater. We need our partners to be interoperable with the United States military and with NATO. We need them to be trained in modern military practices. Our security assistance through FMF, IMET, and PKO is truly an investment in our own security.

*3. Facilitating Euro-Atlantic Integration:* For those countries with governments committed to integration with Western institutions and willing to tackle the tough issues (like corruption) that stand in the way of that goal, we focus assistance on accelerating reforms and consolidating the institutions of a market-based democracy. Bulgaria, Romania, and Croatia are examples of countries that soon will graduate from such U.S. assistance. Bulgaria and Romania are due to complete their SEED programs over the next few years, (Bulgaria is 2006 phase-out) with the last year of budget requests in 2006 and 2007 respectively joining their fellow SEED graduates as EU members in 2007. Croatia’s SEED program will begin to phase out in 2006, with prospective EU membership contingent on cooperation with the ICTY. Georgia and Ukraine are now on a similar track, but at the beginning of the process. In addition, security assistance helps with integration with NATO, which furthers trans-Atlantic relations. SEED and FSA funded programs are key to advancing the broad USG goal of creating law enforcement agencies, specialized units, legislation, and criminal justice sector systems that are harmonized with European and internationally accepted standards.

*4. Empowering Entrepreneurs:* Quite simply, jobs for a middle class are a force for stability. Property ownership gives citizens a stake in their country. Support for job creation may seem unexciting, but in this region it is radical. The creation of capital markets, strengthening of property rights, deregulation, rationalization of tax policies, commercial law reform, promotion of regional trade, identifying areas of competitiveness, and privatization of land—especially in rural areas—are the keys to building a vibrant market economy, and we are working on all these issues throughout the region. Increasingly though, we are focusing on support for the emerging class of entrepreneurs, which we do through training and lending facilities. Small and medium business owners can be the catalyst for job creation and economic growth, even in the most desperately poor areas of our region.

*5. Fighting Transnational Threats:* Narcotics, organized crime, and other threats that cross borders constitute some of the most difficult challenges we face. Heroin from Afghanistan is flooding into the former Soviet Union and Southeast Europe, but it is not just transiting these states. It is contributing to crime, disease, and corruption to such an extent that it threatens to overwhelm recent gains, particularly in Central Asia. Russia, Ukraine, and the Balkans have also been victims of this scourge, which is the principal cause of escalating HIV infection rates. Because our resources alone cannot fully address this problem, we are coordinating closely with the European Union and the United Nations on the drug issue, while also leveraging grant resources from the Global Fund to fight AIDS, Tuberculosis, and

Malaria to address the HIV/AIDS challenges. At the same time, we expect to continue devoting significant resources to combat human trafficking in FY 2006.

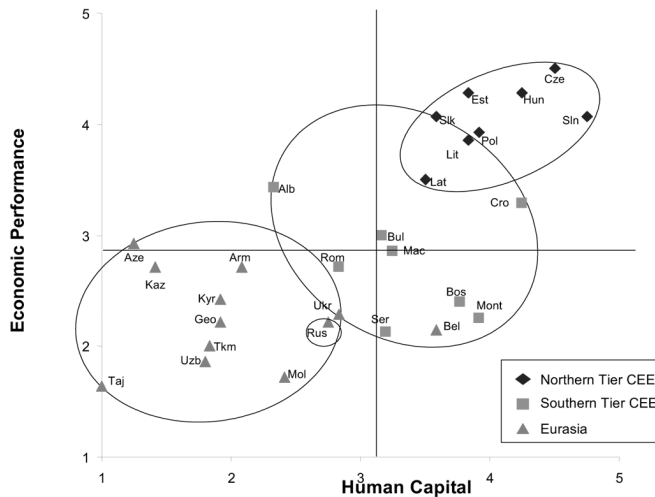
*FSA and SEED Phase Out*

Mr. Chairman, although there have been clear successes in these transition countries, we never stop retooling our strategies, adjusting programs to fit changing realities, and trying to ensure that our programs are cost-effective. We are also aware that the ultimate goal is to see the need for the SEED and FSA accounts disappear. These were conceived as transitional accounts, with programs expected to phase out when stable market democracies emerged to take the place of the former Communist states. Consistent with this original intent, in 2004 we conducted a comprehensive interagency review of the transition status of all twelve FSA countries and the five SEED countries slated to continue receiving assistance after FY 2006. The review analyzed progress in the political, economic, social, and security/law enforcement sectors, and ultimately recommended phase-out dates for each sector of assistance in each country. These phase-out dates have been identified for planning purposes and do not convey any commitment to funding levels or entitlement to assistance until that time.

Our ability to set phase out timeframes was significantly aided by a set of indicators that were developed by our USAID colleagues and used to measure countries' progress on democratic and economic reform. These data are collected by Freedom House and the EBRD, and are similar to indicators used to determine MCA eligibility. Based on these indicators, as well as discussions with our embassies, implementing agencies, and other stakeholders, the goal-line for phasing out SEED and FSA assistance was set as the point at which a country has achieved the level of progress reached by Bulgaria and Romania at the time they were offered NATO membership in 2002. (This was deemed to be a stage where reforms would be "irreversible.") The data also track countries' economic performance and social indicators (health and education) to see whether reforms are translating into improved quality of life for ordinary citizens. Otherwise, reforms are unlikely to be sustained.

Clearly the post-Soviet democratic and social sector transition has not been as fast as the founders of the SEED and FSA accounts had anticipated. In fact, in both of these sectors there has been considerable backsliding in recent years. Notwithstanding the important breakthroughs of the past year, there is a long way to go before the original intent of SEED, and especially FSA, can be realized. There are sure to be setbacks along the way and the coming years will require us to maintain a long-term perspective and persist in engaging the peoples and governments of the Eurasian countries through technical assistance, training, exchanges, and partnership programs.

Summary Figure 2  
**Economic Performance and Human Capital in 2002-2004**



USAID, MCP#9 (2005) drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirgüç-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

*Conclusion*

We have successfully prevented the emergence of full-fledged failed states in our region so far, but we are ever alert to the warning signs. In this regard, we view our assistance programs as a form of preventive medicine. We are making investments today aimed at preventing the future growth of extremist and anti-American ideologies, of organized crime and infectious disease, and other forces that could ultimately touch our shores.

As I stated at the beginning of my remarks, we also view our assistance programs as an indispensable tool of our diplomacy that helps us garner support for immediate, as well as longer-term foreign policy objectives. And in that context, it is worth emphasizing that the overwhelming support we have received from the recipients of SEED and FSA assistance in the global war on terrorism is not just based on the policies of governments currently in power. I truly believe that in most cases it is based on shared values that go deeper into these societies. These shared values have been promoted by our foreign assistance—including, very importantly, our public diplomacy and exchange programs—for the past 15 years since the fall of the Berlin Wall. Through our aid programs, Americans are engaging with non-governmental organizations, educational institutions, private companies, students, scientists, and many, many others. And this engagement is helping to form a network of linkages between our society and their societies, a web of linkages strong enough to withstand the ups and downs of bilateral relations over time. That is an excellent return on the investment of our foreign assistance dollars and it is one that members of this Committee can be proud to have supported.

Mr. GALLEGLY. Thank you, Mr. Adams. For the record, without objection, any additional testimony that you have will be made a part of the record of the hearing, as will the testimony for Mr. Luten.

Our second witness, Mr. Drew Luten, is the Senior Deputy Assistant Administrator for the Bureau of Europe and Eurasia at the United States Agency for International Development (USAID). Mr. Luten was a member of the Interagency Working Group established by the White House to undertake planning for the Millennium Challenge Account, and served as Deputy General Counsel for the Millennium Challenge Corporation in connection with the start-up of the corporation. He also helped establish USAID's Global Development Alliance, which seeks innovative ways to promote and support public-private partnerships for the international development programs.

Welcome, Mr. Luten.

**STATEMENT OF MR. DREW W. LUTEN III, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. LUTEN. Thank you, Mr. Chairman, Members of the Committee. We appreciate the opportunity to speak with you today. I would like to return my co-panelist's, Tom Adams, earlier compliment concerning the working relationship that we have together. We work together well. It has been that way for many years. We look forward to continued successful collaboration.

Mr. Chairman, you have referred to many of the successes that our programs, particularly in Europe, have realized. One of the questions that come up from time to time is, "What about the rest of the region, the sub-region of the Balkans in Europe and then Eurasia?" There have been some successes there, too.

The success of USAID democracy programs, which have been long at work in Georgia, Ukraine, and Kyrgyzstan, were punctuated by democratic elections and new leadership in those countries in the last 2 years. Many of the types of activities that Coordi-

nator Adams just mentioned were ongoing and making a quiet contribution for many years.

In Armenia and Georgia, both of the countries have been named eligible for Millennium Challenge Account assistance, which means they will be eligible to negotiate compacts. Indeed, the compact with Georgia was just signed in New York. Albania also is eligible for Millennium Challenge Account assistance. This is performance-based assistance that recognizes the progress these countries have made in a number of areas.

In addition to the support that we provide countries under the authority of the SEED and the Freedom Support Acts, we also manage some Economic Support Funds. In Ireland, for instance, we made contributions to the International Fund for Ireland, where progress has been made over the years. Obviously work remains to be done based on what we saw in the press recently. We also work in Cyprus. That program has been ongoing for a period of time, but it is yielding some success in promoting inter-community cooperation and communication.

We organize our programs into three broad areas: Democratic development and transition, economic growth and reform, and social transition. There are challenges that remain in each sector.

First, in the area of democracy, progress has stalled in a number of Eurasian countries. To meet this challenge, USAID focuses on development of civil society: To improve the rule of law; to bolster the independent media; to protect human rights; and to work in municipal government reform at the local level, which is very important and appreciated by the countries across the region. We also work in elections assistance and political party development.

This is the type of approach that is similar to the approach that we have taken in Georgia, Ukraine, and Kyrgyzstan, the type of approach we seek to pursue in all of the countries, given the opportunity, of course. Country by country we make decisions about what might work at a given point in time and what the returns will be over the short, medium, and long term.

Second, in the economic sphere, high unemployment and continued underemployment stall private sector development prospects, stall economic growth prospects, and they will disproportionately affect youth. These challenges in the economic sphere present risks to sustaining democratic gains and achieving future democratic gains. So to support job creation, we focus on providing business development services and credit for small and medium enterprises and we work on decreasing corruption through a variety of means.

The third area, human capital, is an area that is suffering in many of these countries. We are concerned with poor health conditions that persist and low levels of educational achievement in many countries, which when combined can also threaten to put at risk economic progress. We are very concerned about the sharp population declines seen in countries such as Russia and Ukraine, which could have major ramifications.

To meet these challenges, we work with countries on the management of infectious diseases. We try to draw attention also to their issues and shortcomings in managing noncommunicable diseases. We work on capacity building of healthcare systems and re-



form of those systems to more efficiently use country resources. We also provide education assistance in concert with other donors.

Over the years, we have taken performance management very seriously. We have developed what we call our Monitoring Country Progress methodology to measure country performance, to inform our program resource allocations, and to project possible phaseouts of assistance to countries in which we still operate. We included some stand-alone charts in the written testimony which present a very good, high-level view of the relative performance of countries. They are tools that we use as part of this analysis in measuring performance and informing our decision-making. If you have a chance to look at these charts, you will see that the countries that graduated, and including ones, Croatia and Bulgaria and Romania, in which we are about to phase out programs, their performance in the areas of economic, social and political development is relatively good.

You will see a second grouping of countries, primarily in southeastern Europe, where the performance is not as good as the countries in which we have ended our programs. Then you will see that in the case of Eurasia, performance pretty much across-the-board lags behind the others in a very real way. The distinctions are quite real.

Just to sum up, after a decade and a half of working in these countries, recent developments in Eurasia in particular have shown that what we do can be a long-term proposition. Our programs have long gestation periods in many cases. Given the established importance of providing assistance to the region, the foreign policy context in which all of this assistance is provided, it is imperative that we continue our work in democracy and social transition and in economic reform.

Of course, the success of what we do in these countries can only be secured by the will of the people of those countries. The United States could, has been, and should continue to be a responsible supporter of the aspirations of these people for economic opportunity, for responsible and responsive government, and for a better life.

Thank you, Mr. Chairman. As noted, you have our written testimony, and we will be happy to take questions.

[The prepared statement of Mr. Luten follows:]

PREPARED STATEMENT OF MR. DREW W. LUTEN III, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

#### INTRODUCTION

Chairman Gallegly, distinguished members of the Committee on International Relations, thank you for the opportunity to testify on U.S. foreign assistance programs for the countries of Europe and Eurasia.

When the Berlin Wall fell in 1989 and the Soviet Union collapsed in late 1991, the Europe and Eurasia region became a new frontier for the United States Government. Your committee responded through the authorship of the Support for East European Democracy (SEED) Act of 1989 and the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act (FSA) of 1992. From the inception of these acts, USAID has been the main federal agency managing programs to promote democracy and human rights, to introduce and institutionalize a market economy, and to alleviate the social and humanitarian problems in the former communist states of Europe and Eurasia. Our underlying objectives

in the region have been and continue to be freedom, peace, prosperity, and regional stability.

Since we initiated work over a decade and a half ago, extraordinary progress has been registered across the region, particularly in the democracy/governance and economic growth areas, though much remains to be done in some countries. Notable achievements include: (a) the re-emergence of positive economic growth since 2000 after years of contraction, (b) Freedom House's ranking of 19 of the former communist states as free or partly free with a return to communism unlikely in most countries, (c) Three peaceful democratic breakthroughs: Georgia's "Rose" Revolution, Ukraine's "Orange" Revolution, and Kyrgyzstan's "Tulip" Revolution, (d) the significant integration of a number of the region's states into regional and global organizations such as the World Trade Organization (WTO), European Union (EU), and the North Atlantic Treaty Organization (NATO). In fact, performance has been sufficiently good that we have graduated country programs for the eight Central and East Europe (CEE) Northern Tier countries, enabling the closure of the five Missions that served these countries.<sup>1</sup> Three more country programs and their attendant Missions will close over the next several years—in Bulgaria, Croatia, and Romania.

Still a number of challenges persist—in encouraging economic growth, developing democracies and promoting respect for human rights, improving health, and increasing educational levels.

- **Developing Democracies and Promoting Human Rights.** The seeds of democratic change are slow growing but can produce strong results over time—patient support for democratic institutions and human rights in Georgia, Ukraine, and Kyrgyzstan gave their citizens strong political voices. Continued support for the persistent voices of freedom and democratic reform—civil society groups, democracy and human rights advocates and movements, and independent media—will prove decisive.
- **Encouraging Economic Growth.** Unemployment and the lack of opportunity make a society vulnerable to extremism. A vibrant economy provides jobs and incomes. It allows people to buy houses, farms, and shops and gives them a stake in the future. Job growth that benefits all regions and all ages, particularly the young, is vital to the long-term stability of our region.
- **Improving Health.** Collapsing populations, eroding life expectancies, and rising rates of drug abuse and HIV/AIDS and tuberculosis are too common in our region. To be viewed as viable, post-Soviet states must ensure that basic health care is available to their people. Improving health status, therefore, is critical to political stability and a significant challenge.
- **Increasing Educational Levels.** The erosion of educational levels is seen by many as a symptom of state failure. Lack of educational training also leaves youth ill-prepared to fill today's job needs. Increasing educational attainment, as well as adapting curricula in ways that prepare students to succeed in market democracies, is a significant challenge to our countries.

#### THE GEOPOLITICAL AND SECURITY CONTEXT

Since the September 11, 2001 attacks on the United States, the geopolitical and security importance of the countries of Central Asia and the Caucasus has increased dramatically. These states constitute the front line in helping to create stability in a region vulnerable to extremism, drug trafficking, and terrorism. Countering authoritarianism, human rights violations, and economic stagnation, which together provide fuel for domestic unrest, extremism of various sorts, and international terrorism, is key to protecting U.S. interests in the region. Further, the Caspian region's tremendous oil and gas resources add to its importance to the United States. The proven oil reserves of just two states in the Caspian Sea basin, Kazakhstan and Azerbaijan, are just slightly less than those of the United States. Also, Kazakhstan's Kashgan field is perhaps the largest petroleum find in 30 years.<sup>2</sup>

In the Southern Caucasus, the region's significant Caspian energy reserves, unresolved ethnic and nationalist conflicts, and the threat of international terrorism underscore the states' geopolitical and security importance to the United States. Both Azerbaijan and Georgia provide the routes for the recently-dedicated Baku-Tbilisi-Ceyhan oil pipeline and the soon-to-be-completed South Caucasus Gas Pipeline,

<sup>1</sup>The Northern Tier consists of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

<sup>2</sup>*National Energy Policy*, pp. 8–12, Report of the National Energy Policy Development Group, GPO: May 2001.

which together will bring the Caspian region's vast oil and gas resources to world markets. Also, an uneasy stalemate over Nagorno-Karabakh exists between Armenia and Azerbaijan. In Georgia, separatist movements in Abkhazia and South Ossetia threaten the integrity of the state internally, while the conflict in the neighboring Russian Republic of Chechnya places pressure on regional stability. The simmering conflict in Chechnya also has been tied to terrorist incidents, including the downing of two civilian airplanes, bombings in the Moscow metro, and the tragic attack in Beslan.

The internecine warfare accompanying the collapse of the former Socialist Federal Republic of Yugoslavia in the 1990s not only caused humanitarian catastrophes but also threatened the peaceful democratic and economic transitions in neighboring post-communist states. The United States and its NATO allies intervened with military, diplomatic, humanitarian, and technical assistance to protect human rights, establish peace, and lay the foundation for sustainable democracies and open market economies. While marked progress has been made in the Balkans since the Milosevic era of the 1990s, ethnic and nationalist tensions and human rights abuses combined with ongoing economic hardship and soaring unemployment continue to drive instability, and the area remains an important geopolitical and security concern to the United States.

Trade with and investment in the E&E region are certain to increasingly benefit the United States. From natural resources to industrial equipment to the service sector and beyond, the United States is broadening its trade relationships with the region. U.S. exports to the region totaled roughly \$7.1 billion in 2003 with direct investment of no less than \$4 billion in that same year. USAID's work to combat corruption, promote enforcement of contract and other commercial laws, help E&E countries join the WTO, and lay the foundations for the private sector have helped pave the way for American trade and investment.

Extremism threatens to destabilize several areas within the E&E region. In particular, we must monitor the role of political and radical Islam and the conditions that permit Islamic extremism to flourish. USAID will continue to play a vital role in promoting democracy and respect for human rights in the region. Not only is this the right thing to do, but it avoids adding fuel to the fire for any kind of extremism.

In the National Security Strategy of September 2002, development was officially recognized for the first time as one of the three pillars of national security (along with defense and diplomacy). This represents a profound new understanding of how dangerous failed states are to the security of the United States and the rest of the world and how important development assistance is in dealing with failing and failed states. We cannot ignore those regions in Southeastern Europe and Eurasia struggling to escape the debilitating legacy of communism. Thus, the work of USAID to firmly root democratic, economic, and social reforms in formerly communist, corruption-ridden Eastern Europe and the former Soviet Union is central to U.S. security.

Indeed, President Bush's National Security Strategy already has yielded fruit in Europe and Eurasia. E&E countries are becoming America's allies. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia joined NATO in March, 2004; the Czech Republic, Hungary, and Poland joined the Organization in 1999. The backing of the region's states in the international war on terrorism and of U.S. policy also has been strong. Indeed, nineteen recipient countries in Europe and Eurasia have been active supporters of Operation Iraqi Freedom, Operation Enduring Freedom, and/or the International Security Force in Afghanistan in 2004.

Finally, America's most important foreign policy and security interest in the region is its relationship with Russia. The United States needs Russia as a strong, reliable, democratic, long-term partner in addressing issues of mutual and global importance such as non-proliferation, counter-terrorism, human trafficking, and HIV/AIDS. Russia is also an energy powerhouse. In 2000, it was the world's second largest exporter of oil, and it holds one-third of the world's proven natural gas reserves.<sup>3</sup> Assistance to Russia is not just a program of traditional development. It provides a key strategic tool for focusing attention on neglected issues and encouraging Russians to work with us in areas vital to our national interest.

#### RESOURCES

In coordination with the State Department's Assistance Coordinator for Europe and Eurasia (EUR/ACE), USAID has played a lead role in planning and implementing assistance programs for the E&E region. In FY 2005—the last year for which funds have been appropriated, USAID administered two-thirds of both SEED

<sup>3</sup>*National Energy Policy*, pp. 8–12.

and FSA funds, 66% in the case of SEED and 67% for FSA. From the inception of the SEED and FSA accounts through FY 2005, Congress has appropriated a total of \$17.3 billion in assistance under both accounts to the region. This excludes this year's \$70 million Ukraine, Belarus, and Northern Caucasus supplemental appropriation. Of the supplemental funding, \$60 million is being used to help the new democratic Government of Ukraine fight corruption, reform the economy, reach out to civil society in the eastern and southern parts of the country, and prepare for the upcoming Parliamentary elections. In Belarus, \$5 million is being used to promote free and fair Presidential elections through improving the political process, increasing access to information, and supporting civil society. In the northern Caucasus, \$5 million is being used for humanitarian aid, conflict mitigation, and relief and recovery assistance for needy communities.

The FY 2006 request, including \$382 million for SEED and \$482 million for FSA, will be directed to those remaining gaps defined by the Bureau's Monitoring Country Progress (MCP) system, taking into consideration the best judgment of EUR/ACE, Mission, and Bureau staff on the recipient's commitment, the likelihood of progress, and the need for continued investments.

#### JOINT STATE DEPARTMENT/USAID STRATEGIC PLAN

In order to make the new focus on development in the U.S. National Security Strategy operational, the U.S. Department of State and USAID developed a Joint Strategic Plan (August 2003). It identifies four strategic objectives, twelve subject areas, and thirteen priorities. USAID's E&E Bureau focuses on mainly three subject areas under the objective "Advance Sustainable Development and Global Interests." These are:

- economic prosperity and security;
- democracy and human rights;
- social and environmental issues.

In addition, USAID programs in the E&E region advance the joint strategy's subject areas of regional stability, international crime and drugs, humanitarian response, and public diplomacy.<sup>4</sup> We promote regional stability through our conflict resolution work—most of which takes place at the grassroots level—in the Balkans, the Caucasus, and Central Asia, and, with Economic Support Funds, Cyprus and Northern Ireland. Our work to help strengthen laws and judicial systems and to promote transparent and accountable public and private institutions contributes to minimizing the impact of international crime and drugs on the United States and its citizens. In the unfortunate cases when it has been necessary, we have provided humanitarian responses due to crises in the Balkans, the Caucasus, and elsewhere. Also, through public outreach in Mission-level strategy development as well as training and exchange programs, our Agency has been involved in public diplomacy and public affairs.

The priorities from the State-USAID strategic plan with high relevance in the E&E region are:

- democracy and economic freedom in countries with significant Muslim populations;
- alliances and partnerships, particularly the strengthening of (a) ties to NATO and the EU and (b) U.S. bilateral relationships with Russia and other E&E countries and allies in Asia and the Middle East; and
- HIV/AIDS prevention, treatment and care.

#### WHITE PAPER

USAID has produced a document "U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century," the so-called "White Paper" that provides the framework for all its work. The core goals within the USAID "White Paper" are to: (a) promote transformational development consisting of sustained democratic, economic, and social change; (b) fortify fragile states; (c) support strategic states as determined by the Department of State and the National Security Council; (d) provide for humanitarian help; and (e) address global and transnational issues and other special concerns, e.g., HIV/AIDS. While a number of E&E countries or entities can be classified as fragile (Bosnia-Herzegovina, Kyrgyzstan, Serbia and Montenegro, and Tajikistan) or strategic (Cyprus, Kazakhstan, Kosovo, Northern Ireland and the Republic of Ire-

<sup>4</sup>The other joint strategic subject areas are: counterterrorism, homeland security, weapons of mass destruction, support of American citizens, and management and organizational excellence.

land, Russia, Turkey, Turkmenistan, Ukraine, and Uzbekistan), the greatest proportion of activities even in fragile or strategic countries are geared toward transformational development. The White Paper also disaggregates countries by income status (low income, middle income) and commitment to reform (weak, fair, good, top).

#### RESULTS

USAID is pleased to report to Congress that those programs that we administer are having a profound impact on people's lives in our recipient countries.

##### *Economic Prosperity and Security:*

- In Azerbaijan, our program in agriculture has created over 35,000 jobs, working with over 150 enterprises that have entered new markets. Also, a 100-member Agro-Input Dealers Association we helped create is providing fertilizer, seeds, and other agricultural chemicals to some 40,000 farmers through a network of dealerships associates.
- While we have a number of credit programs in the region that support job creation, at the forefront are those for Russia. Under E&E-supported credit programs last year, small and medium enterprises were provided over 51,100 loans worth \$83 million. These loans created or sustained some 82,700 jobs by enabling these enterprises to grow their businesses 200 to 300 percent on average.
- To spur much needed investment in Bulgaria that would provide for additional jobs, we helped the country to promulgate a new Law on the Promotion of Investments, develop a National Investment Strategy, produce an "Invest Bulgaria 2004 guidebook," and promote the institutional development of the National Council for Economic Growth—now the leading body for public-private dialogue and policy formulation. The end product is a share of foreign direct investment in GDP that is approaching 10 percent, the highest in Eastern Europe.
- We have assisted in the establishment of a robust mortgage industry in Kazakhstan, a development that is providing for much-needed housing for the country. Residential and mortgage lending surpassed \$564 million last year, a \$200 increase from the preceding year, owing to the creation of the Kazakhstan Mortgage Company that helped make housing more affordable.
- USAID provided business and trade advisory services to 81 companies in the Kyrgyz Republic, producing portfolio growth in excess of \$18 million that provided for sales increases of 76% and productivity hikes of 66% for assisted enterprises.
- Major advances in business registration were achieved in Ukraine. Our program, active in more than 130 cities across the country, reached 70,000 enterprises via the hotline that was put in place, decreased the cost of business registration by 55% on average, reduced the time to obtain licenses and permits by about 50 percent, and lowered significantly the number of visits to government agencies, in addition to dropping corruption in the process by 84%.
- We helped support the planning for reconnection of the Balkan electricity system with the main EU grid, introduce new energy laws in both Bulgaria and Macedonia, privatize seven electricity distribution companies in Bulgaria, and increase collections by the state electricity entity in Georgia, among other accomplishments.
- With US assistance four of the nations of the former Yugoslavia (Bosnia-Herzegovina, Croatia, Serbia and Slovenia) have this year inaugurated the treaty-based Sava River Commission to manage navigation, trade, flood control and water quality issues on this tributary of the Danube.

##### *Democracy & Governance*

*Overview:* Before the fall of the Berlin Wall in 1989, the former Soviet Bloc nations of Europe and Eurasia were characterized by little to no political freedom, limited independent media, and the existence of few non-governmental organizations. Citizens were ruled by centralized governments and systems of laws that provided no separation of powers nor judicial independence. From its inception in 1990, USAID's E&E Bureau has been on the cutting edge of democracy programming in these transitional societies. We have been in the forefront for the U.S. Government in designing robust democracy and governance programs that pursue long-term strategic aims of fostering democratic institutions while responding to short-term

challenges and opportunities. Our Democracy/Governance successes might be summarized as a three-part story. First, EU accession in eight Central and Eastern European countries resulted in large measure from USAID's investments and successes in fostering democratic institutions there. Second, our long-term democracy promotion portfolio throughout the rest of the region has led to demonstrable progress in developing capable, sustainable civil society, media, judiciary, and local government. Third, those kinds of investments plus significant elections support have served as the absolutely indispensable basis for the democratic breakthroughs in Slovakia, Serbia, Georgia, Ukraine, and Kyrgyzstan.

The following represents only a few of the successful highlights of USAID's Democracy and Governance program in the Europe and Eurasia region over the past 15 years.

#### *The Breakthroughs*

*Slovakia (1998):* A successful non-partisan civic education effort was led by 11 Slovak NGOs, entitled OK '98. USAID served as the major source of funds for this initiative. The civic campaign included a network of 50 NGOs, across all sectors of civil society, and organized a nation-wide march, and a "rock the vote" campaign that was critical in mobilizing the youth vote that helped to defeat then-President Meciar.

*Serbia (2000):* USAID's entire DG program, working closely with other donors and implementers, was instrumental in supporting the democratic opposition to Slobodan Milosevic, especially prior to the elections of 2000. A unified candidate was agreed upon with the help of NDI and IRI; the media blockade established by Milosevic was broken via USAID support to the ANEM radio and TV network and local press; USAID supported NGO initiatives to monitor election results and create parallel vote counts that thwarted government attempts to steal the election; independent judges received training and assistance, which was instrumental when the highest court of the land deemed Milosevic's attempt to falsify fraudulent elections results illegal. Mayors of Serbia's largest municipalities, elected in 1996, created havens of democratic opposition activity, allowing for greater freedom of speech and thereby breaking down the strict rules established by the Milosevic regime. Although many challenges in Serbia remain, USAID assistance has provided critical support to democratic activists within Serbia, especially in advance of the pivotal election of 2000.

*Georgia (2003):* The peaceful protests of the November 2003 Rose Revolution against election fraud ultimately brought down the ailing Shevardnadze government and ushered in the new, reform-minded government of Mikheil Saakashvili. USAID's electoral process support funded a number of activities to improve electoral oversight, such as parallel vote counting, carried out by the Georgian non-governmental organization ISFED that was instrumental in detecting the electoral fraud attempted by the Shevardnadze government. USAID support for independent media helped ensure objective reporting during and after the contested elections. Years of technical assistance to political parties helped strengthen their roots in society. A loose coalition of opposition parties, together with a network of non-governmental organizations, rallied tens of thousands of supporters to demonstrate against the falsification of the 2003 parliamentary elections, leading to the 'Rose Revolution.' However, the challenges of the past—working at the local level and supporting opposition voices—have been replaced by more complex tasks, such as securing a lasting democracy at both the national and local levels, ensuring that civil society, independent media, and political pluralism continue to flourish, and assuring the rule of law is respected and corruption is addressed. Continued assistance to the DG sector in Georgia will be required in order to fully sustain the revolutionary changes of November 2003.

*Ukraine (2004):* USAID programs and activities in Ukraine have focused on reinforcing pluralism and transparency in the political process, implementing the rule of law, strengthening civil society and NGOs, assisting in the development of local government, and supporting independent media. Anticipating that the 2004 Presidential and 2006 Parliamentary elections would be pivotal for the democratic development of Ukraine, USAID launched a comprehensive elections assistance strategy prior to this period, focusing on developing the essential elements of a transparent and free electoral process. First, creating the foundation for democratic elections, USAID projects worked on the development of the legal and regulatory framework. USAID-funded projects conducted extensive voter education activities aimed at providing citizens with the opportunity to make informed and free choices. These programs specifically targeted groups, such as youth, who have historically been least politically active and rural women, who suffer most from lack of access to information, although they vote in high numbers. During the elections, USAID-trained

party observers and independent monitors identified violations at polls. USAID-trained civic activists helped to organize the massive public demonstrations that led to the Orange Revolution.

*Kyrgyzstan (2005):* For the February 2005 parliamentary elections, USAID supported a number of activities designed to provide increased oversight over the electoral process and to encourage voter participation. USAID sponsored both international and domestic election monitoring, efforts to provide checks on the official result including exit polls and a parallel vote count, the training of poll workers, and the use of indelible ink for voters' fingers to prevent multiple voting. As in Georgia and Ukraine, all of these efforts made Kyrgyzstan's citizens more capable of rejecting a corrupt government's attempts to manipulate an election.

**Legacy Institutions on Political Process:** USAID has been a leader in developing and supporting a region-wide electoral process 'watchdog' organization—the European Network of Election Monitoring Organizations (ENEMO). This association is comprised of 17 different election monitoring non-governmental organizations from across Europe and Eurasia. All of these organizations have individually received USAID support in the past, either through the National Democratic Institute or directly. ENEMO has already played an important role in conducting election observations missions in Ukraine, Kyrgyzstan, and Albania.

**Independent Media Development:** The E&E region enjoys more sustainable, professional, and independent media systems due to the assistance USAID has provided since 1991. The Media Sustainability Index, developed by USAID/E&E and published by the International Resource & Exchanges Board (IREX), has shown steady progress for most countries in Eastern Europe, including the revolutionary countries of Georgia, Ukraine, and Kyrgyzstan. The more autocratic governments in Central Asia and Belarus—and increasingly Russia—are taking increasingly powerful actions against the media. USAID and its partners will continue to support independent media and associations of media professionals to promote an informed citizenry, thereby laying a foundation for eventual decentralized government control. USAID/E&E's media program has shown innovation in these most difficult situations, including helping to develop alternative means of providing information, like external broadcasting, web-based transmission, satellite TV/radio and other media.

**Civil Society Development:** One lasting legacy of E&E's civil society programs is an improved legal environment regulating NGOs and the advocacy capacity within the sector. Through our partnership with the International Center for Not-for-Profit Law, we have simplified registration procedures, limited state involvement in NGO operations, and encouraged domestic philanthropy. Innovative new laws have been passed in some Eastern European countries, allowing taxpayers to direct 1–2 percent of their taxes to NGOs. USAID's E&E bureau is at the forefront of creative thinking and analysis of sustainability of the independent NGO sector and leads other donors in this regard. While other donors tend to limit their support to project activities, USAID focuses on capacity building and organizational development to ensure future sustainability of the sector. The E&E NGO Sustainability Index (NGOSI) is an innovative research tool that measures seven different dimensions of NGO sustainability, including legal environment, organizational capacity, advocacy, financial viability, service provision, infrastructure, and public image. After 9 years of publication, the NGOSI is an unparalleled source for information on NGO trends in E&E.

**Rule of Law Development:** At the most fundamental level, such previously foreign concepts as constitutionalism, separation of powers, and judicial independence have become a part of the regular vocabulary of judges, lawyers, and citizens of the region. The structural reforms and training programs supported by USAID are changing the way the law is administered. This means not only substantially enhanced rights for citizens but also access to a peaceful means of resolving conflicts. While the transition to the rule of law remains incomplete, significant progress has been made, especially considering that only a decade has passed since these countries began their transitions to democracy. By building on these foundations and working with local partners committed to reform, USAID expects to continue making important contributions to establishing the rule of law in this enormous region, thereby bringing greater peace and prosperity to the citizens of the emerging democracies of Eastern Europe and the former Soviet Union.

#### SOCIAL ISSUES

*Overview:* One of the least expected consequences of post-communist transformation was a decline in living standards for many and the erosion in the stock of human capital. Freedom has come at a cost, and those who have borne that cost vary by country. In some cases the most adversely affected groups are the elderly

or children; in other cases they are men and women in the prime of life. The evidence is impossible to ignore: rising mortality due to infectious disease, weakened life expectancy due to deprivation and lifestyle choices, persistently high unemployment rates, low wages creating an underclass of working poor, and the outward migration of individuals seeking better opportunities. These trends, coupled with the withering of skills among those left behind are just some of the factors which have choked off the supply of productive and energized individuals to carry reform forward.

Our current strategy goes beyond the mitigation of the negative social impact of transition toward establishment of viable social systems appropriate to market-oriented democracies. The first challenge is to halt serious health threats and reduce crises in education, labor markets and vulnerable groups. USAID is meeting this challenge:

- USAID has helped (a) control the diphtheria epidemic in Eurasia, (b) demonstrate internationally-approved and cost-effective TB control approaches, (c) offer women alternatives to abortion, (d) revolutionize care for orphans and vulnerable children, (e) strengthen pension programs for retirees, (f) improve the targeting of social benefits, and (g) make teaching methods more effective.
- In Kazakhstan, where USAID has supported tuberculosis control efforts since 1998, TB deaths have decreased 41.6% between 1998 and 2003, and the U.S. Department of Health and Human Services, through its Centers for Disease Control and Prevention, calculates that the USAID-supported TB control strategy has saved more than 20,000 lives during that time.

The second challenge is to reverse the decline in human welfare, evidenced in rising mortality rates as well as poverty levels that signal the emergence in many countries of a new underclass, the working poor. USAID is meeting this challenge where it has (a) worked toward countering the deadly impact of injecting drug use, (b) developed effective HIV prevention programs, (c) revolutionized care for orphans and vulnerable children, and (d) improved the targeting of cash assistance to reach the neediest. These and similar efforts are helping to restore basic human dignity and to sustain hope for a better future. For example:

- In Romania, USAID pioneered community-based programs to reduce abandonment and institutionalization of children. The steady decline in the number of children abandoned in institutions over the past decade—from over 100,000 to just over 24,000—demonstrates increased effectiveness of community services provided to vulnerable groups. In the past year alone, 11,300 more children received community services than the year before, bringing the total number in community care to more than 76,800.

The third challenge is to transform social policies and systems, giving citizens the ability to manage risk and to access opportunities themselves, thus strengthening their human capacity and reducing their dependency on the State. The collapse of communism not only left behind an ill-equipped labor force, but an unwieldy and inefficient set of bureaucracies whose policies in health care, education, labor and retirement made it difficult for ordinary citizens to secure their personal well-being. USAID is meeting this challenge by supporting bold systemic reforms, where it has (a) made teaching methods more effective, (b) recalibrated pension systems and introduced private retirement accounts, (c) reoriented health systems toward primary and preventive care, and (d) revised labor codes to reduce labor market rigidities. For example:

- In Armenia, systemic reforms to the social welfare system introduced a social security card to every citizen, and improvements in means testing led to the better targeting of cash assistance to the neediest populations, thereby decreasing the percentage of households living in absolute poverty.
- In Macedonia, a country which four years ago stood on the brink of civil war, USAID has reshaped the education system at all levels, introducing computerization and broadband internet access into classrooms to help students acquire the diversity and level of skills needed to compete in the global economy.

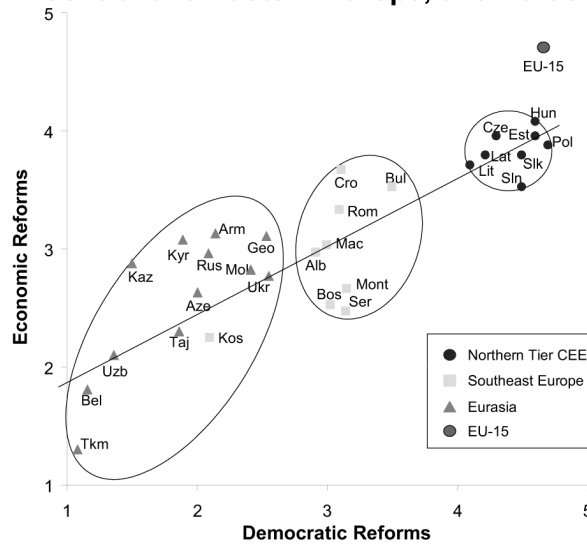
#### THE USAID PROGRAM

USAID's principal goal within the E&E region remains the establishment of functioning democracies that have open, market-oriented economic systems and responsive social safety nets. We will work to address the large disparities among E&E countries that exist in progress toward economic and democratic reforms (see the



following chart). The eight countries of the European Northern Tier are well advanced in their transition to market-oriented democracies. Southeastern European countries have been plagued by instability from ethnic conflict throughout much of the 1990s and the disintegration of Yugoslavia. However, in recent years, reform progress among these countries has been impressive. In contrast, reform progress has lagged considerably in many Eurasian countries, particularly in democratization.

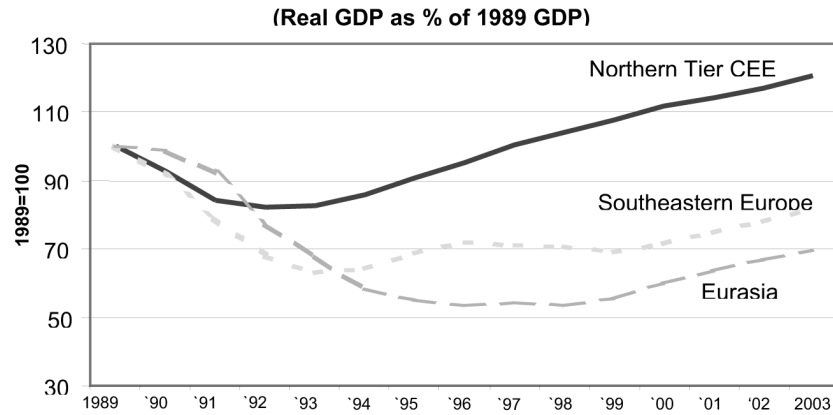
### Economic Reforms and Democratic Freedoms in Central and Eastern Europe, and Eurasia: 2004



Ratings are based on a 1 to 5 scale, with 5 representing most advanced, drawing from Freedom House, *Nations in Transit 2004* (2004), and EBRD, *Transition Report 2004* (November 2004).

#### Assistance Area 1. Economic Prosperity and Security

Across the E&E region, per capita income in 2003 is only one-fourth the average of advanced European economies, despite 5.2 percent annual economic growth since year 2000. Among E&E countries, only the CEE Northern Tier has sustained healthy annual rates of economic growth over an extended period of time (averaging 4 percent since the mid-1990s). This has been sufficient to raise GDP in that sub-region 20 percent above 1989 levels (please see the chart below). On the other hand, in 2003, GDP in Southeastern Europe averaged about 10 percent below 1989 levels, and, in Eurasia, it averaged 30 percent below. Still, since 1999, economic growth has been the highest in Eurasia, though driven by factors, some of which may not last, including price increases for primary product exports (energy, metals, and cotton) and devaluations following the 1998 Russian financial crisis. Economic progress in the western Balkans countries, as well, remains fragile, due to weak global integration (small export sectors and little foreign direct investment).



EBRD, *Transition Report Update* (May 2003).

Several E&E countries view agriculture and related rural enterprise development as potential sources of growth. However, rural economies in many of these countries have been held back by relatively poor market infrastructure, excessive State controls, and lack of access to finance. These problems are exacerbated by agriculture subsidies imposed by the developed world that undermine the international competitiveness of E&E agricultural products.

While the share of the economy controlled by the private sector has increased very impressively in nearly all E&E countries (excluding Belarus, Bosnia-Herzegovina, Serbia and Montenegro, Turkmenistan, and Uzbekistan), the international competitiveness of economies has shown little improvement, particularly so in Eurasia where monopolistic markets often prevail. In general, private enterprise in the region is inadequately prepared to participate in the global economy. Old systems for supplying inputs and for collecting and distributing products have collapsed, and new ones have yet to emerge. Institutions that support and regulate markets are weak.

Unemployment looms large as an issue, especially in Southeastern Europe where rates on average exceeded 20 percent in 2003, including a whopping 42 percent in Bosnia-Herzegovina. In Eurasia, while official unemployment rates are generally in the single digits, the region is characterized by considerable underemployment. Many workers in the region either have (a) poor-paying jobs in the informal sector or (b) employment with state enterprises in which there is little actual work or pay. Generally speaking, youth in both sub-regions are disproportionately affected.

More generally, E&E will target small and medium enterprise (SME) development across most of its recipient countries. Engines of economic growth, competitive SMEs can increase productivity, create jobs, provide incomes for an emerging middle class, and spearhead integration into regional and global economic systems. To stimulate SME growth, E&E will focus on (a) policy issues and (b) the development of clusters providing for enhanced competitiveness through the forging of linkages between economic agents and institutions. SME growth also depends on the adequacy and availability of appropriate labor skills. Hence, workforce development programs may be pursued to make SMEs more productive and competitive.

An important aspect of SME development is country performance in agriculture. As governments reform, we will increasingly move within the agricultural sector from working on policy issues to the development of markets, both internal and external. Within our market development work, competitiveness will increasingly emerge as a thrust.

For selected SEED and FSA middle-income countries (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Kazakhstan, Macedonia, Romania, Russia, and Serbia), a big push will be made to integrate them into global markets. These countries are better prepared to enter global markets. Hence, trade and investment promotion will take precedence in these countries.

Most first stage economic reforms (liberalization of domestic prices, trade, and foreign exchange regimes and small-scale privatization) have been accomplished, except in the three Eurasian weak-performers (Tajikistan, Turkmenistan, and

Uzbekistan). Therefore, most remaining policy assistance will emphasize second stage reforms that focus on building market-based institutional capacity and better public governance.

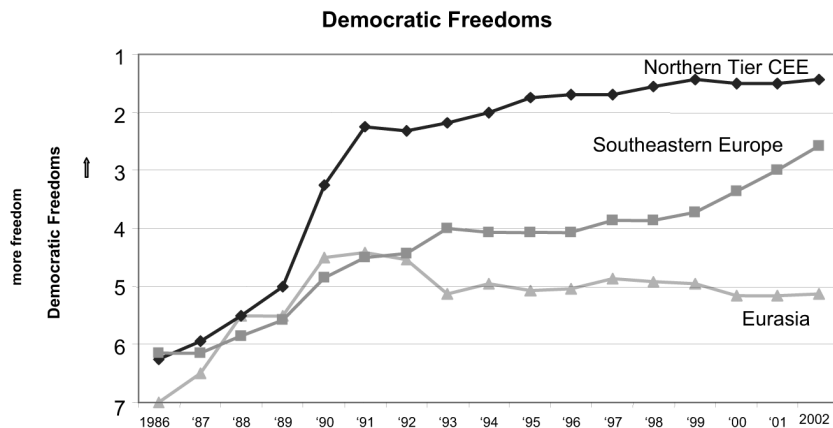
For their part, commercial law and property rights adjudication, important keys to the promotion of foreign investment, constitute complex issues that will be pursued across all our recipients, especially those recipients that possess a deep commitment to reform.

We also have much unfinished work in the energy sector. Energy is an extremely important issue for E&E, and E&E Missions must remain engaged. Energy sectors are large especially in our Eurasian recipients, owing to their significant petroleum and natural gas sectors. Energy sectors also pose a major drain on government resources. Until energy sectors are reformed and efficiency gains realized, governments will not be able to devote the resources needed to address other critical problems, e.g., health and education. The deterioration of heating systems and the affordability of heat to the poor remain major economic and social problems in some countries.

#### *Assistance Area 2. Democracy and Human Rights*

Although much of the region has not yet achieved the prosperity, peace, and security expected in the post-Soviet era, the level of personal freedom that exists today is well beyond what millions in this region knew for decades, and people do not want to lose these freedoms. For the most part (with the exception of Belarus, Turkmenistan, and Uzbekistan), the totalitarian impulse to interfere with citizens' private matters (beliefs, choice of work, travel, etc.) is no longer pervasive. Sadly, however, among many Eurasian countries, a regression toward authoritarian patterns of political authority is perceived in a number of areas, including constraints on freedom of the press, restrictions on political activity and competition, executive influence over judiciaries, and discrimination against minority religions. Significantly, Russia dropped in Freedom House's rankings in its global survey of democratic freedoms from "partly free" to "not free" in 2004.

The remaining challenges facing democracy and governance are generally far greater in Eurasia than in Southeastern Europe. Since the collapse of the Soviet Union, democratic freedoms have generally stagnated in most of Eurasia, and the gap between Europe and Eurasia in building democracy continues to widen (please see chart below).



Data are from Freedom House, and are an aggregation of Freedom House's political rights and civil liberties indices. They come from Freedom House, *Freedom in the World 2003* (July 2003) and previous editions. Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties.

Because democratic reforms are stalled or regressing in most countries in Eurasia except Georgia, Ukraine, and perhaps Kyrgyzstan, most areas of assistance in democracy and human rights will be emphasized in that region, including municipal governance, rule of law, independent media, civil society including human rights advocacy, and political party development and elections. Especially important in the coming year will be assistance to support elections that meet OSCE standards in countries such as Azerbaijan, Kyrgyzstan, Albania, and Macedonia. Southeastern Europe is relatively advanced in civil society and electoral processes, so in that sub-

region the other forms of democracy and governance assistance will receive greater emphasis.

*Ethnic Extremism and Islam*

Ethnic and religious extremism is a major source of instability in several sub-regions within E&E. In particular, we need to encourage Muslim leaders to be a source of stability within the region. Several of our recipients' governments actively discriminate against Muslim communities, a development that encourages radicalism. Decreasing the destabilizing role that extremism plays in Muslim communities can be best accomplished through encouraging economic, democratic, and social development, since extremist behavior is often linked to socially, economically, and politically disenfranchised populations. We will consider institutional mechanisms that encourage all citizens to feel that they are part of the State and educational and communication programs that promote the discussion and advancement of democracy, religious freedom, and economic liberty within the context of both secular and religious world views.<sup>5</sup> USAID already has active programs to reduce tensions between or discrimination against ethnic and religious groups in Kosovo, Macedonia, Uzbekistan, and elsewhere. E&E also will fund research to monitor such discrimination.

In addition, we are especially cognizant of the need to provide for meaningful employment opportunities in Muslim-majority countries and regions such as Albania, Central Asia, and the North Caucasus. Absent political rights, jobs, and hope, segments of these populations are more vulnerable to extremist rhetoric and may be drawn to terrorism.

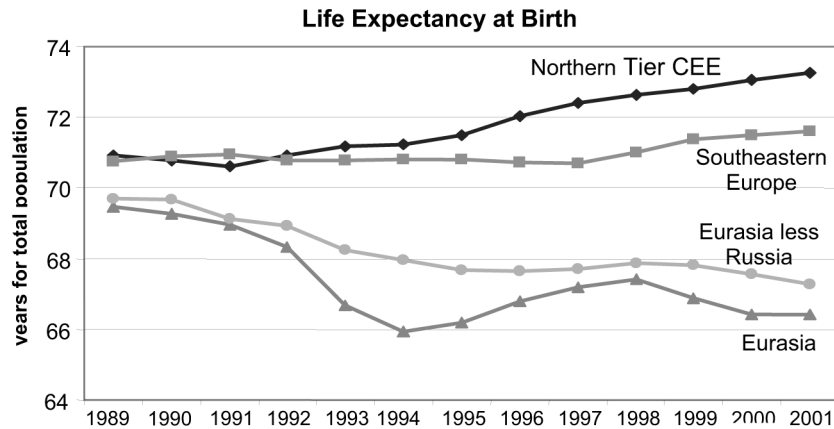
*Assistance Area 3. Social and Environmental Issues*

Early assumptions that Soviet health and education sectors and social safety nets for vulnerable groups would survive and sustain the transition have often proven false. Indeed, the social transition has produced very disappointing indicators, revealing widespread declines in many aspects of health and education, degradation or elimination of social safety nets, and increased vulnerability of youth and other social groups. The fact that the majority of people in many E&E countries today are living less well materially than they did before the Soviet bloc crumbled threatens to undermine constituencies for economic and democratic reform in countries where people fail to perceive benefits from those reforms.

The difference between the Southeastern European and Eurasian sub-regions in health indicators demonstrates an especially alarming pattern of decline which is summarized starkly by divergence in life expectancy (please refer to the chart below). Life expectancy is rising in Southeastern Europe and falling in Eurasia. Based on data for 2002—the latest available, the largest gender differences in life expectancy worldwide also are found in Eurasian countries. Russian females with a life expectancy of 72, for example, live 13 years longer than Russian males (59 years). In contrast, the spread is 6 years in Western Europe and 7 years in the European Northern Tier countries. In sum, while in 2002 life expectancies averaged between 72 and 74 years in Southeastern Europe, they stood between 65 and 69 years in Eurasia. The rapid spread of infectious diseases combined with lifestyle behaviors and resultant diseases are contributing greatly to the health crisis in Eurasia.

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<sup>5</sup>See *Strengthening Education in the Muslim World*, PPC, June 2003.



World Bank, *World Development Indicators 2003* (April 2003). Missing data were estimated by interpolation.

Major health risks or demographic pressures that threaten the sustainability of reform include:

- fast growing HIV rates, particularly in Russia, the Western NIS states (Belarus, Moldova, and Ukraine), and the Baltic countries (Estonia, Latvia, and Lithuania);
- a tuberculosis (TB) epidemic that continues to soar and is exacerbated by increases in HIV/TB co-infection and Multi-Drug Resistant TB, such problems being most salient in the Central Asian Republics (CARs), notably Kazakhstan (the other CARs are the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan);
- high infant and child mortality rates in the CARs and the Caucasus (Armenia, Azerbaijan, and Georgia);
- continued high rates of abortion and maternal morbidity in Azerbaijan, the CARs, Georgia, Moldova, and Romania;
- aging and shrinking populations combined with declining life expectancy in Eurasia;
- the decline in the capacity of health finance and delivery systems to address the evolving epidemiology and demographics;
- cardiovascular and other non-communicable diseases that account for three-fourths of all deaths (many prematurely); and
- little attention to disease prevention and continued risky behaviors that reduce life expectancy.

The stock of human capital varies considerably across countries—highest in Slovenia (and the other European northern tier countries) and lowest in Tajikistan (and in the remaining CARs and the Caucasus). Some indicators allow optimism that the worst of the social deterioration already may have occurred. For example, trends in real wages and, possibly, education expenditures and secondary school enrollment shares (the share of the population aged 15 to 18 that is attending secondary school) are slowly improving in a majority of E&E countries. Secondary school enrollment shares had declined in Eurasian countries from 60–70 percent in 1989 to 30–40 percent in the early 2000s; declines, albeit not as great, also had taken place in these same countries at the primary level.

Health will be an increasing concern for all E&E's Missions, building on USAID experience to date. High abortion rates and low contraceptive rates throughout the region require continued attention to reproductive health in most E&E countries. E&E will focus on child survival and maternal health interventions in countries of greatest need. The Caucasus countries and the CARs have the highest under-five mortality rates in the transition region. Almost all our recipients are encountering difficulties with infectious diseases, including HIV/AIDS and tuberculosis (TB). HIV/AIDS and TB funds will be targeted toward countries with high infection rates, notably Russia, Ukraine, and Central Asia. E&E will examine proven, practical and

affordable interventions to address non-communicable diseases. Work in health systems and administration will be undertaken in countries with a commitment to reform, e.g., Albania and Uzbekistan, although it also could be pursued in other countries to build commitment and improve system efficiencies.

Especially through further collaboration with the World Bank and other donors, education assistance to selected countries/entities in Eurasia (Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan) and Southeastern Europe (Kosovo, Macedonia) has particularly high long-term potential. E&E will continue its existing basic and secondary education program in Central Asia, with vocational education an added emphasis in selected countries. Also, general university education in countries where E&E has already established a role, e.g., selected middle income Southeastern European countries, will be supported, in addition to university-level business management education.

We will address social protection and labor issues. E&E also will sponsor workforce competitiveness studies that identify skills training and labor market reforms required to spur economic growth. Finally, social sector reforms to deal with corruption will be an important element of E&E's programs; we will seek to eliminate rent-seeking in the delivery of services in both the health and education sectors.

#### *Cross-cutting Assistance Areas*

While some of the most important USAID priorities do not easily fall into the above three assistance areas, they are indispensable for achieving our basic goals. These areas include values and social capital, corruption, trafficking in persons, and conflict.

#### *Values and social capital*

USAID has always recognized that sustainable development is strongly supported by widespread acceptance among the beneficiary population of certain values necessary to the fair and efficient functioning of the State and the economy. To provide for values supportive of economic, democratic, and social development, E&E programs will more consistently seek ways to build social capital. The term "social capital" refers to the prevalent mindset that results in voluntary compliance with established laws, trust, cooperative behavior, and basic codes of conduct.<sup>6</sup>

Social capital has deteriorated significantly in the E&E region since the transition began a decade and a half ago. Academic analysts, news media, and donors have generally underestimated the degree to which weak social capital in the former Soviet Union and the Eastern Bloc has undermined efforts to promote democratic and economic reform. Differences in the stock of social capital account for the pattern across the E&E region in which countries that experienced a longer and deeper exposure to communism have shown a slower pace of reform in the post-Soviet era.

Our task is to seek ways to append a values and social capital enhancement dimension to existing programs. Likely involving more attention to youth, possible program areas include:

- values education, including the development of curricula in the area of character education. Materials could be gathered and disseminated which rely on indigenous historical, literary, religious, and political figures who embody the values that need to be cultivated such as integrity and honesty;
- exchange programs and training exercises that promote ethnic and religious tolerance;
- media projects, both written and visual, which feature leadership and visionary characteristics; and
- activities that strengthen civil society relationships. Positive values will emerge when citizens participate in civil society structures and see the benefits they bring.

#### *Corruption*

Corruption is endemic to much of the E&E region. The corruption index compiled by Freedom House scores 17 E&E countries at five or higher on a scale where "7" represents the worst level. Recent surveys confirm that citizens view endemic corruption as one of the region's most serious societal problems, ranking close behind poverty, political instability, and crime. In the presence of corruption, the Bureau's transition goals (democracy, economic, and social) have been slowed or blocked. In sum, while programs directed specifically at reducing corruption may be under-

<sup>6</sup>The phrase "social capital" has been used in recent times by many scholars (e.g., James Coleman, Francis Fukuyama, Robert Putnam, etc.) and institutions (e.g., the European Bank for Reconstruction and Development, the International Monetary Fund, and the World Bank).

taken, an orientation toward reducing corruption will run through numerous programs in countries where it is a widespread problem.

The E&E strategic approach to addressing corruption promotes transparency, accountability, prevention, enforcement, and education. We are promoting transparency through our work to create open, participatory governments. We promote accountability through support of (a) checks and balances amongst government branches and from outside sources such as independent media, trade associations, and political parties, (b) inspector general functions, and (c) the decentralization of power to other layers of government. Our programs support prevention of corruption through the systemic reform of institutions and laws to decrease opportunities and incentives for rent-seeking behavior. USAID is working to promote enforcement through the consistent application of effective standards and prohibitions. Finally, USAID programs support educational efforts that point out the adverse consequences of corruption, the tangible benefits of reform, and the concrete potential for positive change. Our approach to corruption also relies on USAID's new agency-wide Anti-corruption Strategy.

#### *Combating Trafficking in persons (TIP)*

TIP is a major issue in the E&E region. It is estimated that as many as 25 percent of TIP victims globally come from this region. The E&E Bureau views trafficking in persons (TIP) as an economic problem and a violation of human rights. Combating TIP requires action in the E&E goal areas as well as in both regional and country programs. Targeted TIP efforts complement an array of other development efforts that address the underlying factors which give rise to TIP in this region including: a) socio-economic dislocation; b) corruption and a breakdown in values; c) disenfranchisement of substantial populations, especially along ethnic and gender lines; d) organized crime; e) regional conflict, including participation by international peace keepers; f) the demand for sexual exploitation and excessively cheap, illegal or legally unprotected labor.

Some Missions already address TIP through activities in local government, SME development, civil society, media, gender, health, and rule of law. When targeting TIP, USAID efforts should focus primarily on:

- prevention of TIP, through economic empowerment; crisis prevention; public education and awareness; capacity building of government, NGOs and the media; and legal reform and implementation; and
- protection of victims through support of government and NGO referral services and victim witness protection

#### *Conflict Management and Mitigation*

In the wake of the collapse of the Soviet bloc, political and ethnic tensions have risen and fueled bloody conflict in the name of national and ethnic liberation. For example, between 1991 and 1995, hundreds of thousands of people lost their lives in violence associated with the break-up of Yugoslavia. The E&E Bureau has integrated its conflict mitigation efforts within its work in each of the three transition subject areas. In order to address conflict vulnerabilities, we encourage programming that implicitly builds social cohesion, communication, and understanding. This type of programming might include regional cooperation, the promotion of economic growth via SME development, the empowerment of communities through the collective resolution of practical local issues, support for civil society advocacy actions, the engagement of idle youth, the decentralization of government for improved service delivery at the local level, and the promotion of transparency by strengthening actors and institutions related to the rule of law. Notable activities include tolerance projects in both Bosnia-Herzegovina and Russia and the assessments for Kosovo and Serbia and Montenegro led by the Agency's Conflict Management and Mitigation Office.

#### *The Millennium Challenge Account (MCA)*

Signed into law on January 23, 2004 by President Bush, the MCA is designed to provide additional assistance to countries that have met specific indicators related to ruling justly, investing in their people, and encouraging economic freedom. With strong bipartisan support, Congress authorized the Millennium Challenge Corporation (MCC) to administer the MCA and provided \$1 billion in initial funding for FY 2004. President Bush's request for the MCA in FY 2005 was \$2.5 billion, of which Congress appropriated \$1.5 billion. For FY 2006, the President has requested funding of \$3 billion to help reduce poverty through measurable results and preserve the strong incentive for positive policy reforms throughout the world.

The MCC, which administers the MCA and for which USAID Administrator Natsios is a board member, met in May 2004 and identified sixteen countries as eli-

gible for MCA assistance, including Armenia and Georgia from the E&E region. On Monday, September 12th, the MCC signed a five-year \$295.3 million compact with Georgia to reduce poverty and stimulate economic growth in the regions outside of Georgia's capital, Tbilisi, where more than 50 percent of rural households live below the poverty line. By focusing on rehabilitating regional infrastructure and promoting private sector development, the program will directly benefit approximately a half-million Georgians.

The MCC Board also approved a "Threshold Country" program which will be directed towards a number of countries that have not met the requirements for MCA eligibility but demonstrate significant commitment to meeting those requirements. From the E&E region, the Board selected Albania to be eligible for threshold country status. New candidacy criteria for FY 2006 may provide MCA-eligibility and threshold status for more E&E countries.

All USAID Missions in the E&E region will work to encourage our recipient countries to focus on MCA's criteria of ruling justly, encouraging economic freedom, and investing in people.

#### *Phase Out of USG Assistance*

The United States Government always has planned that assistance to the Europe and Eurasia region would be temporary, lasting only long enough to ensure successful transition to sustainable, market-oriented democracies with responsive social safety nets. The performance of Bulgaria and Romania in FY 2002, the year the two countries were notified that they would be accepted into NATO, is used as a threshold, representing sufficient transition performance to phase out SEED and FSA assistance. Accession to NATO demonstrated that the two countries had progressed to the point that they had reached the irreversible path to becoming market-oriented democracies. USAID/E&E's Monitoring Country Progress system provided the analytical base for systematic interagency review led by EUR/ACE to establish time frames for the phase-out of USG assistance in all our recipient countries. Through this interagency analytical process, phase-out dates have been projected for each of the economic, democratic, social, and law enforcement sectors for our Southeastern European and Eurasian recipient countries. These phase-out dates have been identified for planning purposes and do not convey any commitment to funding levels or entitlement to assistance until the established dates. USAID/E&E's Bureau also uses these data to adjust strategies to address remaining gaps and maximize the impact of USG assistance.

Over the next several years, three country programs will graduate and their Missions will close, including Bulgaria, Croatia, and Romania. In addition, we plan to phase out of the economic sectors in Kazakhstan, Russia, and Ukraine over the next several years. These decisions all assume that performance continues as projected. Across all the region's countries, E&E will monitor closely transition indicators using the Bureau's MCP system as well as Mission and Bureau staff understanding of problems, progress, and prospects in each sector to periodically re-assess the phase-out dates.

#### CYPRUS, NORTHERN IRELAND AND THE REPUBLIC OF IRELAND, AND TURKEY

The E&E Bureau also administers Economic Support Fund (ESF) allocations for Cyprus, Northern Ireland and the Republic of Ireland, and Turkey, and the FY 2006 request includes \$42 million in such allocations. Turkey, as a front line state against the war on terrorism, will benefit from \$10 million under the FY 2006 request; Cyprus, \$20 million; and Northern Ireland and the Republic of Ireland, \$12 million. For FY 2005, \$13.4 million had been appropriated for Cyprus; \$21.8 million for Northern Ireland and the Republic of Ireland; and zero for Turkey. Turkey, however, had received \$10 million in FY 2004, which funded activities including: (a) support for a World Bank pre-natal care and education activity under the Bank's Social Risk Mitigation Project; (b) an International Organization for Migration anti-trafficking activity; and (c) a business partnering program implemented through a contractor to be determined. As for Cyprus and Northern Ireland, past allocations have supported reconciliation and conflict resolution amongst communities in conflict. Funds Cyprus received by USAID in the past have supported partnership activities to promote economic growth in the Turkish Cypriot community, and bicomunal cooperation among all Cypriots on initiatives that benefit the island as a whole and that promote understanding and reconciliation, leading to a broad political settlement based on a bizonal, bicomunal framework.



## CONCLUSIONS

We are proud of our successes in the E&E region, a region that remains of considerable foreign policy importance to the United States. Our programs, which are integrated into the frameworks set by the National Security Strategy, the Joint State/USAID strategy, and the USAID "White Paper," have permitted us since the fall of the Iron Curtain to make tremendous strides in furthering democracy, installing market-based economic systems, and tending to the social and humanitarian needs of the former communist states of Europe and Eurasia. We are very aware that there is much left to be done. In particular, the post-Soviet states of Eurasia appear to have a long transition path ahead of them. As new priorities emerge in other parts of the world, I would urge the distinguished members of the House International Relations Committee to support our Budget and Operating Expense requests that are focused, for the most part, on countries that demonstrate a commitment to sound development principles and democracy. Allocations at such levels would help us to achieve our overriding goal in the region—the establishment of market-oriented democracies with responsible social safety nets. Our very close working relationships with the State Department Coordinator would allow us to program resources in a way that would help us meet that goal.

Finally, it is imperative that our work stay the course, despite the difficulty of the task and the occasional bumps along the way. After a decade and a half working in the region, we have learned that premature disengagement can have enormous costs in the long run. Transitions in this region cannot happen overnight. Many of our programs have long gestation periods. A case in point is Ukraine. We spent a number of years building up civil society, and a mature civil society together with timely elections assistance were the key tools that the country's populace required to carry out the largely successful "Orange" Revolution.

In the end, final victory can only be secured by the will of the people, not by the assistance of international donors. We can, however, be a responsible supporter of the aspirations of free people and those that long for freedom.

Thank you, Mr. Chairman.

Mr. GALLEGLY. Without objection, that will be made part of the record of the hearing. Also we have been joined by my good friend from Florida, Rob Wexler, the Ranking Member, and his opening statement will be made a part of the record of the hearing.

[The prepared statement of Mr. Wexler follows:]

PREPARED STATEMENT OF THE HONORABLE ROBERT WEXLER, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF FLORIDA

Chairman Gallegly, I want to thank you for holding today's hearing on American assistance to Europe and Eurasia. I also want to thank Mr. Adams and Mr. Luten for testifying before the committee today and I look forward to hearing their remarks.

Mr. Chairman, US assistance to Europe and Eurasia has been a critical component of American foreign policy since collapse of the Soviet Union. It has been and continues to be, an essential part of American efforts to promote democracy and civil society throughout Europe and Eurasia especially in Eastern Europe, the Balkans and in former Soviet states.

Successive Administrations have used military and economic assistance including that authorized under the SEED ACT and the Freedom Support Act to advocate social, political and economic reforms. US aid has been used to assist governments seeking to dismantle weapons of mass destruction programs, develop counter-terrorism plans and essential infrastructure and has been used as a tool to reconcile long-standing conflicts from Cyprus to Kosovo to Northern Ireland. In fact several nations, including Baltic States, Poland, Czech Republic, Hungary and Slovakia have benefited from these aid programs and have become some of America's strongest democratic allies fully integrated in transatlantic institutions as well as the European Union.

In this vein, it is crucial that Congress and the Bush Administration maintain or increase aid, especially former Soviet States such as Georgia, Ukraine and Kyrgyzstan, whose leaders and citizens are struggling to transform their nations and bring them closer to the West. Although there were recent democratic elections in each of these countries—Kiev, Tblisi and Bishkek face enormous challenges that without American attention and support, could lead to backsliding and political and economic regression.

To this end, I supported language in the State Department Authorization Act expressing concern that proposed cuts in aid could be detrimental to “US interest in stability, democracy and market reform in the Independent States.

In particular, I am concerned about cuts in the Freedom Support Act Account including a 44% decrease in aid to Russia. While I agree that Russia has taken significant steps to reform its economy—it is clear that Moscow has moved dangerously away from its commitment to political and judicial reform and our aid. Cutting aid would send the wrong signal to Mr. Putin that America’s commitment to a transparent and democratic Russia is weakening, and it would leave Russian NGO’s and democratic activists without the resources necessary to survive in an increasingly dangerous political climate.

Mr. Chairman, the Bush Administration should hail bipartisan voices such as Senate Foreign Relations Committee Chairman Lugar who at a hearing earlier this year questioned the cutting Freedom Support Act aid. Like Chairman Lugar, I believe it is contrary to the interest of the United States and our efforts to expand global democracy, tolerance and peace to reduce aid to fledgling democracies. The democratic change America and our allies are seeking globally is already occurring in Ukraine, Georgia and the Balkans. It would be a serious miscalculation on our part if the US did not pay greater attention to their development and increase our assistance as these new governments face daunting tasks ahead.

Mr. GALLEGLY. Mr. Luten, you had mentioned a little bit about the countries that have graduated from the SEED aid program. The following Eastern European countries in the “northern tier”—Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, and Hungary—have graduated. Of the “southern tier” countries, the only country that has graduated, if I am not mistaken, is Slovenia. Is that correct?

Mr. LUTEN. To date, that is correct.

Mr. GALLEGLY. What other “southern tier” countries do you expect to graduate in the next 3 to 4 years and, maybe more specifically, how do you view Croatia?

Mr. LUTEN. Our current planning has us phasing out our programs in Croatia, Bulgaria, and Romania over the next 3 years. The current plan is that fiscal year 2006 will be the last year of new funding for Croatia and Bulgaria, and fiscal year 2007, I believe, will be the last year of new funding for Romania.

Croatia has done very well. In all of these countries we have made a judgment about where we can best use resources in a tighter budget environment than we had as recently as 3 or 4 years ago. I think Tom Adams will also want to comment, but one of the things that we look at in making these decisions are these charts that compare the relative progress of countries. And Croatia, relatively speaking, is doing well.

Mr. GALLEGLY. Thank you. I don’t want to take all the time. I just have one other brief question. Mr. Adams, perhaps you can take a shot at this, and then I will yield the balance of the time to Rob.

Can you discuss how the SEED program and the Freedom Support Act assistance helps the U.S. in two key national security areas; counterterrorism and nonproliferation of weapons of mass destruction? Will these programs place a greater emphasis on counterterrorism and nonproliferation in the coming years?

Mr. ADAMS. Yes, that is an excellent question. The SEED and the Freedom Support Acts give the Coordinator of Assistance authority over not just SEED and FSA assistance, but over all assistance to the 27 countries in the acts. So while we allocate directly SEED and FSA funds, we also coordinate all of the other funds that go

to countries, whether they be military assistance funds or funds used to combat weapons proliferation.

Most of the weapons proliferation efforts are on the Freedom Support Act side, since the nuclear four countries were part of the former Soviet Union. So we work very closely and still fund out of the Freedom Support Act some of the export control programs there. These funds also fund some of the export control programs. We work very carefully with both the Pentagon and with the Department of Energy on their Cooperative Threat Reduction (CTR) programs in a coordinated fashion.

So we are very much still involved. I have a security and law enforcement section in my office. They proudly say they do guns, not butter, but actually it is all related. So we are heavily involved, and it is in our interests to continue.

On counterterrorism, we are the major funding of all law enforcement assistance programs in both the SEED and FSA countries, and here we increasingly devote funding to cooperation on counterterrorism with a wide variety of people, including the Russians, I should add. This has been a priority since 9/11 and will continue to be one. We have been asking and receiving increases in the amount of funding devoted to this over the past several years.

Mr. GALLEGLY. Thank you very much, Mr. Adams.

Mr. Wexler?

Mr. WEXLER. Thank you, Mr. Chairman. I have a few questions regarding Georgia and Cyprus. But with your indulgence, I would rather defer to Mr. Chandler, who has shown great interest in this Subcommittee.

Mr. GALLEGLY. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman and Mr. Ranking Member, I appreciate that. I will just ask one question.

I am very curious about what we are seeing in the way of corruption in some of these countries and how it is affecting our efforts to help with a move toward democracy and a vibrant market economy.

Could you give me an idea about what you have seen in terms of corruption, and is it getting better in some of these countries that are graduating, and how would that manifest itself?

Mr. ADAMS. Thank you, I will take the first crack at this. I am sure Drew will have some things to add.

I think if you asked me what the biggest problem was of these countries making the transition, I would say corruption. Corruption is a huge problem, and it is not an easy one to deal with. The best way to deal with it is to have a new government, like in Georgia, which is firmly committed to ending the corruption that existed there. Corruption there was very deep and very serious under President Shevardnadze. President Saakashvili has done a good job of cutting corruption. One sign of this is their governmental revenues which have increased fivefold without any real tax increases. They have just closed off all the theft of government monies.

Where you don't have that situation, I think similarly the new Ukrainian Government is committed to fighting corruption. And where you have that situation, it is pretty easy for us to go in and help them set up good civil service programs and set up independent investigators, all the things that we do in this country.

Another important element, all the countries that have made a successful transition to democracy have not had rubber-stamp Parliaments. In other words, one of the things that keeps us in the Executive Branch honest is the oversight that you provide, and there are checks and balances on you and on the judiciary, and so forth, that don't exist in these countries. Curing the judiciary is usually the toughest problem though, and it is one we still face.

Where we can't deal with a central government, we often will work with local governments. Often there are mayors and others who are willing to provide honest governmental services and we support them. We also work with NGOs.

We have a variety of mechanisms to try to bring democracy to these countries. We key on elections. Elections are very important and you never know when things are going to tip in elections. I think no one would have predicted the tipping that occurred in Ukraine or even in Georgia in advance. But we try, and we are often surprised at the results.

So there is a variety of things, both long term and short term. USAID has some very good programs in this area, things like helping come up with good budgets, transparency in budget processing, accountability, and so forth. I will let Drew describe some of those.

Mr. LUTEN. Yes, you are right. I will second what Tom was saying, that corruption is an issue across the region. It is an issue in a lot of the developing world that hampers development, really, in all sectors.

What is striking to us is we see it and we also see opportunities to address it, not just in business dealings but in all areas where government interacts with the people. In the countries where there is corruption in the education systems, for example, people basically buy college degrees, or where there is corruption in health-care, under-the-table payments can get services or a higher position for receiving services. We take an approach that addresses corruption as a cross-cutting problem and a cross-cutting theme in terms of all of our assistance programs, looking for opportunities to reduce petty corruption as well as grand corruption.

One of the things that Coordinator Adams mentioned, as it happened in Georgia, the Millennium Challenge Account has provided an incentive effect for countries to try to address their corruption issues. One of the things that got Georgia selected for Millennium Challenge Account assistance was that they had just recently, after the change of government which was an important factor, taken several steps to control corruption in customs and other areas.

So I would say we are regularly pushing, we are looking for opportunities for countries that are willing to tackle those issues, and trying to provide them the type of assistance needed to deal with it. But it is cross-cutting. It is not isolated in a country or in a particular place in any country, and that makes it a very serious challenge, but one in which progress is being made slowly.

Mr. GALLEGLY. I know Mr. Wexler has one quick question. I would like for the record, with your indulgence and concurrence of the Subcommittee, leave some questions open to be submitted to you and they can be made part of the record of the hearing. Because of the short duration of the meeting today, I think it is very

important. You have really hit on some important things and there are some things that we have that are equally important.

Mr. WEXLER. Just quickly, if you wouldn't mind, it seems to me there really is no more important goal than at this point assisting the governments in Georgia and in Ukraine. Their success, or lack of it—hopefully there will be great success—will reflect greatly on both America and the EU's true commitment to building democracy.

You had mentioned that we apparently just signed this agreement with Georgia in New York, I believe.

Can you just give us the highlights of what we might see in the next year from this agreement, what kind of programs will be a part of it?

Mr. LUTEN. This is an agreement. It is the compact that was signed between the Millennium Challenge Corporation, which is a separate agency but related to ours, and the Government of Georgia. It includes several components. It includes substantial funding for a main arterial road and some secondary roads, so it will be improving a main thoroughfare that will affect commerce in the country. It includes funding for agricultural development that I think will be in the regions where the secondary roads are built, or at least that is the discussion at the detail level as they coordinate these aspects of the program.

There is support for a pipeline that the Georgians own so that they can operate it efficiently to meet the needs of the country. One of the problems in Georgia over the years has been getting adequate energy during the winter to keep homes heated. So it is a major undertaking, and it compliments what we have been doing in Georgia over the years.

Prior to the change of government we had a nongovernment-oriented program. Upon the change of government in Georgia and in response to requests from the new government, USAID, working with the Embassy and working with Tom's office, has been able to provide advisers to the Prime Minister's office and the President's office as well as several key ministers. We are being very responsive to help them do what they need to do to be good officials, good responsible leaders.

Mr. WEXLER. If I may, very quickly, Mr. Chairman. Don't underestimate the importance of the USAID signs that say "From the American people" on the bottom. I was in Indonesia in August, and how phenomenal it was to see those signs plastered—as obviously you have one on today—and the importance of those signs, when they are deserved. I asked some Indonesians what they felt about the signs. I know how I felt as an American, proud and so forth. But I asked how they felt. The level of the positive response was incredible. One person even told me that they had their own sign that they had put up that said "The Americans are here. Where is bin Laden?"

But that aside, don't underestimate the importance of your signs, because they are phenomenal.

Mr. LUTEN. That is heartening to hear. We have a policy to brand what we do, to publicize what we do, wherever we can and whenever we can. Understanding that there are going to be some security issues in different countries and some local issues that

need to be dealt with, but we want to let people know that we are out there trying to make a difference, trying to help them improve their lives.

Mr. GALLEGLY. Thank you for being here today. Mr. Chandler, thank you, and Rob. When Chairman Hyde calls, we heed his request. Thank you very much. As I said before, we would like to make a part of the record any questions that Members might have, in a timely fashion, and your responses. Thank you very much.

The Subcommittee stands adjourned.

[Whereupon, at 2:05 p.m., the Subcommittee was adjourned.]

## APPENDIX

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

RESPONSE FROM MR. THOMAS C. ADAMS, COORDINATOR OF U.S. ASSISTANCE TO EUROPE AND EURASIA, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, TO QUESTION SUBMITTED FOR THE RECORD BY THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE AND EMERGING THREATS

*Question:*

*Please find attached a letter I recently received from an official at a company that is investing in Ukraine. The letter raises important issues regarding the treatment of an American investor in that country. I would appreciate an investigation into the specific issues raised in the enclosed letter from this American company. In addition, please provide me with your overall assessment of the business and investment environment for American businesses doing business in Ukraine.*

*Response:*

As an emerging market, Ukraine presents both rich opportunities as well as potential risks that companies must weigh when—in keeping with common due diligence practices—conducting their risk assessments to decide whether to choose Ukraine for future investment projects. Ukraine offers U.S. companies a market of 47 million consumers, an educated workforce, competitive wages, strong industrial sectors, abundant natural resources, and a strategic location bordering Russia, the EU and the Black Sea. However, corruption, lack of transparency, and a poorly functioning judicial system have deterred some foreign investors. The 2006 World Bank “Doing Business” Report, based on surveys of local lawyers and business people, ranks Ukraine in the lower quartile of 155 countries in terms of the ease of doing business.

Ukraine’s Orange Revolution offers hope for both political and economic stability. We have seen increased media freedom and protection of human rights in the past year. Ukraine has also made some progress in combating the scourge of corruption. Much remains to be done, and we are encouraging the new government to redouble anti-corruption efforts. Similarly, the new government must regain momentum on vital economic reforms. It is our hope that Ukraine will take concrete measures to strengthen the principles of a market economy. To that end, Ambassador Herbst and our Embassy in Kiev continue to impress upon Ukrainian government officials the importance that the United States places on the protections provided U.S. investors in Ukraine by the United States-Ukraine Bilateral Investment Treaty (BIT). Resolution of long standing investment disputes consistent with the rule of law and WTO membership criteria will be a strong signal of the government’s intent to put Ukraine on the path to a free market economy.

Our Embassy in Kiev has worked with representatives of Worldwide Chemical in order to ensure that the company receives fair and nondiscriminatory treatment in the Ukrainian courts. Such treatment is important both for Worldwide Chemical and for developing a healthy investment climate in Ukraine. We continue to monitor the case closely. Should Worldwide Chemical believe that the actions of the Government of Ukraine violate the BIT, the company may be able to seek recourse through international arbitration provided for by that treaty. Such a determination must be made by the company and its counsel.

RESPONSE FROM MR. THOMAS C. ADAMS, COORDINATOR OF U.S. ASSISTANCE TO EUROPE AND EURASIA, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, TO QUESTION SUBMITTED FOR THE RECORD BY THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY AND VICE CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

*Question:*

*It is our understanding that three UN-run camps in northern Mitrovica in Kosovo housing several hundred ethnic Roma have for some time been known to be contaminated by dangerously high levels of lead. Despite the clear danger, the inhabitants of these camps have not been moved to a safer location. There are several reasons for the delay but a large part of the problem is needed funding for temporary relocation and the rebuilding of their original neighborhood in southern Mitrovica. What is the State Department doing to address this problem, and when will these people be relocated?*

*Response:*

The Department of State's has allotted \$1,000,000 of AEEB funding to assist the UN Administrative Mission in Kosovo (UNMIK) in relocating temporarily approximately 600 Roma, Ashkali and Egyptian internally displaced persons (IDPs) currently living in three lead-polluted camps in northern Kosovo. Specifically, funding will help support the building of temporary housing structures and the infrastructure to support this temporary settlement. An initial AEEB grant of \$114,000 was provided to UNMIK in September to cover an environmental assessment, remediation plan and for initial construction costs. In addition, the Bureau of Population, Refugees and Migration has allocated \$68,000 to UNICEF for a health/education awareness program for residents of the camps.

The seriousness of lead pollution within three IDP camps in Kosovo came to the forefront of the international community's attention following the release of a series of World Health Organization (WHO) reports and findings in 2004 that noted dangerously high blood lead levels in the residents of these camps. Due to the elevated lead levels, WHO, UNHCR, and UNMIK all support the evacuation of the lead-polluted camps as soon as it is feasible. The U.S. contribution supporting temporary relocation will help improve the health of this community while UNMIK reconstructs permanent homes, which were destroyed in the wake of the Kosovo conflict in 1999. With KFOR's assistance, the Kosovo Protection Corps with KFOR's assistance has begun removing rubble from the originally-destroyed neighborhood, but a lack of additional funding has delayed the reconstruction process.

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RESPONSE FROM MR. DREW W. LUTEN III, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, TO QUESTION SUBMITTED FOR THE RECORD BY THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE AND EMERGING THREATS

PRE-ELECTION AND EXIT POLLS

*Question:*

*Can you address whether USAID has provided financial support to polling organizations that have conducted counterfeit polls in either Azerbaijan or Albania, potentially distorting the fairness of the democratic process we are trying to support?*

*Response:*

As part of all of its Democracy and Governance programs, USAID seeks to ensure free and fair electoral processes. USAID recognizes the value of both pre-election and exit polls as a valuable tool for both understanding citizens' preferences and for providing oversight over electoral processes. It also understands the importance of identifying credible, professional, and responsible organizations to carry out these polls. Federal acquisition law and USAID contract/grant regulations and practice mandate that USAID work only with responsible entities. Our work supporting the conducting of public opinion polls is no exception.

USAID did not fund either of the polls referred to in the question.

