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Middle East and North Africa Subcommittee

“The Middle East and North Africa FY 2014 Budget: Priorities and Challenges”

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Chairman Ros-Lehtinen, Ranking Member Deutch, and members of the subcommittee: thank you for the opportunity to discuss USAID’s FY 2014 budget and the efforts we are making to meet development needs and continue to address U.S. national security interests in the Middle East. In this constrained budget environment, USAID’s assistance—as part of a broader, coordinated U.S. Government effort—is an effective investment in the long-term safety, security, and prosperity of this critically important and rapidly evolving region. As such, it is an investment in our own economic health and national security.

Over the last thirty years of my career, I have had the privilege to serve across four government agencies, focusing on the Middle East. I know firsthand that it is a region of great hope and opportunity, but one that faces daunting challenges, especially in this transition period. Two years after the Arab Spring, we have seen progress and we have seen setbacks. We must remember democratic transitions take time—it’s a messy process—but the common desire for dignity, opportunity and self-determination that originally spurred people to action continue to drive the transitions across the region. For the past two years, USAID has supported countries as they write new constitutions and reform institutions, as they carry out

free and fair elections, and as citizens advocate for increased participation in the political process.

But today, the economic frustrations that moved people across the region to protest in the streets are still alive. The International Monetary Fund forecasted last year that most of the countries where USAID works in the Middle East will continue to have tepid economic growth in 2013. Unemployment among young people—who make up 30 percent of the region’s population—remains very high. The political changes these youth helped bring about carried high expectations that the economic challenges they faced also would be addressed—rapidly—and their personal situation would improve—quickly.

We understand that the economic and political situations in each country are intertwined and interdependent; just as we know that addressing other issues, like humanitarian needs, health, and access to water are all critical for allowing people and countries to thrive. While the countries of the Middle East confront similar challenges, they are each experiencing their own unique and difficult transitions. That is why USAID’s approach to support for the region is both comprehensive and targeted. We tailor our assistance to meet each country’s needs and aspirations.

USAID has been and continues to respond by helping the people of the region to secure peaceful transitions to participatory democracy, facilitate more inclusive economic growth for all, and grow and strengthen civil society. Since January 2011, the State Department and USAID have allocated more than \$1.8 billion to support the democratic transitions in the Middle East and North Africa and respond to emerging crises. To ensure the effectiveness and sustainability of our assistance, we continue to direct our efforts and resources toward citizens and local

organizations, to diversify partnerships across the region, and to pursue political and economic reforms.

Before I get into the specifics of the FY 2014 request, I'd like to give you a snapshot of some of the work we have been doing. For instance, in Tunisia we supported the recruitment and deployment of approximately 2,000 Tunisians to observe the Constituent Assembly elections and ensure that all operations related to voting were consistent with international standards for democratic, honest, and free elections. We developed and implemented a \$250 million loan guarantee for Jordanian small-to-medium-sized enterprises in collaboration with the Overseas Private Investment Corporation (OPIC). With extensive technical support from USAID, five Jordanian Banks signed Guarantee Facility Agreements with OPIC, resulting in \$4 million in loans to date. In Egypt, our early grade reading program improved fluency by 91 percent in pilot schools after 6 months of implementation, and the scaled-up project now reaches 1.4 million students in all grade-one classrooms across Egypt. USAID-funded legal clinics in Iraq have supported over 1,700 legal cases on behalf of vulnerable individuals such as female-headed households, internally displaced persons, and ethnic and religious minorities. In Lebanon, we installed water chlorination systems in 14 potable water pump stations, allowing more than 100,000 people in the Bekaa Valley to receive safe drinking water. Our investments are an important component of the assistance needed to help these countries through the challenging transitions they face, and it is in our interest to shape the development of democratic institutions and open economies in the region.

As Secretary Kerry and Administrator Shah have both testified, we are focused on making smart and sustainable investments in a difficult budget environment. The

USAID-managed portion of the budget request for FY 2014 in the region is \$1.2 billion, which represents a decrease of \$340 million from the FY 2012 level. The Administration has also requested \$580 million for the Middle East and North Africa Incentive Fund (MENA IF), which is a macro-level tool that will allow us to more nimbly support the transitions that are taking root and show our commitment to the people of the region. The MENA IF request also includes funding for USAID's Middle East Regional program. At a level of \$30 million, the USAID Middle East Regional program represents USAID's focused programmatic approach to address trans-boundary issues such as water scarcity and trade and investment and will also strengthen USAID's technical expertise. This platform will also provide USAID assistance to Libya, where there is no USAID mission, in support of local justice and security reform, elections, civil society, small and medium enterprises, and women's empowerment.

The budget request reflects our commitment to helping governments be more responsive to the needs of their people through democratic governance and institutions, inclusive economic growth, a thriving civil society, modernized education and health systems, and addressing the needs of vulnerable populations, including women and youth.

As I turn to look at some of our key programs, I want to begin with an issue that I know is on all of your minds—the crisis in Syria and its impact on the region.

The situation in Syria has emerged as a full-blown regional crisis with severe humanitarian, economic, and political consequences for that country and for the region. Since the beginning of 2013, the number of Syrians seeking refuge in neighboring countries has sharply increased. More than 1.5 million Syrians are

now registered as refugees or are awaiting registration in neighboring countries while, inside Syria, an additional 6.8 million people are in need of humanitarian assistance. The U.S. Government is providing nearly \$514 million in humanitarian assistance to support those affected by the conflict. As Secretary Kerry announced in April, we are also committing \$250 million in non-lethal assistance to the Syrian Coalition, including food, medical kits, and support for local leaders who are trying to lay the groundwork for a stable and a democratic future.

At the same time, we are working to address the conflict's impact on Syria's neighbors. The increasing refugee influxes into Jordan and Lebanon are putting a strain on these two countries' service delivery capabilities and impeding their economic growth and domestic political reform processes.

During his visit to Jordan in March, President Obama reaffirmed the strong U.S. commitment to Jordan and to our shared focus on security and peace in the region. He re-committed the United States to supporting Jordan as it deals with the Syria conflict and the flood of refugees from across its border. Our FY 2014 request for Jordan is \$360 million, which will allow USAID to continue providing support directly to the government and to expand our existing programs to help host communities cope with the strain on their resources. I visited Jordan this month and saw firsthand how our water projects, hospital renovations, and new schools are helping local communities ease the stress of this influx of Syrian refugees. The parents I met at the new school we built in Mafraq were so appreciative of the new facilities and of U.S. support.

At the same time, we will also continue to provide direct budget support to the Jordanian government and conduct activities to address issues such as early grade

reading, inefficient use of water in the agriculture sector, helping communities identify and address local priorities, and promoting gender equality and female empowerment.

USAID also has expanded some of our existing programming in Lebanon to support host communities most heavily affected by the Syrian crisis, and we are evaluating potential new efforts. Meanwhile, as we continue to promote a sovereign, stable, and independent Lebanon, fiscal year 2014 assistance will provide support for our ongoing programs focused on economic growth, water and sanitation services, municipal governance, civil society, and basic and higher education nationwide.

Now, I'd like to share with you our assistance to the political transition countries. Egypt remains one of the most crucial priorities in terms of support for regional stability and Middle East peace. We will continue to work with the Egyptian people and their government to address their legitimate aspirations during this historic transition period. Since the start of the January 2011 revolution, USAID conducted a thorough review of our assistance to ensure that we are making smart investments on behalf of U.S. taxpayers. Our portfolio focuses on responding to citizens' demands for jobs, accountability, and rights. In FY 2014, with a budget request of \$250 million, we will seek to expand our democracy and governance programs, continue to strengthen civil society, and improve the health, education, and agriculture sectors. Our assistance also includes \$60 million to further capitalize the Egyptian-American Enterprise Fund.

As Secretary Kerry said in his hearings earlier this spring, the revolution in Egypt was "based on the aspirations of millions of young people." This game-changing

demographic moment in Egypt's history demands action, and we are doing just that through the new U.S.-Egypt Higher Education Initiative. This initiative will support and directly engage Egypt's young people to build skills that will lead to jobs in key fields needed for today's global economy. The initiative reflects our desire to provide expanded higher education opportunities for Egypt's young people, especially women and underprivileged students, and to improve the quality of Egyptian education through university partnerships. Working closely with the private sector, the program will provide thousands of Egyptians with access to higher education in Egypt and the United States and support university partnerships in key fields to power Egypt's economic growth. Participating U.S. universities will be enriched through more research opportunities and wider networks for collaboration.

In Tunisia, with our FY14 request of \$30 million, we will continue to support the political transition process through programs in economic and political reform, educational outcomes linked to market demands, open and transparent governance and political processes, and private sector investment and growth. For example, through the Tunisia Information and Communications Technology (ICT) Competitiveness Project, we are supporting the ICT sector to become a catalyst for accelerated private sector growth and job creation. The project aims to create 2,000 jobs in the near term and thousands more over the medium term by leveraging private investment and addressing key growth constraints. We are also helping to address gaps in financing for entrepreneurs and small businesses that overwhelmingly drive Tunisian private sector growth by continuing to capitalize the Tunisian-American Enterprise Fund.

Yemen, another country undergoing political transition, faces some of the biggest challenges: the highest illiteracy, unemployment, and mother and child mortality rates in the region; and much of the country struggles under dire humanitarian conditions. Yet, despite these obstacles, the country is progressing under the framework of the Gulf Cooperation Council initiative for a two-year political transition process. Earlier this year, on March 18, the people of Yemen launched an inclusive National Dialogue Conference, which will lead to a constitutional review and culminate in national elections in February 2014. This six-month National Dialogue represents the first time in Yemen's history that such a diverse group has come together to discuss the country's future. President Hadi and other Yemeni leaders have emphasized these deliberations will, in many cases, mark only the beginning of a national conversation on decades-old disputes, and on substantial development challenges. Our FY 2014 request of \$54 million represents a \$9.9 million increase from FY 2012 and will allow us to assist the transition through support for constitutional review and referendum, as well as elections and voter registry reform. We are also helping the government improve its maternal and child health care services and family planning health services, as well as quality of and access to basic education and early grade reading, especially for girls.

In Libya, U.S. assistance will continue to support a peaceful democratic transition, focusing on developing governance and security institutions to help stabilize the country and protect the rights of all Libyans, supporting an emerging civil society and engaged citizenry, and promoting a transparent and open economy with expanded economic opportunity. While Libya has significant resources of its own, our targeted investments in these areas will support a path toward a stable, secure democratic future. More specifically, with \$9.5 million requested under the Middle

East Regional account, activities will include supporting the drafting of the first, post-Qadhafi constitution and the creation of strong, accountable governing institutions; promoting voter registration, especially for women and marginalized groups; supporting justice and security reform; and promoting women's empowerment and training opportunities for emerging entrepreneurs.

Morocco is still experiencing a quiet transformation, and we continue to support the government's plans for job creation, improved educational opportunities, and social inclusivity for women and youth. With a strong emphasis on increasing the economic participation of Morocco's large youth population, our assistance focuses on helping the government eliminate the drivers of instability. USAID activities support reforms in the areas of democracy; civic participation, particularly among marginalized groups; workforce development; and basic education and literacy training.

Another area of strategic importance is our work in the West Bank and Gaza. The United States' goal is to achieve a negotiated and sustained two-state solution to the Israeli-Palestinian conflict. We seek to operationalize this through two tracks: (1) negotiations between the state of Israel and the Palestinians to establish a Palestinian state, and (2) support for Palestinian institution building so that the new state has a capacity to govern, and to help ensure security, stability, and needed services. USAID's work is critical to the implementation of this second track, and we've requested \$370 million in fiscal year 2014, which represents a \$25.7 million reduction from the FY 2012 request.

USAID's program in the West Bank and Gaza supports Palestinian institution building by providing assistance in the areas of democracy and governance;

education; health and humanitarian assistance; private enterprise; and water resources and infrastructure. USAID will also provide direct budget support to the Palestinian Authority (PA); this is among the most direct and immediate means of helping the PA maintain and build the foundations of a viable, peaceful Palestinian state.

Finally, I would like to talk briefly about Iraq, where we have invested both significant time and resources over the last decade and have seen a lot of changes. In FY 2014 we will see a major recalibration of assistance in Iraq from our FY 2012 level. As such, USAID has not requested any funds in FY 2014 for programs in Iraq. However, existing funds will be used to support key areas of economic development and good governance as outlined in the U.S.-Iraq Strategic Framework Agreement. With national elections in 2014 and the need for a diverse economy that provides broad based prosperity, USAID will focus its assistance on supporting vulnerable populations, strengthening civil society, improving governing institutions, further entrenching democratic practices, and promoting private sector development. Like other U.S. government agencies, USAID is adjusting its presence to the prevailing circumstances and to make it comparable to other key diplomatic posts around the world.

As Secretary Kerry said in his testimony last month, the Middle East and North Africa is “a region struggling to respond to its citizens’ growing expectations for dignity and opportunity, the very values that we have been promoting, they’re trying to embrace. Leaders there are making difficult decisions, and the United States cannot make those decisions for them, but we can do a lot to be a partner for all those on the side of freedom and democracy.”

I am confident the President's FY 2014 budget, including the investments we have proposed, lays the groundwork for USAID to address the challenges and advance the beneficial change we have begun to see in the Middle East and North Africa; thus supporting a regional stability vital to our own security.

I appreciate the opportunity to appear before you today, and I'm happy to answer your questions.