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Subcommittee on Europe, Eurasia, and Emerging Threats,
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“Fiscal Year 2015 Budget Request for Europe and Eurasia”
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Mr. Chairman, Ranking Member Keating, distinguished Members of the Subcommittee, thank you for inviting me to testify before you today regarding the Administration’s Fiscal Year 2015 budget request for the Europe and Eurasia region.

As members of the Subcommittee well understand, the mission of the U.S. Agency for International Development (USAID) is to partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. Foreign assistance is a vital tool in the effort to realize the U.S. foreign policy goal of a Europe whole, free, and at peace. In accordance with the Department of State-USAID Joint Regional Strategy for Europe and Eurasia, the President’s \$492.3 million budget request for assistance to the region will be targeted to support democratic, economic, security, justice-sector, and other reforms – particularly those necessary for Euro-Atlantic integration. Of this total, \$316.1 million is Economic Support Funds (ESF) and \$7.5 million is for USAID’s Global Health Program. USAID manages the majority of the ESF funds, and the Department of State manages the rest.

Over the past two decades we have witnessed significant progress toward these goals including in many countries in Europe that have embraced political and economic reform, leading to vibrant growth and inspired democratic transformations.

From USAID’s 24 original partner countries in Europe and Eurasia, 11 have graduated from our assistance, 17 have joined the World Trade Organization, 10 have acceded to the E.U., and 12 have joined NATO. The 11 countries that have graduated from our assistance are some of the U.S.’s strongest allies and are now providing their own economic assistance in the region.

In the countries in our region still receiving assistance, progress has been made toward these goals in some areas, but many of the gains are tenuous, and much remains to be done to sustain that progress. Serious concerns remain, including democratic backsliding, fragile financial sectors, high unemployment, infectious diseases, ethnic violence and tension, volatile conflicts, energy insecurity, and corruption. Perhaps most notably, we have seen Russia adopt a new, more aggressive posture that has destabilized Ukraine, led to their illegal occupation of Crimea, and threatens to undermine the basis for economic growth and political development across the former Soviet space.

The Fiscal Year 2015 request for Europe and Eurasia addresses continuing and emerging U.S. policy objectives, while also recognizing global budget constraints. From the very beginning of USAID's assistance programming in the Europe and Eurasia region, supporting the creation of strengthened, inclusive democratic institutions and vibrant, broad-based economic growth have been central objectives of our work. USAID data shows a strong correlation between threats to democracy and financial instability in Eurasia. USAID focuses on both sectors because experience teaches us that, over time, progress in one sphere supports progress in the other.

The U.S. Government continues to be concerned with increased backsliding on democratic freedoms in Russia, Azerbaijan, and Belarus. Closing space for civil society activity, however, has been a particular problem in a larger group of countries, as their governments have imposed restrictions on these groups and organizations. In Bosnia, for example, reforms have stalled, contributing to recent violent protests and popular demands for increased government accountability.

Ukraine offers a prime example of how USAID support for civil society and media groups helped limit government pressure on freedom of expression and association. Our media program implementers played a critical role in monitoring and reporting on attacks on journalists and on government actions throughout the EuroMaidan protests, as well as providing legal consultations to over 60 media professionals who were victims of these attacks.

Partnership with other donors, international and regional non-governmental organizations, and the private sector is crucial to achieving our goals and the sustainability of our programming. In response to the crisis in Ukraine, USAID continues to work in close coordination with our partners in the European

Union, especially the United Kingdom, and the EU's six Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine). Throughout the region, our programs are closely aligned with the objectives of the Eastern Partnership, and we leverage extensively with bilateral donors, particularly the Swedish International Development Agency (SIDA). In Fiscal Year 2013 alone, USAID leveraged \$27.4 million through public-private partnerships in the Europe and Eurasia region. The \$27.4 million are funds provided by host nations or private entities in addition to appropriated funds obligated for specific projects or programs.

Before turning to the Ukraine crisis and our assistance response to it, it is worth keeping in mind that USAID has had a longstanding, multifaceted engagement with Ukraine since its independence in 1991. Over that time, USAID has contributed approximately \$2 billion to promote a more stable, democratic, and prosperous Ukraine, including programs to encourage economic reforms; support more democratic, accountable governance; combat HIV/AIDS through PEPFAR; combat tuberculosis; support the multi-year U.S. pledge to clean up and secure the Chornobyl site; and promote clean energy. While political instability and corruption have been a problem, we have had successes. For example, we have helped Ukraine meet critical energy needs through our Municipal Heating Reform Project, which enhanced the capacity of nearly 40 Ukrainian municipalities to plan, manage, and fund the development of heating systems, while strengthening the national legal, regulatory, and institutional framework to improve heating services.

Recent events are momentous for Ukraine, and the response of the U.S. government will be critical not only to Ukraine's future, but to the region's future as well. The United States is working with our international partners to provide urgently needed support to Ukraine's people and economy as they face the current crisis. Our approach is to support the goals and aspirations of all of the people of Ukraine for peace, prosperity, freedom, and human dignity -- what so many Ukrainians were demanding on the Maidan.

Prior to the current conflict, the Administration requested \$94.3 million for assistance to Ukraine for Fiscal Year 2015. Since the start of the crisis, the United States has targeted assistance to address Ukraine's most pressing needs. With FY 2015 funding, we will continue to do so and to help Ukraine to make needed reforms in the medium- and long-term. Years of economic mismanagement have left Ukraine with a heavy debt burden, weak regulatory

oversight of financial institutions, an indebted energy sector, and an uncompetitive business climate.

In addition, Russia's destabilizing actions in the eastern part of the country are impeding the trade and investment that a healthy economy requires. Moreover, Ukraine's inefficient and Russian natural gas imports-dependent energy sector continues to be a significant drain on Ukraine's financial resources.

U.S. assistance is focused on four areas: supporting inclusive economic reforms; supporting constitutional reform, decentralization, and parliamentary elections (expected by the end of this year); combatting corruption, including supporting improved rule of law and judicial reform; and helping Ukraine withstand politically motivated trade actions by Russia, including those in the energy sector.

While this hearing focuses on the Fiscal Year 2015 request, I want to take a moment in the context of the Ukraine crisis to summarize the Administration's efforts to provide additional assistance to Ukraine using existing resources.

Following Ukrainian President Petro Poroshenko's discussions with President Obama on June 4 in Warsaw, Vice President Biden announced on June 7 an additional \$48 million in assistance to help the Ukrainian Government conduct key reforms, build its law enforcement capacity, and strengthen national unity.

In addition, the U.S. Government has provided the \$1 billion loan guarantee, authorized by Congress -- and I want to thank this Committee for its support for that important legislation -- the agreement for which was signed on April 14. We have also provided a \$50 million crisis-response package announced by Vice President Biden on April 21, and \$33 million in security assistance. When added to previously budgeted funds, the United States is providing over \$194 million in assistance to Ukraine this year, in addition to the loan guarantee. A portion of these funds still need to be notified to Congress. You will see details of our program plans in the coming weeks.

This \$1 billion U.S. loan guarantee has enabled the Ukrainian Government to access affordable financing from international capital markets. This will support the country's financial stability, save hundreds of millions of dollars in interest payments, and strengthen its ability to protect its most vulnerable citizens from the impact of necessary economic adjustments by supporting expansion of the

social safety net. These targeted activities complement long-term U.S. assistance programs designed to support systemic reforms and build institutional capacity across a range of sectors.

Mr. Chairman, Ranking Member Keating, members of the Subcommittee, thank you again for this opportunity to testify on the Fiscal Year 2015 budget request for Europe and Eurasia. USAID has long track record of successful assistance to countries in this region, and we are fully engaged in providing further necessary assistance at this critical moment. This concludes my prepared testimony, and I welcome your questions.