

Statement of the Honorable Margot Ellis
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House Foreign Affairs Subcommittee on Europe, Eurasia, and Emerging Threats
“Examining the President’s FY 2018 Budget Proposal for Europe and Eurasia”
July 25, 2017

Chairman Rohrabacher, Ranking Member Meeks, on behalf of the U.S. Agency for International Development (USAID), I would like to thank you for this opportunity to testify today on the President's Fiscal Year (FY) 2018 budget request for Europe and Eurasia.

In many ways, the Europe and Eurasia region is a USAID success story. The region as a whole has undergone an historic transformation in the short time since the collapse of communism. Young countries have overcome tremendous social, political, and economic hurdles to chart a new course for their citizens, guided by free markets and democratic principles. Of 24 original partner countries, half have graduated from USAID assistance and have successfully joined the Euro-Atlantic community through institutions such as NATO and the European Union (EU). Many of these countries are now among our closest allies and have become important trade partners. U.S. exports to these graduates have had a fivefold increase in twenty years, growing from over \$2 billion in 1995 to over \$10 billion in 2015. This rate exceeds the growth of U.S. exports worldwide. These countries are thriving, and many have become donor countries themselves. USAID is a proud partner to this change.

Progress in the region, however, is uneven. Important achievements are at risk and intractable issues remain. The Balkans, the Caucasus, Moldova, and Ukraine are subject to influence, interference, and infiltration by America’s rivals. Radicalization and violent extremism, economic slowdowns, democratic backsliding, and Russia’s expansionist and disruptive foreign policy are all potential threats to regional stability and U.S. national security interests.

U.S. assistance remains an important national security instrument in realizing the overarching goal of a Europe whole, free, and at peace. This is why USAID is committed to assisting countries in the region on their path to democratic consolidation, economic independence, and Euro-Atlantic integration. Our efforts are focused on supporting economic, energy, justice-sector and democratic reforms that foster resilient, democratic societies able to advance our shared security and prosperity.

Ukraine, Georgia, Moldova

Russia’s aggression and continued occupation of parts of Georgia, Moldova, and Ukraine infringes upon international principles of sovereignty and territorial integrity, and threatens each country’s declared priority of Euro-Atlantic integration. USAID will continue to support these countries in their right to chart their own futures as they undertake critical reforms to strengthen their political systems, economies and resistance to Russian pressure.

In Ukraine, the Administration’s foreign assistance request of \$203.8 million demonstrates that Ukraine remains a top priority for the United States. Success in Ukraine is critical for the country’s own future and

that of its neighbors, just as Ukraine failing to follow through on reform would likely cause a domino effect of instability in Europe and Eurasia and present serious concerns for our own national security. As the country grapples with the challenges following the 2014 Revolution of Dignity, Ukraine has a unique opportunity to solidify its trajectory toward becoming a prosperous, democratic state governed by Western values; otherwise it could backslide on progress made to date and fail to deliver on the promise of a better future for its citizens. The challenges ahead are compounded by intense political, military, and economic pressure from Russia, including a relentless information war to undermine Ukrainian stability. Yet, possible signs of change are on the horizon. While the forces resistant to change remain entrenched in many parts of the political milieu, economy and society, and continue to oppose meaningful reforms, the pro-Western government seeks continued U.S. support to decisively shift its course to that of a prosperous, democratic state governed by European values and integrated into the global community.

USAID programs will help stabilize Ukraine by promoting the rule of law, countering Russian disinformation and strengthening civil society, and increasing Ukraine's energy independence and strengthening the energy sector's cyber security. The fight against corruption is front and center in Ukraine's reform efforts as well as in U.S. assistance. The international community, along with Ukrainian civil society, plays a key role in these governance reforms, and continues to apply significant pressure on the Government of Ukraine to move forward on its anti-corruption reform agenda. While the pace of reform is slow, recent changes to the Ukrainian Constitution empower the judiciary to have greater independence and accountability, and could pave the way for future progress.

The humanitarian needs in eastern Ukraine are great. The ongoing conflict has left 3.8 million people in need of aid. In FY 2016 and FY 2017, the United States provided more than \$66.438 million in humanitarian aid to support access to safe drinking water, emergency shelter materials, hygiene kits, and other critical relief supplies. While ensuring that humanitarian relief is provided, USAID will also start transitioning toward providing its support to increasingly traditional development assistance that will be required for the resilience of the country. USAID assistance has played a critical role in responding to evolving developments in Ukraine. The FY 2018 request will ensure the U.S. Government continues to support Ukraine at this critical juncture as it navigates a challenging path toward becoming a stable, democratic state.

In Georgia, the President's foreign assistance request of \$34.1 million represents a significant U.S. investment in the country's future as a strong, democratic, strategic, and prosperous partner in the South Caucasus. Georgia has made great strides toward Euro-Atlantic integration, holding two free and fair elections, signing an EU Association Agreement, and earning visa-free travel to the EU. The programs in the FY 2018 budget will build on this progress. USAID support to Georgia will improve democratic governance, expand private-sector competitiveness, and foster an economic environment that is fair, transparent, and attractive for foreign investment from U.S. and Western businesses. To date, USAID has also helped to open up new markets in the West for Georgian businesses, which diminishes reliance on any one trading partner. In agriculture, privately-run processing, mechanization, and farm service centers established with U.S. assistance ensure the sustainable provision of mechanized services, agricultural inputs, and technical advice for farmers and agribusinesses across rural Georgia. In 2016 alone, USAID agriculture assistance generated over \$43 million in new sales by primary producer firms and processing companies. Sustainable economic growth in this manner will strengthen Georgia's European integration.

The President's budget foreign assistance request of \$20.3 million for Moldova will advance key political reforms ahead of Moldova's parliamentary elections, scheduled for 2018. Our focus on improving the business climate will build public support for reforms by tackling corruption and increasing transparency, broadening economic opportunity, and improving the standard of living for ordinary Moldovans. This past year, USAID assistance helped Moldovan agricultural producers reduce dependency on the Russian market by expanding and diversifying into new EU and Middle East markets. With support from USAID, the Moldovan government reported an 86 percent increase in the dollar value of high-value agricultural exports to non-traditional export markets over the last six years. Sustained progress in these areas, coupled with support for reintegration with Transnistria, will result in an increasingly stable, economically sound, and secure Moldova that is anchored in ties to the West.

Western Balkans

Despite real signs of progress in the western Balkans -- fragile institutions, unreliable rule of law, poor governance, and restricted media endanger these young democracies and create vulnerabilities to destabilizing actors. The region faces multiple threats, including violent extremists, organized criminal groups, and malign foreign players, especially Russia, which has demonstrated time and again its intent to undermine the region's efforts toward Euro-Atlantic integration.

Political fragility puts the successful transition of western Balkan countries at risk. For example Bosnia's tenuous Dayton Accords system of governance is outmoded and fracturing. Kosovo, Europe's newest state, is not recognized by Serbia and five EU member states, and peacekeepers remain stationed in the country nearly two decades after fighting ended. Public sector corruption is a substantial impediment to governance. Countries across the region score poorly on Transparency International's corruption perceptions index, reaching as low as 36, in the case of Kosovo, on a scale of 0-100. Entrenched and corrupt political elites stymie reforms and foment popular discontent and disillusionment with democracy, which Russia increasingly exploits. Heightened ethnic and ideological tensions run high across the western Balkans and divert attention from and progress in reforms, a situation perhaps best illustrated in Macedonia. Still, there is cause for optimism. Over the past six months alone, four Balkan countries have held elections -- Kosovo, Albania, Macedonia, and Serbia-- which were broadly accepted to be free and fair. The President's FY 2018 request includes approximately \$88.1 million for the western Balkans. Our assistance builds capacity of democratic institutions, including the judiciary and civil society, and will help the region build on this momentum toward democratic governance.

Currently, the western Balkans region is almost entirely dependent on Russia for natural gas, leaving the region vulnerable to exploitation. So long as the Balkans is without alternate energy sources, Russia is at liberty to undermine independent, market-oriented institutions as well as the region's progress toward regional market development. The President's FY 2018 budget request support their efforts to invest in needed energy infrastructure, implement market reforms, and import gas from multiple sources, cutting off an important tool of Russian influence and opening up potential investment opportunities for U.S. companies.

Corruption is the currency of malign Russian influence. Corrupt actors abuse regulatory loopholes and inefficient, byzantine bureaucracies for self-benefit, often leaving law-abiding, well-intentioned citizens – including foreign investors – little or no recourse to protect basic property rights, enforce contracts, or achieve fair judicial enforcement. Lack of economic and political reform in these areas instills a lack of confidence in freedom and democratization. USAID assistance supports legal and regulatory reform and capacity building to ensure transparent enforcement. These initiatives promote increased economic integration with Europe and help cement the relationship of Balkan countries with the West, thereby limiting Russia’s ability to manipulate them through economic levers.

Compounding the threats posed by external meddling in the region, the western Balkans region faces the internal challenge of dealing with the threat of violent extremism. Open source reporting shows that as many as 950 foreign fighters from the region have traveled to Syria and Iraq since 2012. Stagnant economic conditions and high levels of youth unemployment, as well as the continued isolation of Kosovo on the world stage, provide ripe conditions for radicalization.

Rooting out violent extremism in the Balkans is critical to advancing America’s national security interests. The President’s budget request for the region protects America’s security and our allies by addressing the underlying conditions that contribute to conflict and instability, foreign fighter recruitment, and radicalization. At USAID, we work to thwart radicalization from gaining a foothold in the region by applying an evidence-driven, pragmatic approach that targets the most vulnerable citizens and are tailored to specific drivers of conflict. Through a whole-of-government approach, we can attack this challenge at the earliest stages, with preventative efforts before radicalization occurs, all the way to post-prosecution.

In Bosnia and Herzegovina, USAID support helps mitigate external pressures that lead to radicalization and violent extremism through a community-based approach that engages at-risk youth in local initiatives and build communities’ capacity to resist extremist propaganda and recruitment. In Kosovo, USAID tackles the issue from different angles to lessen the appeal of extremism. The program offers alternative, positive messaging and tools, skills and job opportunities, and monitors the implementation of the Government of Kosovo’s Combatting Violent Extremism (CVE) Strategy and Action Plan.

Our efforts to prevent recruitment and radicalization are targeted to specific communities, but offer us important lessons to build upon in our work throughout the region. As we know, the threat of extremist ideologies anywhere is cause for concern everywhere. Thus, we are examining opportunities to further expand preventative and CVE programming into our development portfolios throughout the Balkans, as well as in the Caucasus.

Leveraged Funding and Partnerships

As we work to ensure efficiency and effectiveness of U.S. assistance overseas, we acknowledge that we have to prioritize and make some tough choices. However, in USAID’s Europe and Eurasia Bureau, our work has long embodied the President’s desire to engage international organizations, the private sector, and other donor countries in our mission overseas.

USAID works closely with the EU and other European donors to prioritize assistance, jointly fund

projects, and attain maximum leverage while avoiding duplication. In Armenia, for example, we are partnering with the private sector, the host government, and Yerevan State University in a public-private partnership for the “Establishment of Innovative Solutions and Technologies Center Project” worth \$7 million over the course of three years. USAID’s investment of \$2.5 million is yielding \$4.5 million in non-USG funding in support of this program, which will develop and strengthen the educational capabilities of Armenian higher educational institutions in information technology and enhance their research potential in education. In Ukraine, USAID and the EU are jointly supporting communities to implement decentralization reforms, with investments of \$50 million and \$102 million, respectively, in parallel projects with complementary objectives. Our combined efforts will ensure that decentralization reforms span the entirety of Ukraine.

In many areas, the U.S. plays a leading role, catalyzing co-investment from other donors in USAID projects across the region and across sectors. In Moldova, Sweden has partnered with USAID on our flagship business competitiveness program, contributing \$2 million for projects in information and communications technologies, light textiles and wine production. The Swiss have co-invested in small business development in Macedonia, while Poland has co-funded a project to train media professionals on increasing citizen awareness of the benefits of the EU Association Agreement and potential accession for Ukraine.

Of course, long-term change hinges on a clear manifestation of political will from host governments. USAID works closely with these governments to ensure they are both politically and financially invested in USAID’s assistance programs. In Macedonia, for example, the Ministry of Agriculture will invest \$800,000 for USAID’s Development Credit Authority guarantee, a needed boost to help farmers in the country expand and modernize. USAID has also developed close relationships with countries such as Estonia, Poland, Latvia, Romania and others across Eastern Europe that were once foreign assistance recipients after the fall of the Soviet Union. Today, these countries have progressed to a point where they are now starting their own foreign assistance programs, often in close collaboration with USAID.

Partnerships like these form the backbone to our assistance approach in the region and generate impacts well beyond what any singular donor country could achieve. We are very proud to see these “graduated” countries now providing support to countries still endeavoring to transition to stable, modern democracies. At USAID we often say that our ultimate goal is to work ourselves out of a job. As you can see, in parts of Europe and Eurasia – we have done just that.

Conclusion

It is clear that countries in Eastern Europe and Eurasia face serious challenges. While we have seen some success in our efforts to address internal vulnerabilities, mitigate Russian influence, and combat extremism, transformation in the region is incomplete. U.S. assistance, primarily technical or advisory, remains critical for the region’s continued integration into the European and world systems. A stable, prosperous Eastern Europe and Eurasia that is integrated into the global community and a strong partner on counter-terrorism will make America safer, grow the U.S. economy, and bring peace to the region.

These young democracies are fighting battles on multiple fronts. USAID is uniquely positioned to assist these countries on their paths toward greater Euro-Atlantic integration, which will require long-term commitment. Our assistance builds resilience throughout the region through efforts to develop civil society and independent media; a growing private sector and increased energy security; and democratic institutions grounded in the rule of law. We know that success in the region will be difficult, but as emerging risks threaten shared goals of stability and prosperity, our sustained engagement in the region is as important as ever.

Thank you for your attention. I'll be glad to take your questions.