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Written Testimony

Chairman Rohrabacher, Ranking Member Keating, Members of the Subcommittee, thank you for inviting me to testify before you today on the President's FY 2015 budget request for Europe and Eurasia.

I would like to take this opportunity to express my appreciation for your leadership in the passage of the legislation that enabled us to provide a \$1 billion loan guarantee to Ukraine at a critical time in that country's history. Additionally, the travel by members of this committee to Ukraine, Moldova, the South Caucasus, and throughout the region in recent months has demonstrated that our partnerships in Europe and Eurasia remain of vital importance to the United States.

For almost 25 years, the United States has been working to support political and economic reform in the post-Communist space of Europe and Eurasia. Since 1989, Congress has generously appropriated approximately \$25.4 billion under the authorization provided by the Support for East European Democracy (SEED) and FREEDOM Support Acts (FSA).

Over those twenty-five years, we have seen enhanced freedom, security, and prosperity across the region, and have been able to phase out entirely our transition assistance to 11 countries in Central Europe as they have progressed along the path of democratic and economic development. All eleven of these "alumni" of SEED Act assistance are now assistance donors rather than consumers, and frequently partner with the U.S. to help countries in Europe and around the world that are attempting to follow their successful example. The road from aid recipient to strategic partner and fellow donor has been different for each country, and not always a smooth and easy one. But in every case, our Congressionally-funded assistance programs have played a crucial role in making the transformation possible and cementing the partnership.

That said, the region's transformation remains incomplete. And today, the democratic and economic trajectory across the region is not uniformly positive.

Corruption, democratic drift, fragile financial sectors, protracted conflicts, ethnic tension, and violence continue to be sources of concern in many states. EU aspirants in the Western Balkans need continued support to reinforce and advance EU accession-required reforms, some of which have stalled or are vulnerable to backsliding. The Central Asian countries are looking for increased balance in their economic futures and increased linkages to European and South Asian markets. Transnational threats like organized crime, WMD proliferation, trafficking in persons, weapons, and narcotics, and the spread of highly infectious diseases still pose direct challenges to regional and U.S. security. Resources are needed to bolster engagement with European partners on global security challenges that will promote military modernization and interoperability with U.S. and allied forces. U.S. assistance continues to play an important role in helping governments and societies to address all of these challenges.

And while the focus of my testimony is on our FY 2015 budget request for Europe, Eurasia, and Central Asia, it is difficult to address without touching on the broader geopolitical context in which our assistance priorities are framed. Recent events in Ukraine have brought many of these into sharp relief. In Brussels this week, Georgia and Moldova are slated to sign Association Agreements with the European Union, and Ukraine will sign the remaining economic portions of its agreement with the EU in Brussels –despite sustained Russian pressure to derail these efforts. All three states are important U.S. partners and will require help expediting the implementation of these agreements. Ukraine continues to face an existential security threat, potential bankruptcy, and economic instability, and tremendous challenges to implementing the reforms necessary for European integration. Our response will be a measure of U.S. credibility and resolve.

In light of the current crisis in Ukraine, we are redoubling our efforts in FY 2015 to fulfill the objectives that have been at the core of our mission since 1989: working toward the goal of a “Europe whole, free and at peace” and fostering stable, prosperous, free-market, and pluralistic democracies across the region. The requested budget for the Europe, Eurasia, and Central Asia region is \$625.3 million – a decrease of nearly 17 percent or \$125 million from FY 2013. Recent political upheaval and ongoing economic instability in Ukraine will likely require adjustments to planned uses -- and potentially overall levels -- of FY 2015 funding.

Any prospective adjustments will be accompanied by thorough consultation with Congress and, in particular, our committees of oversight.

My testimony today will outline five strategic objectives for U.S. assistance to Europe, Eurasia, and Central Asia reflected in our FY 2015 budget request: first, to bolster countries' ability to choose their own economic and political futures without external interference; second, to facilitate greater Euro-Atlantic integration for those countries that seek it; third, to combat corruption and improve adherence to the rule of law throughout the region; fourth, to support openness and pluralism throughout the region, primarily through support for civil society; and fifth, to combat transnational threats that undermine regional security. We recognize our resources are finite and cannot possibly respond to all the region's needs. With this in mind, these strategic objectives seek to optimize our impact on the region's central challenges in the context of a constrained budget environment. Let me discuss each of them briefly.

First, we aim to enhance the sovereignty of countries in the region, including the right to choose their own political and economic relationships. As President Obama said recently in Warsaw, "True democracy, real prosperity, lasting security -- these are neither simply given, nor imposed from the outside. They must be earned and built from within." The right of countries to determine their own future is a core principle of democratic governance.

Today, of course, the struggle to defend the core principle of national sovereignty is playing out most dramatically in Ukraine. And our assistance to Ukraine has been and will continue to be one of our most important policy tools as we respond to this challenge. As Assistant Secretary Nuland stated before this committee last month, "the United States is supporting Ukraine with financial, technical and non-lethal security assistance as it...works to protect a peaceful, secure, prosperous and unified future for its people." Since the crisis began, the U.S. has provided Ukraine a \$1 billion loan guarantee and approximately \$130 million in other forms of assistance to augment existing U.S. programs and address other pressing needs, including \$33 million in non-lethal security and law enforcement assistance.

Following Ukraine's successful presidential and local elections on May 25th, the United States has been working with the international community to help the Ukrainian government address urgent needs in such areas as enhancing national

unity, furthering democratic reforms, strengthening the economy, addressing public grievances, and carrying out structural institutional reforms to prepare Ukraine for European integration, while resisting external pressure.

We have identified the following five priority baskets to focus our additional assistance:

- **Strengthen the Economy and Promote Growth:** The United States supports Ukraine's efforts to carry out the fiscal and financial-sector reforms needed to make its IMF and World Bank programs a success and place the country on a path towards growth. We are exploring ways U.S. assistance could help address issues such as government debt, tax policy, bank supervision, problem bank resolution, asset recovery and management, budget formulation, pension reform, currency risk management, local currency lending, adherence to international investment standards, access to finance, and anti-corruption measures. The United States also is looking at ways to help revitalize Ukraine's east and south.
- **Support Constitutional Reforms, National Unity, and Confidence-Building Measures, Particularly in the East and South:** The United States supports an inclusive, consultative, and transparent constitutional-reform process, efforts to decentralize power, and other institutional reform priorities of the Ukrainian Government.
- **Diversify Ukraine's Trade and Reduce its Energy Dependence on One Source:** The United States is helping Ukraine improve its trade policies and increase private sector competitiveness, and thereby take advantage of enhanced access to the EU and other markets. The U.S. also supports measures aimed at reducing Ukraine's energy dependence on Russia.
- **Fight Corruption:** U.S. assistance bolsters the Ukrainian Government's efforts to enact systemic changes to deter, detect, investigate, and prosecute corruption. Our assistance will also support civil society and the private sector as partners in the fight against corruption as well as government efforts to build mechanisms for collaboration and communication with civil society, the private sector, and the general public.

- **Reform and Build the Capacity of the Security Sector:** The United States helps Ukraine improve the capacity of law enforcement, border services and military forces to perform basic functions, both to address the immediate crisis and to build strategically for the long term.

As the United States and international community renew our investment in Ukraine, we are working with other donors to avoid duplication and ensure that U.S. assistance is targeted most effectively. We are consulting thoroughly with government leadership to guarantee that U.S. assistance supports the country's ambitious reform agenda and are reaching out to Ukraine's civil society, private sector, and public to ensure that their voices are heard.

In addition to its aggressive actions in Ukraine, Russia has ignored the basic principle of sovereign choice elsewhere. It has sought to derail the ability of Moldova and Georgia to sign and implement Association Agreements/Deep and Comprehensive Free Trade Areas (AA/DCFTAs) with the European Union. Just as we are supporting Ukraine in its sovereign choice to pursue European integration, our assistance efforts in Moldova and Georgia also serve as a force multiplier as they pursue their chosen paths toward greater Euro-Atlantic integration in the face of Russian obstruction.

In Central Asia, we are promoting access to regional markets as one prong of a multi-faceted effort to bolster these countries' sovereignty and ability to make their own choices. The New Silk Road initiative builds regional connectivity through energy, transport, trade, and people-to-people linkages from Central Asia through Afghanistan to South Asia as a means to build security, stability, and prosperity in the entire region. A modest increase in economic growth funding in Central Asia (a \$3.4 million or 8 percent increase from FY 2013 to FY 2015) will help increase firms' competitiveness and improve trade policies in the region. While trade figures remain modest for now, greater economic dynamism across the region will provide future opportunities for international businesses, especially in key areas such as services, energy, mining, higher education, infrastructure, and aircraft sales. American firms are well positioned to promote this economic dynamism, introducing new technologies and management approaches while also strengthening ties with distant parts of the world in ways that benefit both the United States and Central Asia.

Second, we are supporting greater European integration for those countries that seek it. As Ukraine, Moldova, and Georgia seek to strengthen their ties with the EU through its Eastern Partnership and the historic signing of AA/DCFTAs, the United States strongly supports each of these countries in their sovereign choice to pursue agreements with the EU. All told, our requests for Georgia, Moldova, and Ukraine represent just over one third of the entire FY 2015 budget request for Europe and Eurasia. We have re-focused many of our assistance programs and instituted others to support Georgia, Moldova and Ukraine as they prepare to sign and then implement AA/DCFTAs.

The majority of our assistance to Georgia and Moldova is aimed at promoting democratic, economic, rule of law, and other reforms that are consistent with the EaP's objectives. Many programs, directly and indirectly, support EU integration: promoting standards and capacity-building that enabled Moldova to attain visa liberalization on April 28 and supporting Georgia's efforts towards this same goal; assisting Georgian and Moldovan businesses to meet EU safety standards and increase international competitiveness; convening high level dialogues on trade and investment; and exploring ways to use assistance to further enhance both countries' energy security through diversification and greater efficiency.

While Armenia will no longer sign an AA with the EU after announcing plans to join the Eurasian Economic Union last September, the United States will continue to provide assistance to Armenia that encourages the reforms necessary for greater trade and investment between our two countries. Azerbaijan is pursuing its own track of practical cooperation with the EU short of an AA, called the Strategic Modernization Partnership. We are supporting Azerbaijan's efforts to accede to the WTO. Through this process – along with democratic and other economic reforms – Azerbaijan can move toward an invigorated partnership with the EU.

In the Western Balkans, our FY 2015 resources will support EU accession-required reforms, including implementation of agreements between Serbia and Kosovo to normalize their relationship, and key governance reforms in Bosnia and Herzegovina. These include efforts to correct key inhibitors to Euro-Atlantic integration such as weak rule of law, corruption, and organized crime. The FY 2015 budget request takes into account progress made by some countries in the

Western Balkans, and reflects our constrained budget environment. Some of the sharpest reductions in the FY 2015 request for Europe and Eurasia will affect the Balkan countries of Albania, Macedonia, and Serbia, which together will sustain a cut of \$25.3 million, or over 36 percent relative to FY 2013. The focus of our remaining programming in these three countries is narrowing to emphasize justice and security sector reform, civil society and independent media development, and improved governance – areas which are priorities for the United States as well as necessary for EU accession, and where progress has been uneven, fragile, or in some cases stalled. Smaller budgets require that we coordinate ever more closely with other major donors in the Balkans, especially the EU, to ensure we are leveraging their much larger funds to the maximum extent possible.

Third, we are working to help countries throughout the region take meaningful steps to root out corruption and shore up their adherence to the rule of law. Deeply rooted corruption inhibits economic growth and undermines countries' ability to achieve their full potential. In the wake of the crisis in Ukraine, it has become apparent that corruption also enables Russian influence throughout Europe and Eurasia.

Effectively combating corruption requires a mix of political will from governments to create a culture of enforcement and accountability as well as sustained effort across society—particularly civil society and the media—to stimulate public demand for transparency and integrity. We are assisting governments and civil society in their efforts to create an environment where laws are enforced fairly, transparently, and accountably.

In the Balkans, we have seen some limited progress in the context of the EU accession process, while in Eurasia and Central Asia serious challenges remain to the rule of law. Lack of political will, resistance to reform, poor governance, and rampant corruption throughout government institutions and society continue to hamper progress.

Fourth, we are working to reverse the worrying trend of democratic backsliding and to provide greater openness and freedom for populations across the region. Over the past several years, we have witnessed governments closing the space for activists, organizations, media, and ordinary citizens in order to silence criticism,

and to tip the scales of public support in their favor. In too many countries of the region, political leaders seem to be adopting global “worst practices” with respect to civil society, including the adoption of onerous bureaucratic hoops to register organizations and projects, requiring NGOs and journalists to register as foreign agents, and increasingly incarcerating activists and demonstrators. Often, this is done based on the false pretense that the country’s security is somehow jeopardized by peaceful civic activity.

Our assistance aims at empowering those who seek to preserve and expand democratic principles, whether in independent media, the justice sector, democratic political parties, or other parts of civil society. Where possible, we seek to engage with government institutions that are open to reform. Where such openings do not exist, we concentrate on the non-governmental sector.

In the current budget climate, we will prioritize programs and activities within the Europe and Eurasia region to make the most of taxpayer dollars. Our FY 2015 request for democracy funding remains steady from FY 2014 level enacted and is \$27.1 million or 12 percent below FY 2013. These reductions reflect difficult tradeoffs that we have had to make, requiring us to balance and prioritize competing foreign assistance initiatives in EUR countries and other parts of the world.

The budget for our Central Asia democracy programs has decreased only slightly, \$1.3 million or 5 percent from FY 2013 to FY 2015. Despite economic growth in some Central Asian countries, many of these countries suffer from restrictive social policy and corrupt institutions. These challenges underscore the importance of long-term programming that captures nascent opportunities when they arise. We have seen some progress in the Kyrgyz Republic in this area, an example that has become important for the region in terms of potential further development.

Fifth and finally, we are also supporting the region in its effort to tackle broader security issues and transnational threats: simmering ethnic tensions; protracted conflicts in Nagorno-Karabakh, Transnistria, South Ossetia, and Abkhazia; infectious disease; organized crime; illicit trafficking and weapons of mass destruction proliferation all represent significant security risks for the region, but also directly bear on U.S. national security.

As noted earlier, the Administration's FY 2015 budget request was developed and finalized before the onset of the Ukraine crisis. As submitted, it sought to further defense reform, military modernization, understanding of U.S. doctrine and tactics, and interoperability with U.S. and NATO forces to ensure that our allies and partners can conduct overseas deployments and peacekeeping missions, lessening the burden on U.S. forces. Our largest strategic investment programs are in Poland, Romania, and Bulgaria. In light of events since the budget submission, especially Russia's illegal actions in Crimea and efforts to destabilize parts of Eastern Ukraine, we clearly need to address a broader set of security goals. Earlier this month, the President announced a new \$1 billion European Reassurance Initiative which will include substantial programs to build partner capacity of close friends like Ukraine, Moldova, and Georgia, and a significant effort to reassure NATO allies.

In addition to the region's acute and growing "hard" security challenges, we are simultaneously providing assistance to prevent and mitigate other transnational threats. We seek to address these threats through training and targeted equipment provision for police and border protection services, technical assistance on legislation, improving regional and international law enforcement cooperation, and interventions to improve public health. Our security cooperation with Central Asia focuses on enhancing border security, strengthening regional counternarcotics efforts, countering violent extremism, promoting professional conduct by security forces, and working towards a stable, secure Afghanistan. We have developed the Central Asia Counternarcotics Initiative (CACI) in coordination with the Drug Enforcement Administration (DEA), to intensify efforts against drug trafficking in the region.

Peace and Security programs represent just over one third of the total FY 2015 request for Europe, Eurasia, and Central Asia. However, our Peace and Security request is down by approximately \$44.7 million or 17 percent in FY 2014 and \$73 million or 26 percent from FY 2013, translating into a \$59 million reduction for EUR countries and a \$14 million reduction for Central Asia.

As we address these five strategic areas within a constrained budget environment, we are looking at how best to maximize donor resources in order to stretch our

assistance. Throughout the region, we work with a very broad range of actors to further U.S. assistance priorities and multiply the effects. The EU in particular is playing a significant role as a donor from the Western Balkans to Ukraine. U.S. and EU assistance is complementary: we are faster, more flexible, and better able to direct aid to the NGO sector; EU budgets are multi-year, often larger, and generally more suitable for infrastructure investments or budget support.

Since 2011, the State Department has also conducted active outreach to the “emerging donor” countries of Central and Eastern Europe to explore partnering with them on providing aid to the Balkans and former Soviet Union region. We initiated an “Emerging Donors Challenge Program” (EDCP), to bring the transition experience of emerging donors to countries in Eastern Europe and Eurasia that are still struggling to democratize and advance economic growth. Round three of this initiative will result in the programming of a total of over \$3 million in FY 2013 and FY 2014 Economic Support Funds to leverage roughly an equivalent contribution from the emerging donors.

As Secretary Kerry stated when he testified on the budget request in April, “On issue after issue, people depend on American leadership to make a difference.” For over 20 years, our assistance in Europe, Eurasia, and Central Asia has been providing tangible proof of the role that our leadership can play in improving peoples’ lives. The President’s FY 2015 budget is a continuation of that mission. It is a recognition that even with difficult budget realities, there is a persistent need to advance the U.S. national interest in Europe, Eurasia, and Central Asia. Going forward, we will work with Congress in a bipartisan manner to ensure that the resources provided by the American people are used in the most efficient and effective way possible to support stability, prosperity, and democracy in the region.

I appreciate the opportunity to testify before you today and look forward to answering your questions.