

**Written Testimony by USAID Acting Assistant Administrator for Europe and Eurasia
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House Foreign Affairs Committee, Subcommittee on Europe, Eurasia and Emerging
Threats
“Progress and Challenges in the Western Balkans”
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Chairman Rohrabacher, Ranking Member Meeks, Members of the Subcommittee, I want to thank you for the opportunity to appear before you today, along with my colleague Hoyt Yee, to discuss USAID’s assistance and priorities in the Balkans.

The mission of the U.S. Agency for International Development is to partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. In the Balkans, USAID has played a key role since the breakup of Yugoslavia, helping raise standards of living and assisting countries on their path towards Euro-Atlantic integration and to becoming more tolerant, stable, and democratic societies. We have made a lot of progress and USAID is committed and focused on how we build on this momentum to address the serious remaining challenges as part of a coordinated U.S. government strategy. Corruption, democratic drift, fragile economies, and uncertain domestic political climates all threaten the gains made since the Dayton Accords were signed 20 years ago.

Today I would like to build on Deputy Assistant Secretary Hoyt Yee’s updates on the five individual countries where USAID continues to work, with a particular focus on how our programs have impacted some of the foreign policy priorities DAS Yee mentioned – such as preventing violent extremism, supporting governments and societies in becoming more stable and resilient to potentially detrimental external influences, and strengthening the region’s economic health.

USAID’s longstanding role in the Balkans and across Europe and Eurasia is to work with host countries and international partners to build the institutions of government, the economic systems, and the free civil societies that lead to democracy and prosperity. Our job is to help build the foundations of “a Europe Whole, Free, and at Peace.”

Over the past two decades, USAID’s programs in the Balkans have been designed to accelerate democratic progress and European integration. Today we partner with governments, civil society and other donors in Kosovo, Bosnia and Herzegovina, Albania, Serbia, and Macedonia to strengthen democracies and the rule of law, confront endemic corruption, and expand civil society and a free press.

In the economic sphere, USAID programs are bolstering entrepreneurs, as well as the laws and policies that will let them thrive in stable financial systems. We help governments to establish energy policies to diversify supplies and connect to European markets, increasing safe, clean power for industry and citizens. Programs like these show citizens in the region a path to a more prosperous future.

Mr. Chairman, since Dayton the Balkan countries have made remarkable progress in the reforms needed to further integrate into Euro-Atlantic institutions and to build resilient democracies. With that said, we know that our work in this region is far from done – we recognize -- as you have pointed out -- that there has been political and economic stagnation in some areas of the region. While a few nations graduated relatively quickly from USAID assistance, including Croatia and Slovenia, and some such as Serbia continue to progress, the Balkan countries where USAID works—Albania, Macedonia, Kosovo, Serbia, and Bosnia-Herzegovina— need sustained U.S engagement and attention. We look forward to working with you and your colleagues in Congress to strengthen U.S. engagement and more specifically USAID’s activities in the Balkans to build on the progress that has been made to achieve our goal of “a Europe Whole, Free, and at Peace.”

Next I will highlight USAID’s strategy and a few programs in each country.

Bosnia and Herzegovina

The Dayton Peace Accords brought an end to the 1992-95 war and began the transition to peace and stability in Bosnia and Herzegovina. Today, physically, the country is largely rebuilt and shows signs of economic growth. The European Union recently agreed to bring Bosnia’s Stabilization and Association Agreement into force in June, the first step in the process for pursuing EU membership. Yet development continues to be hindered by ethnic tensions and a largely dysfunctional, multi-layered bureaucracy, which while intended to safeguard the rights of the various ethnic groups, has been manipulated by Bosnia’s politicians to protect their narrow interests and stymie political and economic progress.

USAID’s objective is to help Bosnia meet its commitments to join the European Union, providing support for economic, democratic, and social progress in Bosnia and Herzegovina.

- High unemployment is a fundamental challenge that is an obstacle for countries like Bosnia to joining the European Union. Our technical experts focus on agriculture, agribusiness, and on tourism, and on unlocking the potential of Bosnia’s energetic diaspora. Our “FARMA” project, for example, reported increased sales for companies assisted by USAID of 54% over four years. Our loan guarantee programs with commercial banks unlock much-needed financial capital. USAID helps Bosnia improve its economic governance through better fiscal coordination and compliance at all levels of government; establish a more transparent, modern system of direct taxation and collection of social benefits to create a more business-friendly environment; and advance reforms in the financial sector and strengthen audit capacity.
- USAID helps municipal governments and private businesses capitalize on economic potential and opportunities at the local level. The assistance will result in domestic and foreign direct investment, more competitive local industry, especially for small and medium-sized enterprises. USAID projects help connect producers to markets and introduce new technologies along the entire value chain. This includes assistance in marketing Bosnia and Herzegovina as a tourist destination and helping local producers meet EU quality and safety standards in agriculture. USAID works to reform energy policy to help Bosnia to maximize its potential as a net energy exporter.

- USAID's democracy and governance assistance helps Bosnia and Herzegovina to develop more functional and accountable institutions with increased citizen participation in political and social decision making. To combat corruption, USAID supported a two-year civic advocacy campaign. Leadership for the campaign was provided by the Center for Responsible Democracy Luna, USAID partner Centers for Civic Initiatives, and NGO members of USAID's anti-corruption network, ACCOUNT. Civil society, a multi-party group of parliamentarians, and representatives of BiH institutions worked together to draft and adopt the legislation, a joint effort that set an example of how the government and NGOs can work together and address major issues that affect citizens' lives. Corruption costs approximately \$1 billion every year, money that could be used for building roads and schools. The result is like imposing a direct tax of \$275 (400 BAM) per year on every man, woman and child in BiH.
- USAID projects provide technical assistance to all levels of governments—ministries, lawmakers and parliamentary committees—to enhance public engagement on policy development and improve accountability in budget planning, implementation and oversight. USAID assists elected representatives to develop, draft, advocate and implement legislation and improve their responsiveness and accountability to their constituents. USAID strengthens legal systems to provide transparent access to justice for all citizens. Finally, USAID is implementing the country's most significant nationwide effort at promoting community reconciliation and reducing ethnic tension.
- USAID assisted the State and the Federation Members of Parliament and the staff of four committees in completing their legally mandated ten-step budget cycle. USAID facilitated public debates on expenditure policy and priorities, the budget framework, and an analysis for the final budget proposal before its adoption in 2014. This was the first time that committee members provided justification for new budget appropriations, stated their objectives and expected results, conducted a value for the money analysis, and analyzed the gender implications for their proposed allocations.
- Youth, reconciliation, and women's empowerment are priorities across all USAID programs in Bosnia and Herzegovina. USAID supports youth and women to increase their civic and economic opportunities, to become responsible and productive citizens, and to become involved in and integrally a part of the country's future. Reconciliation is a sub-component of many USAID programs in Bosnia and Herzegovina, bringing together different ethnic communities to work on shared economic and democratic objectives.

Serbia

USAID's programs in Serbia have the overall strategic goal of supporting Serbia in its vision to be democratic, prosperous and fully integrated into Euro-Atlantic institutions. Since 2001, USAID has assisted to stimulate economic growth, strengthen the justice system, and promote good governance in Serbia.

Despite having gained European Union (EU) candidate status in March 2012 and opening accession negotiations in January 2014, Serbia's current reform path is not yet irreversible. Although Serbia's current government is focused on EU integration, domestic public enthusiasm for EU membership is not always steadfast, and our programs play a key role in keeping Serbia's reform momentum moving forward.

Serbia's economy is constrained by critical barriers to growth—particularly in its business enabling environment. The private sector needs to increase its ability to compete in international markets, and jobs are needed to combat high unemployment, especially in vulnerable communities.

USAID's programs work to address both democratic governance and sustained economic growth while building the capacity of key counterparts at the national and local levels to move the country toward lasting political and economic stability.

- USAID support has produced a more professional and financially viable independent media.
- Activities strengthen Serbia's rule of law by improving the independence, transparency, efficiency, and professionalism of the Serbian judiciary.
- Anti-corruption assistance increases the capacity of key independent agencies to execute their mandates.
- USAID strengthens the sustainability of civil society organizations and their ability to interact with and oversee the government.
- USAID supports the Government of Serbia's efforts to implement program-based budgeting and to integrate this methodology into the country's national strategic planning process.
- USAID works with selected government counterparts, non-governmental organizations, international donors, and other U.S. agencies to advance economic reforms that will contribute to business growth, to strengthen the capacity of municipalities to stimulate local economic development by better meeting the needs of businesses and the market.
- USAID is working to improve the competitiveness of the private sector, especially in economically disadvantaged regions populated by ethnic minorities.
- USAID assistance was instrumental in reforming Serbia's labor law, reducing the burden of its inspections system, and modernizing its outdated construction permitting system.

Kosovo

In 1999 Kosovo was a war-torn territory lacking the basic institutions needed to govern. In the last 14 years the country has achieved many successes, including statehood. It has developed

institutions, undertaken necessary institutional reform, and gone through the process of decentralization. Kosovo has made significant progress in building key ministries and government bodies that now have well-established and strong foundations.

Despite all of these achievements, judicial independence and the rule of law remain weak. Continuing inefficiencies in the system prevent the judicial branch from effectively playing its role as a counterbalance to the powerful executive branch. Members of the national legislature (Assembly of Kosovo) have limited autonomy, and the political landscape remains dominated by the executive branch and political party leaders. Kosovo remains the poorest economy in the region and struggles with high levels of poverty, staggering unemployment, and an overdependence on imports.

USAID's goal in Kosovo is increasing prosperity, integration within the Euro-Atlantic community, with more effective and accountable governance. Since 1999, USAID assistance has been committed to the reconstruction of Kosovo and to building self-governing institutions and a viable economy.

The current Government of Kosovo appears committed to leading and implementing reforms, providing USAID with an opening to engage in policy dialogue around key reform issues and to focus the welcomed assistance in a number of key areas:

- USAID is helping to strengthen a transparent, independent, and accountable judiciary through implementation of laws, oversight, management, and increased professional skills.
- USAID is assisting the Kosovo government to promote and support sound governance across the economic landscape, not only through better implementation of reforms but also by improving public financial management, increasing access to credit, attracting foreign investment, and increasing private sector participation in building public infrastructure and providing public services.
- Since Kosovo's population is mainly farm-based, USAID will continue its engagement in the agriculture sector, focusing on increasing the volume and productivity of high-value crops. USAID's support to agriculture in Kosovo resulted in increased sales of fresh and processed products. The most recently completed USAID agricultural activity that ended in December 2014 improved technologies, expanded and diversified production, and developed new market linkages.
- On September 26, 2012 a USAID loan guarantee agreement was signed between USAID Development Credit Authority (DCA) and six local commercial banks with funding from the Kosovo Ministry of Agriculture, Forestry and Rural Development (MAFRD). From €2.5 million (\$3.1 million) gifted from MAFRD to USAID for loan subsidies, \$26 million in loans will be generated. This is the first time in the history of DCA's loan guarantee program that a government counterpart completely covered the subsidy costs of a guarantee. As of November 2014, 650 loans were issued with terms ranging from 12- 48 months with an average loan size of \$23,000. A total of \$15 million in loans was disbursed, issued to enterprises in various agribusiness sectors such as dairy, livestock,

animal feed, fruits and vegetables and other related sub-sectors. The loan guarantee is also changing banking behavior. Banks now are hiring and training dedicated agro-lending experts who understand how to structure loans to the agricultural sector.

- Technical experts from USAID are assisting with the reform of commercial law, property rights, and alternative dispute resolution mechanisms.
- A recently signed contract launched a transformational public-private partnership (PPP) for the Brezovica ski resort complex in Kosovo. This PPP illustrates the effectiveness of U.S. development assistance. USAID transaction advisors played a vital role bringing the landmark deal to closure. The \$460 million investment is the largest in Kosovo's history and will create over 3,000 direct jobs and thousands of additional jobs in related sectors (construction, tourism, agriculture). The Brezovica ski resort is located in a predominantly ethnic-Serb area, and as an economic asset has strong relevance for Kosovo, the Kosovo-Serbia normalization dialogue, and for creating a thriving multi-ethnic society with opportunities for all in Kosovo.
- USAID is assisting the National and Municipal Assemblies to communicate with and respond to citizens' concerns.
- USAID is also assisting municipal administrations to improve accountability, especially in the areas of financial management and the development of own-source revenue.
- With the aim of initiating and supporting Kosovo's first business arbitration services, the Mission funded Alternative Dispute Resolution Centers at the Kosovo Chamber of Commerce (KCC) and the American Chamber of Commerce (AmCham). In FY 2014, the KCC registered seven arbitration cases and continued outreach activities and arbitration training. The KCC has calculated that, in its first year of operation, it will receive \$128,321 in administrative fees, nearly matching the original \$150,000 award from USAID. Meanwhile, the AmCham Alternative Dispute Resolution Center continued providing training to businesses in alternative dispute resolution mechanisms and concluded MoUs with four local universities to organize Legal Clinics in Arbitration.
- USAID's critical support to Kosovo's government to unbundle electricity distribution and supply enabled it to privatize the Kosovo Energy Corporation, resulting in improved infrastructure investment, billing and collections, and reduced technical and commercial losses. The newly formed Kosovo Electricity Distribution and Supply Company (KEDS) has largely met its pledges with investments to improve the grid system, replace old meters, and improve billing and collections, which have reached 95% (greater than the target set by the energy regulator) before social cases (families unable to pay their electricity bill) are considered. KEDS has also made significant strides towards reducing technical and commercial losses. By more effectively negotiating when tendering for imported electricity, KEDS has reduced the cost of imports, on average, by 16%, with significant downward pressure on future electricity tariffs.

- USAID is providing scholarships opportunities for young Kosovo citizens, mostly at the Master's Degree level, in targeted sectors that are aligned with the country's most pressing needs for skilled professionals.

Albania

Albania is the only Western Balkan country that wasn't part of former Yugoslavia, and has a unique institutional history and divergent development path. Overall progress since the transition on both governance and economic growth has been very dramatic. The pace of reforms slowed after initial steep gains, and Albania now grapples with many of the same challenges faced by its neighbors.

Albania struggles with poor service provision, an unstable civil service with relatively weak administrative capacity, and a myriad of rule of law challenges. A recently passed territorial reform will consolidate Albania's more than 300 existing local government districts into some 65 larger districts, which will help give local administrations the critical mass and human capital to enhance local government capabilities.

Albania has been hit hard by the weakness of the economy in southern Europe, with main trading partners in Greece and Italy suffering recession. The domestic market is small, and the two main drivers of previous economic growth, remittances and construction, have slowed dramatically. Weak contract enforcement hurts prospects of foreign direct investment. Bright spots in the Albanian economy are light manufacturing, tourism and agriculture, which have been flagged by the government as key priorities.

In Albania, USAID's strategic objective is to bolster prospects for European integration by focusing on good governance and inclusive economic growth. Throughout our portfolio, we strengthen capacities and incentives for citizen engagement with government.

In Albania, as in other Western-Balkan countries, USAID works closely with EU member states to leverage our impact, both in dollar terms as well as in policy reforms. USAID is working with emerging EU donors such as Slovenia to leverage funds and improve institutional and market linkages. Utilizing our extensive in-country expertise, a key point of strength for USAID, we are able to stretch taxpayer resources further.

Some of the specific activities in which we are currently engaged in Albania include:

- USAID is providing assistance to strengthen the accountability, financing, and service outcomes of local government, including the crafting of a fiscal decentralization framework and a critical law for the structuring of local government.
- To make courtrooms more efficient and transparent, USAID's program to strengthen the justice sector has assisted in the introduction of audio recording for all court sessions in every courtroom at district and appellate levels, and in "first instance" and "serious crimes" courts, reaching a total of 30 courts. Better court reporting promotes transparency, fairness, and efficiency; bolsters the watchdog and anticorruption roles of

civil society organizations and the media; and strengthens the legal profession and legal education. The program is part of ongoing US support to the rule of law in Albania with an emphasis on improving justice delivery and realizing public demand for accountability in the justice sector.

- USAID recognizes the clear linkages between rule of law and the economy, and our justice sector work is aimed squarely at improving the transparency and efficiency of the courts.
- USAID has assisted Albania in achieving critical reforms in the energy market. Utilizing practical loss-reduction techniques recommended by USAID, the electricity distribution company was able to save \$75 million dollars in 2014 alone and introduce real market discipline. This will save natural resources and strengthen energy independence.
- USAID has been very effective at helping Albanian farmers access capital, both from the private sector and from European Union sources. For every dollar invested, we can demonstrate \$12 mobilized, and despite modest funding we have achieved macro-level impacts in agriculture in terms of exports and investments.
- Building on the successful, multi-sectoral collaboration between the U.S. and Sweden in Bosnia and Herzegovina, we will soon launch a joint program in Albania aimed at promoting growth in areas with high employment potential, particularly tourism.

Macedonia

While Macedonia has clearly made progress towards EU accession in the past, more recently some worrying signs have emerged. The opposition party continues to boycott the Parliament. Divisions between ethnic Albanians and ethnic Macedonians, which were exacerbated by the 2001 conflict, have become more acute. While political pluralism continues to exist in limited ways, challenges to citizens' engagement and participation in governance, and government accountability appear to have increased recently.

USAID's strategic objective in Macedonia -- a democratic, educated, prosperous state that responds to the needs of all of its citizens -- supports the full integration of Macedonia into Euro-Atlantic institutions. To reach this goal, USAID assistance focuses on creating greater checks and balances among the three branches of the government, strengthening the education system so that youth are better prepared to enter the modern workforce, and increasing job-creating private sector growth.

USAID's assistance over the years has greatly contributed to the progress that Macedonia has made towards EU accession. USAID assistance has also substantially supported Macedonia's transition to a market-based, competitive economy. We have improved the business environment to promote investment in the private sector. We have promoted economic sectors such as the dairy industry and adventure tourism that have the potential to increase employment and incomes for Macedonia's workers and small businesses. Ethnic integration in education is a particular problem given that the requirement that children be educated in their native languages has led to de facto school segregation.

Here are some of the specific activities in which we are involved:

- USAID established a reliable system for enforcement of court decisions reducing the average time for enforcement from 340 to 60 days.
- Over the past two years, USAID's media program has increased the legitimacy of independent media and strengthened freedom of expression by promoting investigative journalism and establishing a media fact checking service, which published online more than 1,000 peer reviews of media articles.
- Through our support the National Entrepreneurship and Competitiveness Council was re-launched in 2014 to improve public-private dialogue on government economic and business policies and regulations.
- We're helping Macedonia to streamline laws and regulations for clean, renewable energy investments to promote more investment in this sector.
- We've expanded access to finance for small and medium-size businesses.
- USAID's Anti-corruption Project, implemented by the local NGO Macedonian Center for International Cooperation, has supported the formation of a coalition of like-minded CSOs that are ready and able to hold institutions accountable with a unified voice. The Anti-Corruption Coalition on March 25th issued a joint statement calling for the relevant institutions to act within thirty days on the alleged malpractices, unlawful treatment, corruption and violation of human rights that have recently come to light.
- Nearly 20% of Macedonians make their living from agriculture or agriculture-related business, yet farming in Macedonia is plagued with inefficiency. By introducing drip irrigation to Macedonia's dairy farmers, USAID's Grow More Corn initiative is increasing corn production and enhancing economic growth as well. What started two years ago with 40 farmers, each demonstrating the power of drip irrigation on one hectare, is now a true phenomenon in Macedonia's agricultural sector. Yields on the demonstration fields soared from anemic to record-breaking numbers in one season and the results have piqued the interest of farmers, dairy processors, bankers, other international donors, and recalibrated the management of Macedonia's agricultural subsidy program.
- USAID has fostered over 260 partnerships between mono-ethnic schools and establishing School Integration Teams in all of the country's schools. As a result, students from different ethnic groups have had the opportunity to participate in joint student projects, excursions, performances, and sport activities, helping to reduce stereotypes and prevent conflict. USAID has partnered with the Department of Defense (through the European Command) to renovate over 40 schools, encouraging school and community participation in ethnic integration activities and helping over 20,000 students to have warmer, safer learning environments. In addition to the \$770,000 that the Ministry of Education has

contributed to these renovation efforts, municipalities have provided, on average, 30% of the cost of each school renovation.

- USAID's E-Accessibility project helps schools in Macedonia to mainstream their disabled students. A survey revealed that more than 80 percent of schools had at least one student with special educational needs, yet fewer than 20 percent of schools had an accessible entrance ramp, and the use of assistive computer peripherals and accessibility software were virtually unknown. Since 2010, USAID's e-Accessible Education Project has provided assistive computer peripherals and accessible educational software to 33 schools.

Region-wide

Throughout the Western Balkans, our Missions have moved purposely and aggressively in working directly with local implementers. Partnerships with local organizations ensure buy-in, enhance sustainability, and leverage the enormous clout that the United States, and USAID in particular, has in E&E countries.

- In Albania, 50% of the implementing mechanisms are through local organizations.
- In Bosnia. 38% of the implementing mechanisms are through local organizations.
- Approximately 41% of USAID Macedonia's FY 2014 budget was implemented directly by local NGOs. As a result of the Mission's continued efforts to promote local professional talent, 23 of the 27 projects employ local Chiefs of Party and key personnel.
- Serbia has signed six grants to local NGOs and launched a competition for additional local direct grants. Through this competition the Mission expects to make another seven awards to local NGOs.
- The United States has supported the Regional Housing Program, a multi-donor trust fund with \$20 million since FY12, via support from the State Department's Bureau for Population, Refugees, and Migration (PRM). The program is providing housing solutions in Serbia, Bosnia and Herzegovina, Croatia, and Montenegro to vulnerable refugees and internally displaced persons (IDPs who lost their homes during the wars of the early 90's. Additional PRM support through NGOs is helping vulnerable refugees and displaced persons across the region, including in Kosovo, to access legal services and livelihood activities, and is facilitating community integration for ethnic minorities returning to their homes.
- Let me also highlight our regional Investigative Journalism activity. With a USAID investment of just over \$3 million over four years, the Organized Crime and Corruption Reporting Project (OCCRP) has published groundbreaking stories that have helped provide the basis significant number of fines, asset freezes or cash seizures. Based on the stories broken by OCCRP, a conservative estimate of \$562 million in illicit funds have been seized, frozen, or fined.

Programs like these, developed and executed in partnership with national and local governments, international partners, and citizens themselves, are moving the Balkans toward Europe.

Thank you again. I look forward to questions.