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**Subcommittee on Europe, Eurasia, and Emerging Threats**  
**“FY 2016 Budget Request for Europe and Eurasia”**  
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Chairman Rohrabacher, Ranking Member Meeks, distinguished Members of the Subcommittee, thank you for inviting me to testify before you today regarding the Administration’s Fiscal Year 2016 budget request for the Europe and Eurasia region.

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. Historically, the United States (U.S.) and USAID have played a key role in Europe and Eurasia, where we have seen considerable advances in freedom, security, and prosperity. Twelve countries in the region have transitioned from receiving U.S. assistance, successfully integrating into the Euro-Atlantic community through institutions such as NATO and the EU and even providing assistance themselves to countries like Ukraine. Many of these countries now serve as important U.S. partners and allies in the region and globally. Even with this success, the region’s transformation is incomplete. In the remaining countries where we work, progress in key areas is uneven, gains are at risk, and in some cases we are seeing regression.

As members of the Committee are well aware, the past year has been a particularly challenging and unsettling one for the region. Russia’s aggressive acts in Ukraine and pressure throughout the region fundamentally threaten peace, stability, democracy and prosperity in the region and require greater focus, resolve, and resources. Russia, through its support of separatists, use of economic levers particularly in the energy sector, and a propaganda machinery, is undermining democratic and economic progress. While countries that share a border with Russia have borne the brunt of the pressure from Russia, the need for targeted support to Ukraine, periphery countries, and the Balkans is greater than before. Our steadfast support and commitment, across the region in Ukraine, Georgia, Moldova, and in the Balkans to help them on the path to further Euro-Atlantic integration, democratic consolidation, and economic prosperity, are extremely important. U.S. assistance remains critical to countering Russia’s pressure and realizing the U.S. foreign policy goal of a Europe whole, free, and at peace.

Given recent events in the region, the President has requested \$710.2 million in ESF for assistance to the region, out of a total of \$953.3 million total request for the region. This ESF assistance is an increase of \$103.3 million over levels made available in FY 2014, with additional funds targeted towards meeting critical needs in Ukraine, supporting

Georgia and Moldova's continued Euro-Atlantic integration, and strengthening the democratic and economic resiliency of countries to address mounting Russian pressure. Our assistance is focused on supporting democratic, economic, energy, justice-sector, and other reforms necessary to support continuing and emerging U.S. policy objectives, while also recognizing global budget constraints.

## **Ukraine**

Supporting Ukraine's ongoing democratic and economic transformation and comprehensive reform effort is our top priority. I want to thank Committee members for their steadfast commitment to our efforts responding to the events in Ukraine. Your leadership and support was critical to the U.S. providing a second \$1 billion loan guarantee to Ukraine last month that helped stabilize Ukraine's economy. Many of you have traveled to Ukraine, reinforcing the U.S. commitment to Ukraine's sovereignty and democratic transition, raising awareness of ongoing challenges, and gaining a deeper understanding of the situation on the ground.

USAID is well-positioned to work with Ukraine's reformist government, given our longstanding and multifaceted engagement with Ukraine following its independence in 1991. Our assets in the form of on-the-ground presence, institutional credibility, and development expertise enable our Mission in Kyiv to partner effectively with the Government of Ukraine, international partners, and civil society to realign our focus and programs to meet rapidly changing and expanding needs. Our Mission in Kyiv has worked diligently to apply the lessons learned from the Orange Revolution and build on the momentum from the Maidan movement to support reforms that will unlock systematic and sustainable change and allow the Ukrainian people to realize their dreams of peace, freedom, democracy, and prosperity.

USAID funding supports critical economic and political reforms necessary to stabilize Ukraine and help them chart a new course towards a more democratic and prosperous future. We work to:

- **Stabilize, Strengthen, and Grow the Economy:** USAID is helping the Government of Ukraine (GOU) implement critical economic reforms necessary to adhere to the IMF reform package and to stabilize, strengthen, and grow the economy for the people of Ukraine. These reforms include implementing anti-corruption efforts, rationalizing the energy sector and promoting energy efficiency, strengthening the performance of Ukraine's agricultural and SME sectors, and improving the operating and regulatory environment for private business. With GoU having signed an Association Agreement with the European Union (EU) that established a Deep and Comprehensive Free Trade Area (DCFTA), our assistance also helps Ukraine meet EU standards to enable their eventual integration into EU markets.

Ukraine has a legacy of endemic corruption that has pervaded its economy for decades and prevented sustainable growth and prosperity for the people of Ukraine. Eliminating opportunities for corruption is a cross-cutting focus for USAID and is integrated into all of our programming, in addition to stand-alone efforts. For example, USAID helps improve judicial accountability and independence and is supporting the GoU to implement a fair and transparent lustration process in the judiciary. Once the National Agency for Prevention of Corruption is established by the GoU, USAID will provide assistance to the Agency.

In energy, USAID provided critical technical assistance to help Ukraine keep the lights and heat on this past winter in the face of potential energy shortages.

In agriculture, USAID is helping deregulate the agricultural sector, eliminating mandatory grain silo inspections and machinery inspections, saving \$30 million per year.

The U.S. government has provided Ukraine crucial macro-economic support in the form of two \$1 billion loan guarantees, authorized by Congress. These loans allow Ukraine to access capital at reasonable rates as they address critical security, political, and economic challenges. These loan agreements also include conditions aimed at encouraging the GOU to address crucial areas of reform: from the financial sector, to the social safety net, to the energy sector, and anti-corruption.

- **Strengthen Democracy and Promote Effective Governance:** Demands for more democratic, accountable, and transparent governance were at the core of the Maidan movement. USAID continues to support a vibrant civil society, free and fair political competition, judicial reform, an open and diverse media environment, and enhanced anti-corruption measures for increased governmental accountability.

Last year, USAID provided approximately \$11 million, in coordination with other U.S. government efforts, to support the integrity of the electoral process in snap presidential and parliamentary elections, as part of an integrated package of U.S. assistance programs working towards this goal. These successful elections were critical for renewing the legitimacy of the Ukrainian government and were hailed as “democratic milestones” by the international community.

USAID is also the largest supporter of Ukraine's constitutional reform process, providing substantive input from international best practices and helping make the process more open and inclusive. In addition to these areas, USAID is supporting the Government of Ukraine's decentralization agenda through a program that helps restructure local governments and strengthens their connections with citizens.

Ukraine has one of the highest infectious disease mortality rates in Europe and has the fifth highest estimated number of multi-drug-resistant (MDR) TB cases in the world. The FY16 request includes \$6.1 million in Global Health Program assistance for HIV and TB. To date, through its TB program, USAID has provided anti-retroviral drugs to over 64,000 patients. It has also provided treatment for over 3,000 patients with MDR TB and has rolled-out electronic management for over 13,000 TB-infected patients in 25 oblasts, resulting in a doubling of TB detection rates.

While we have seen progress in key areas and are hopeful that the Government of Ukraine will continue to push forward and implement a robust reform agenda, the challenges facing Ukraine will not be solved overnight. In order to be successful, Ukraine will require a sustained commitment from the United States and the international community. For example, although the conflict in the east has stabilized somewhat since the signing of the Minsk Implementation Plan on February 12, there are over 1.3 million internally displaced persons (IDPs) and 5.1 million people in need of humanitarian assistance throughout Ukraine. Helping integrate these IDPs and working on reconciliation and rebuilding efforts in the eastern Ukraine will require continued work over the months and years to come. Although the U.S. Government has been able to fund over \$61 million in humanitarian assistance to Ukraine so far, additional needs remain and could grow if the conflict continues.

Ukraine's success is not only critical to the people of Ukraine, but also has implications throughout the region. As the Vice-President stated at the Munich Security Conference, "we need to remain resolute and united in our support of Ukraine.... What happens there will resonate well beyond Ukraine." In my travels and meetings with partners in the region, they are watching what happens in Ukraine. Our sustained commitment to Ukraine's success is critical to our credibility and work in surrounding countries, which are also dealing with important choices on their future direction and facing similar external pressures.

## **Moldova**

Moldova has taken significant and meaningful steps on reforms and towards greater European integration. Our assistance helps them meet the requirements of the Association Agreement that Moldova signed with the European Union last June, establishing a

DCFTA. Despite this progress, Moldova faces significant challenges, particularly from Russian pressure and continued corruption. U.S. assistance will strengthen democratic institutions, especially the justice sector, address corruption and will promote a decentralized, participatory, and democratic political environment. Our assistance will focus on promoting a more dynamic civil society and independent media, with citizens empowered to shape parties and the political process. Anti-corruption is a cross-cutting element of all of our programs, which seek to decrease opportunities for corruption and increase transparency. Programs also will aim to raise living standards by improving the business regulatory environment and private sector competitiveness, especially through assistance in entering new markets. A 2014 Russian trade embargo on Moldovan fruits has become a catalyst for Moldova to reorient exports to new markets. With USAID technical assistance, Moldova had its initial shipment of apples to Bangladesh, the first time a Moldovan food product had found a market in that part of South Asia. Two 20-ton containers of apples made the five-week, 8,000-kilometer journey in December 2014. The buyer in Bangladesh, a food wholesaler, reported that the Moldovan apples sold out within three days and expressed interest in buying 100 more containers in this season alone.

## **Caucasus**

Due to tough tradeoffs in the region, USAID assistance in Armenia and Azerbaijan has declined in the FY 2016 ESF request, but the request for Georgia represents a 27 percent increase in ESF above levels made available in FY 2014. This increase will be used to consolidate and advance democratic and economic reforms, while mitigating external threats, with the goal of anchoring Georgia firmly in the Euro-Atlantic community.

- In **Georgia**, USAID's work is central to continued U.S. efforts to strengthen Georgia's democracy, help it resist Russian aggression, and support further EU integration. Georgia continues to make significant progress in its democratic transition and we continue to work with the Georgian government to ensure these gains are resilient. USAID's programs are aimed at economic growth and harmonization with the EU and strengthening civil society, democratic governance and independent media. Targeted assistance also focuses on improving the livelihood and resiliency of border communities that are particularly vulnerable to Russian pressure. In the areas close to the Administrative Boundary Lines (ABLs), with Georgia's separatist regions of South Ossetia and Abkhazia and suffering under the Russian-backed "borderization" of the ABLs, USAID support for 20 small-scale infrastructure activities, such as potable water systems, irrigation channels, drainage and village roads benefit up to 4,000 households. Income-generating activities, which provide vocational training, access to loans, trade-specific toolkits, and microenterprise assistance, will benefit at least 2,000 vulnerable households from

selected communities along the ABLs and help them remain in their communities and not become IDPs.

- In **Armenia**, we see opportunities to build on our engagement with the Armenian government. We are encouraged by the reports of a potential new EU-Armenia agreement. We will continue to focus on democracy and governance, economic growth, and social protection and health. We are working with both the government and civil society to strengthen reforms in the areas of decentralization and anti-corruption. For example, USAID helped the Armenian Ministry of Labor and Social Affairs create a state-of-the-art e-governance platform for “one-stop-shop” social service centers, which has increased transparency and benefited more than 210,000 citizens seeking protection services.
- In **Azerbaijan**, despite restrictive NGO legislation and other challenges, we continue to look for opportunities build the capacity of civil society, support the growth of non-oil sectors of the economy, and advance participatory and transparent democracy and governance processes.

## **Western Balkans**

Supporting further EU integration of the Western Balkans and strengthening democratic governance in this important region remains central to achieving a Europe “whole, free and at peace.” Despite important progress, including Croatia and Slovenia joining the EU and Montenegro’s ongoing accession negotiations, countries in the Western Balkans face old and new challenges, including stalled EU integration, backsliding on reforms, and increased external pressure from Russia. As a backdrop to these challenges U.S. levels of assistance in the Balkans have decreased as we have shifted funding to address the challenges in Ukraine and growing external pressures in the region. The recent crisis in Macedonia reminds us that we cannot take peace and stability in the Western Balkans for granted.

The FY 2016 request reflects the tough choices we had to make as needs continue to increase in the region. It takes into account a number of different factors from the role of the EU in the Balkans to the broader U.S. foreign policy objectives. However, we have demonstrated that we can continue to have meaningful impact through targeted programs and must continue our engagement in the region.

- In **Albania**, USAID has been very effective at helping Albanian farmers access capital, both from the private sector and from EU sources. Despite modest funding, we helped achieve macro-level impacts in agricultural exports and investment, with bank lending to this sector doubling and Albanian agriculture exports increasing 28 percent last year.

- In **Bosnia**, USAID partnered with the Swedish International Development Agency (SIDA) in local economic development; SIDA committed \$10 million, thus increasing overall impact. Similarly, USAID’s agricultural markets activity was jointly funded with SIDA, with \$9.5 million from each, and has resulted in a 54 percent increase in sales for the companies that participated in the program.
- In **Kosovo**, USAID’s agricultural support program that ended in December 2014 led to increased sales of \$102.4 million and created 6,153 full time jobs by improving technologies, expanding and diversifying production, and developing new market linkages. USAID’s engagement with the Government of Kosovo and energy regulators also led to the successful privatization of the electricity supply, garnering \$340 million in private sector investment to upgrade Kosovo’s electricity network. This support led to a doubling of revenue from \$108 million to \$212 million due to dramatic improvements in billing and collection.
- In **Macedonia**, USAID supports credible and independent reporting through its Media Fact Checking Service. In FY 2014, the Service published 877 peer reviews of articles, produced 91 critical disclosure analyses and published over 100 journalistic lessons that helped increase the media literacy of its consumers.
- In **Serbia**, an efficient and independent judiciary has been singled out by the EU as a critical condition for Serbia’s EU accession efforts. USAID’s focus on court efficiency resulted in the reduction of backlogs in six pilot courts by 55 percent, resolving more than 13,000 cases.

At a Senate hearing in March, Secretary Kerry, in response to a question regarding Russian influence in the region, stated, “Whether it’s Serbia, Kosovo, Montenegro, Macedonia, other places — they are all in the firing line.” We are in the process of realigning our programs in the Western Balkans due to significant budget reductions, but will continue to focus on the reforms required for EU accession that strengthen rule of law and fight corruption, promote democracy and good governance, and foster market-oriented economic growth. These are all areas that will help the countries in the Balkans continue to orient themselves towards Euro-Atlantic integration and bolster their resilience to external pressures.

## **Conclusion**

In a region facing some of its most significant challenges in decades, USAID will continue to seek opportunities to maximize our impact and stretch resources. We know that the United States cannot address these challenges alone. Throughout the region, we are working hand in hand with a broad range of partners to further U.S. assistance and foreign policy priorities, build deeper cooperation with the EU, international financial institutions and other partners, and leverage the impact of our assistance.

At the 70<sup>th</sup> anniversary of D-Day last June, President Obama described Normandy as “democracy’s beachhead,” stating “We worked to turn old adversaries into new allies. We built new prosperity. We stood once more with the people of this continent through a long twilight struggle until finally a wall tumbled down, and an Iron Curtain, too. And from Western Europe to East, from South America to Southeast Asia -- 70 years of democratic movement spread. And nations that once knew only the blinders of fear began to taste the blessings of freedom.”

Since World War II, the United State has played a special role in the region promoting democracy and improving peoples’ lives. While the FY 2016 budget request recognizes increasing regional needs, it also recognizes that the United States has an important leadership role to play and must remain engaged in the region.

We appreciate the continued support for Europe and Eurasia from members of this Committee. I appreciate the opportunity to testify and welcome your questions.