

**STATEMENT OF ASSISTANT SECRETARY BETH JONES
BUREAU OF EUROPEAN AND EURASIAN AFFAIRS,
U.S. DEPARTMENT OF STATE
HEARING OF THE SENATE FOREIGN RELATIONS
COMMITTEE,
OVERSIGHT OF FOREIGN ASSISTANCE PROGRAMS
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Mr. Chairman and other distinguished Committee members, I am pleased to participate in your examination of U.S. foreign assistance programs. U.S. assistance is key to achieving our foreign policy goals in Europe and Eurasia, and we greatly appreciate your current and past support in providing us with this important diplomatic tool. I am pleased to have with me today Dr. Kent Hill, my counterpart from the U.S. Agency for International Development. Also, sitting behind me is Ambassador Carlos Pascual, the Coordinator of Assistance to Europe and Eurasia. We are fortunate to have in our Bureau a Coordinator with statutory authority over assistance in our region; we think this helps maintain a strong link between foreign policy objectives and assistance programs.

Assistance Advances American Interests

In the region covered by my bureau, there is strong evidence of how foreign assistance can serve U.S. national security interests. Our military assistance, through the Foreign Military Finance (FMF), International Military Education and Training (IMET) and the voluntary Peacekeeping Operations (PKO) accounts, is helping us gain capable allies in the war on terrorism and it strengthens the capabilities of our new NATO allies. Our political and

economic transition assistance through the FREEDOM Support Act (FSA) and Support for East European Democracy (SEED) Act is expanding Europe's zone of democracy and prosperity eastward. The intense engagement we achieve through our assistance, with governments and the broader society, is building strong ties that will help anchor U.S. relations with these countries for years to come. Moreover, the support we give to nurture grassroots nongovernmental organizations will help these indigenous groups sustain the impetus for open and competitive political and economic systems, even beyond the lifespan of formal American assistance. No other donor is as active as the United States in this area, and we will continue to support civil society organizations as they strive to implant themselves.

Since this Committee examined our foreign assistance in Europe and Eurasia a year ago, the countries of Central and Eastern Europe and the former Soviet Union have demonstrated that our assistance pays large dividends. They support U.S. foreign policy priorities and are valued partners for the United States in the global war on terrorism. Of the 27 transition countries, all of which have received substantial US assistance since the early 1990's, 24 are active supporters of Operation Iraqi Freedom (OIF) and/or Operation Enduring Freedom (OEF) (Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Serbia and Montenegro, Slovakia, Slovenia, Tajikistan, Ukraine, and Uzbekistan). Three Central Asian countries have provided some form of basing to our troops. Our overall foreign assistance has played a key role in cementing bilateral relations. Our military assistance has

allowed these countries to contribute effectively to OEF, OIF, and the war on terrorism.

Our military assistance has also made it possible for many of these states to be part of critical peacekeeping efforts in the Balkans. Our security aid through the FMF, IMET and PKO accounts enhances interoperability of European and Eurasian militaries with NATO. We have helped new NATO entrants build capabilities that they will contribute to the alliance. We have strengthened the ability of other nations to contribute to United Nations peacekeeping missions in Lebanon, Sierra Leone and Liberia. Increasingly, these countries are not just consumers of assistance but contributors to our global security interests.

The United States has a strong national security interest in fostering stability, prosperity and democracy in those European and Eurasian countries that lived under Communism and Soviet domination. The picture is mixed and the challenges are complex. This can be seen very clearly by examining another significant development of the past year that I know this Committee followed closely -- the regime change in Georgia. While Georgia is a relatively small country, the "Revolution of Roses" that took place there last November had huge reverberations in the former Soviet Union. It has caused governments throughout the region to take stock of their internal political situation.

U.S. assistance did not play a role in the choice exercised by the Georgian people for a change in leadership – nor should it have. But U.S. assistance was key in building the capabilities of Georgians and Georgian

organizations so that they could make choices for themselves about their future. Newly elected President Saakashvili is an alumnus of a Freedom Support Act graduate fellowship at Columbia University. Fourteen members of his cabinet, including Prime Minister Zhvania and the ministers of Foreign Affairs, Defense, Agriculture, Economy, Interior, Justice and Finance, also participated in U.S.-funded exchange programs. U.S. assistance in Georgia's November balloting, particularly our funding of exit polls and contributions to the training of 2,500 domestic election monitors, made the scale of election fraud immediately and abundantly clear. The sustained and ultimately effective response of Georgia's political parties and NGOs to the fraud was also a testament to the vibrancy of Georgian civil society. Ultimate credit goes to Georgians themselves. That is as it should be. But there is no question that the training, grants, and exposure to new ideas provided through U.S. assistance programs helped create the foundations for Georgians to exercise their political will.

Emerging Progress, Continuing Challenges

With strong Congressional support for SEED and FSA over the years, we have made considerable progress in many of these countries. Eight countries in Central and Eastern Europe no longer receive transition assistance, and three more will join them in the next several years. Three countries (Poland, Hungary and the Czech Republic) have joined NATO and seven more countries that have received SEED assistance (Estonia, Latvia, Lithuania, Slovakia, Slovenia, Romania and Bulgaria) will join NATO this year.

Over the past several years, many of these transition economies have remained resilient in the face of a sluggish world economy. Economic growth across all 27 transition countries in 2003 is estimated by the European Bank for Reconstruction and Development (EBRD) to have averaged 4.7 percent. Most of the economies of the former Soviet states have finally reversed the painful economic contraction that occurred after Soviet structures collapsed and before market policies took hold. Their GDPs are estimated to have grown by an average of 6.2 percent in 2003, but some of these economies (Russia, Kazakhstan, Azerbaijan) still remain overly dependent on energy sales.

Most countries of Southeast Europe and Eurasia remain poor. Ten have a per capita GDP under \$1,445, the World Bank cut-off for low-income countries. Unemployment remains a scourge in the Balkans, the Caucasus countries and much of Central Asia, with jobless rates (especially among youth) ranging from 20 to 30 percent, and in some cases much higher. Such high unemployment in politically volatile areas can threaten stability. Small and medium enterprise development is a key tool to combat this issue. Countries also need to rebuild broken trade links within the region.

The process of democratic reform has also been uneven across the region. While every leader in the region claims legitimacy through a democratic process, the quality of democracy ranges from countries like Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia and Slovenia, which have had over a decade of free and fair elections, to the dictatorships in Belarus and Turkmenistan. In between there are countries that improve from election to election. In the former Soviet Union we have seen a trend

toward less outright manipulation of elections but use of strong central controls to manipulate the pre-election environment and access to media. Judiciaries are weak – salaries are low – and are subject to corruption. We must train judges and instill standards that will make the judicial branch of government a check on oligarchic rule. This process in some countries will be generational.

Since the beginning of our SEED and FSA programs, we have invested heavily in the creation of a vibrant civil society. Nonexistent during the Soviet period, groups that advocate for business, environment, health, human rights, media, and hundreds of other causes are emerging as communities organize themselves and address their most basic problems. These groups allow for broad citizen participation in civil society and help educate communities, citizens and voters. These NGO's are essential to making government accountable.

Many of the greatest obstacles to a full economic and democratic transition in the region are transnational. Virulent organized criminals who traffic in narcotics, human beings and weapons are a growing problem in the region and threaten the forward development of rule of law and good governance systems. Corruption is a stubborn problem in many countries, particularly when there is no clear message from the most senior government officials that it must stop. HIV/AIDS is poised to ravage these transition countries, particularly Russia, Ukraine and the Baltic States.

In the Balkans, SEED assistance has contributed to stability in an area torn by a decade of violent ethnic conflict that ended just a few years ago. As

Southeastern Europe advances toward Euro-Atlantic integration, we are hastening the day when the international military presence in the region can be reduced and ultimately withdrawn. Serbia and Montenegro, in many ways the linchpin in the Balkans, made a dramatic turn-around several years ago. We want that to continue and see the country develop as a positive regional player. Its full cooperation with the International Criminal Tribunal for the former Yugoslavia is of course key to its continued progress in this regard.

Looking Forward: Strategic Priorities

These complex trends present us with complex foreign policy challenges. American assistance programs are a crucial tool to help these transition countries become stronger partners with shared values. I would like to outline four sets of assistance priorities to advance our foreign policy interests

Partners in the Global War on Terror. As I have mentioned, many countries are already contributing to international peacekeeping efforts and to the global war on terrorism. These partnerships are nascent, and it is in our interest to help these countries do more. For this purpose, our FMF, IMET and PKO assistance accounts play a crucial role. This assistance helps build capabilities that countries use to advance peace and stability. If not for the participation of these countries in the Balkans, OIF and OEF, the burdens on American troops would be greater. We need our partners to be interoperable with the United States and NATO. It helps when we train these troops in modern military practices. In today's world of global

security challenges, we need reliable partners. Our FMF and IMET assistance is an investment in our own security.

Support for Democratic process, including civil society. There are important elections in 15 transition countries in the next year, including Presidential elections in Russia, Slovakia, Ukraine, Romania and Macedonia, and Parliamentary elections in Belarus, Slovenia, Uzbekistan, Kazakhstan, Tajikistan, Georgia and Romania, as well as Kosovo. We have learned that it takes at least a year to address electoral issues and can take generations to make societal changes. We rely heavily on an experienced and dedicated cadre of partners to monitor these elections and try to make them increasingly fair, transparent and democratic. The National Democratic Institute, The International Republican Institute, the International Foundation for Electoral Systems, the National Endowment for Democracy, the Organization for Security and Cooperation in Europe, to name just a few, all help to advance our efforts to see free and fair elections held in the transition countries. We increase our funding in the year prior to municipal, parliamentary and Presidential elections in the transition countries where we are active.

More than ten years ago we understood that the transitional challenges in this region would be generational, and that we needed to invest in the people who could carry the torch of reform forward in their own societies. I mentioned the Georgian example. There are now more than 100,000 graduates from exchange programs in Southeast Europe and Eurasia. The greatest asset we offer them are American values – an appreciation for freedom, a respect for human rights. Islamic leaders in Central Asia have

gone home from U.S. programs stunned by America's religious tolerance, and ready to spread the word in their communities.

Creation of jobs and support for the emerging entrepreneurial class.

Quite simply, jobs for a middle class are a force for stability. Property ownership gives citizens a stake in their country. Support for job creation may seem unexciting. In this region it is radical.

In each of our transition countries, we are putting together financial and regulatory packages key to freeing up the private sector. Lending facilities and the creation of capital markets, deregulation, rationalization of tax policies, commercial law reform, promotion of regional trade, identifying areas of competitiveness and privatization of land – especially in rural areas – are the keys to the creation of a vibrant market economy. Mortgage programs have also helped free up large amounts of capital. In the Baltic states, through the Enterprise Fund, and in Kazakhstan, through a USAID program, we have had two highly successful mortgage programs.

Elsewhere in the economic sector, we have focused on the growth of small and medium enterprises and an emerging middle class of entrepreneurs. In Ukraine, twenty “one-stop shops” for business registration reduced registration time from 30 to 14 days. In Kazakhstan, technical assistance and training for mortgage lending have facilitated \$200 million in mortgage loans and another \$67 million in secondary market transactions. Throughout the region, the United States has partnered with the European Bank for Reconstruction and Development to support micro and small-business lending. A U.S. government investment of \$71.3 million, coupled with \$600

million in capital from other donors has produced over 300,000 loans worth in excess of \$2 billion for small and micro lending in 13 different countries. Repayment rates are averaging over 99 percent.

Fighting Transnational Threats. We are devoting increasing resources to combating trafficking in humans, and HIV/AIDS, seeking to focus increased resources to efforts to fight both those scourges. With regard to combating trafficking in persons (TIP) across Europe and Eurasia, I want to note that we have raised our funding levels for anti-TIP activities considerably over the past three fiscal years and we are hopeful that our assistance and diplomatic efforts in this area will help those countries of the region that face significant TIP problems to deal with them successfully.

But I want to focus today on another serious transnational problem, narcotics smuggling and the linkages to organized crime. Heroin from Afghanistan is flooding into the former Soviet Union and Southeast Europe, but it is not just transiting these states. It is contributing to crime, disease and corruption to such an extent that it threatens to overwhelm recent gains, particularly in Central Asia. Russia, Ukraine and the Balkans have also been victims of this scourge, which is the principal cause of escalating HIV infection. For FY 05 we are asking for an increase in the FREEDOM Support Act account of approximately \$16 million for programs that combat the drug trade in Central Asia. We are actively coordinating with the European Union and the United Kingdom. We are drawing on the resources of all key American agencies including the Department's Bureau of International Narcotics and Law Enforcement Affairs Matters, the U.S. Drug Enforcement Agency, the Federal Bureau of Investigation, the Department of Defense, and our

intelligence agencies. At this point, we can barely dent the problem with available resources.

Conclusion

I want to leave time for Dr. Hill, who represents the major implementer of our assistance programs, USAID, to give his views.

But before I conclude, I want go back to the point I highlighted at the beginning of my remarks: the overwhelming support we have received from the recipients of SEED and FSA assistance in the global war on terrorism. It is worth pointing out that this support is not just based on the policies of governments currently in power. I truly believe that in many cases it is based on shared values that go deeper into these societies. These shared values have been promoted by our foreign assistance – including, very importantly, our public diplomacy and exchange programs – for the past 15 years since the fall of the Berlin Wall. Through our aid programs, Americans are engaging with non-governmental organizations, educational institutions, private companies, students, scientists, and many, many others. And this engagement is helping to form a network of linkages between our society and their societies, a web of linkages and shared values strong enough to withstand the ups and downs of bilateral relations in the long run. That is an excellent return on the investment of our foreign assistance dollars, and it is one that members of this Committee, and particularly you, Mr. Chairman, can be proud to have supported.