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**Testimony**

**Before the**  
**Senate Foreign Relations Committee**  
**March 26, 2003**

Chairman Lugar, Members of the Committee, I welcome the opportunity to appear before you today to discuss the work of the U.S. Agency for International Development (USAID) in the Asia/Near East region, and your interest in possible adjustments to the Foreign Assistance Act. I am particularly pleased to appear before you in the company of Assistant Secretaries Burns, Rocca, and Kelly. Our joint appearance illustrates the close and ever growing coordination between the State Department and USAID, as well as the important role that USAID plays as a part of this Administration's foreign policy team.

Recent events have clearly demonstrated the enormous risks posed to our nation by the existence of nations with weak institutions, high poverty, and limited opportunity. As noted in the National Security Strategy of the United States, "Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders."

For this reason the Strategy calls for the U.S. to launch a new era of global economic growth through free markets and trade while expanding the circle of development by opening societies and building the infrastructure of democracy.

To help carry out this strategy, the President has proposed two important new initiatives that will dramatically affect the way USAID does business in the Asia Near East region, and indeed throughout the world:

- **The Millennium Challenge Account (MCA)** articulates a fresh and practical framework for development. The MCA is built on the fact that our aid is most effective in situations where governments are democratic and accountable to their citizens. We will achieve more effective results in economies that are open and corruption-free, where governments invest in their people. The MCA offers significant aid for governments that meet high standards of performance. By making explicit the causal relationship between good governance and economic growth, the President has provided an innovative formula for more effective assistance.
- **The Middle East Partnership Initiative, or MEPI**, emphasizes democracy, economic reform and private sector development, and education in a region that is desperately in need of all those things.

These general principles - igniting a new era of global economic growth through free markets and trade while expanding the circle of development by opening societies and building the infrastructure of democracy - articulated in the National Security Strategy and carried out through (among other means) the MCA and MEPI initiatives - form a useful backdrop against which to discuss USAID's efforts in the three regions covered by our ANE Bureau.

## **Near East**

In the Near East, the need for robust foreign assistance has never been more compelling. All of us are concerned today by the unfolding events in Iraq, as U.S. forces are once again called upon to take decisive measures to ensure the United States and international community do not fall victim to terrorism, violence, and the spread of weapons of mass destruction. Like the events of September 11, the current conflict points out the need to address the root causes of regional instability. In countries across North Africa and the Middle East, economic hopelessness and political stagnation are providing fertile ground for those seeking to fill the ranks of terrorist groups. Over the last 25 years, economic performance in the Middle East has fallen behind that of most other regions of the world. The economic situation is exacerbated by demographics, with a majority of the population in many of these countries below the age of 25. Each year millions of young people enter the labor market with no prospect of finding a job. Many of the unemployed and/or underemployed are university graduates, often with technical degrees. Thus, there is already a considerable level of "human capital" not being put to use

Governments in the Middle East face crucial choices on issues of economic development and policy reform. If they do not make the right choices, the region will continue to fall farther behind, potentially increasing the threat to stability. Economic assistance is critical to fostering the correct choices and providing the means to implement them. By addressing the major development problems of economic stagnation, lack of participatory government, competition over water resources, and poor health, we can help to create the conditions necessary for regional peace and stability.

To accomplish these objectives, the ANE Bureau is working closely with the Department of State to make sure that all our programs in the region correspond closely with the objectives of the Middle East Partnership Initiative (MEPI) announced by Secretary of State Powell. MEPI is an important tool to address the objectives cited in the National Security Strategy. USAID is fully committed to using all the resources available to us to support this important new initiative.

Based on USAID's extensive experience around the globe and in the region, we believe that MEPI's focus on democracy, economic growth, and education is exactly right. And I am pleased to report that our programs in the Middle East largely reflect these emphases. Economic growth and democracy are two of the three pillars which define USAID's mission and shape our organizational structure, while education and health are crucial areas of emphasis within the economic growth pillar. The recent report commissioned by USAID's Administrator Andrew Natsios, "Foreign Aid in the National Interest:

Promoting Freedom, Security, and Opportunity,” speaks to the importance of promoting democratic governance and driving economic growth as key themes. Education and health are ends in themselves, as literacy and mortality rates are key development indicators, and essential to support the goals of democracy and growth. Democracy, in turn, is critical to good governance.

USAID’s own analytical work points us in precisely the same direction as does the philosophy that underlies MEPI. MEPI seeks to “bridge the job gap” by promoting economic growth; “bridge the freedom gap” by promoting democracy; and “bridge the knowledge gap” by promoting greater access to higher education. USAID shares the same objectives.

Together with our colleagues at State, we are crafting effective approaches for advancing MEPI’s goals. We must also be rigorous in evaluating new programs to recognize and replicate successful approaches and to quickly discard methods that do not work. We must develop strategic priorities in each area and guard against a proliferation of small and unrelated activities. And we must recognize that the unique circumstances in each country require that Embassy and USAID officials on the ground tailor the programs to local conditions. Success will ultimately be judged by demonstrable impact and results.

I am pleased to note that a significant number of projects that will be directly funded by MEPI this year will be implemented by USAID. And I am equally pleased that so many of our projects support the MEPI objectives. For example:

- Our health and population programs have women and children as their primary beneficiaries and provide immediate and visible benefits. Programs in Egypt, Jordan and the West Bank and Gaza are extending improved mother and child health care to poor areas. An unhealthy population cannot contribute effectively to economic growth or participate in civil society. Also, unhealthy children cannot learn well in school.
- In Egypt under the New Horizons project, more than 50,000 girls—some of whom are out-of-school—have received life skills training along with their “regular” curriculum. Interestingly, under Egypt’s New Visions project, 1,075 Egyptian teen-aged boys receive education in anger management, health, leadership and job skills training.
- In Lebanon, approximately 150,000 families, representing about 70% of rural Lebanon and 30% of South Lebanon, benefited from over 1,300 small-scale, environmentally-friendly, income-generating activities in over 400 villages representing 40 economic “clusters” whose diverse communities and municipalities contributed 40% of total costs. Perhaps even more important, multi-ethnic and multi-religious communities, previously in conflict, are beginning to work together for common economic purposes.

- Since its inception four years ago, USAID's Jordan-U.S. Business Partnership has assisted 245 small and medium enterprises with 550 activities, helped establish 8 new business associations, supported the retention or creation of 1,000 new private sector jobs, helped develop 430 international business linkages, and assisted with the generation of more than \$130 million in Jordanian exports.
- In Morocco, as of October 2002, three USAID-assisted microfinance organizations have a total of 80,000 outstanding loans, bringing the total of loans since the program's inception to 270,000. The majority of these were extended by Al-Amana, a highly successful association started by USAID in 1996. Al-Amana has 81 branch offices with over 260,000 loans. Al-Amana also has recovered all its costs since its start-up. Rural communities have benefited extensively from the program. About 11,000 new loans were made to rural areas in the past year.

We expect that USAID will remain a key implementing MEPI partner in the future.

In sum, USAID believes the Middle East Partnership Initiative is timely and well focused on the critical issues in the region. We are excited about the prospect of using USAID's extensive expertise and resources to aid in the success of this important new undertaking.

Looking beyond MEPI to the broader USAID program in the region, following are examples of some of the challenges we face, and the successes we have helped achieve, at the bilateral level. I will start with our newest program, our assistance to the people of Iraq as they emerge from years of dictatorship, repression, and conflict.

## **Iraq**

USAID is committed to providing assistance to the Iraqi people to help them realize a prosperous and just Iraq. The development challenges are numerous. Iraq's highly centralized administration has resulted in a disempowered citizenry and quite limited opportunities for local initiatives. In addition, almost one-third of all children in the south and center regions of Iraq suffer from malnutrition. Low exclusive breastfeeding rates, high prevalence of anemia among women, and a high incidence of low birth weight contribute to Iraq's high child mortality rate (131 deaths among children under 5 years per 1,000 live births). Furthermore, five million people are at risk from lack of access to safe water and sanitation. Prior to the 1990s, Iraq had one of the best education systems in the Arab world, achieving universal primary school enrolment and significantly reducing women's illiteracy in the country. Primary school net enrollment, which was close to 100% before the Gulf War is down to 76.3%, and secondary school enrollment is at 33%. For those children completing primary school, the quality of education is so poor and the motivation of teachers (due to low pay) so low that many do not have basic literacy and numeracy skills. Iraq's infrastructure, which has suffered from years of neglect, has limited economic productivity and growth and impaired the delivery of essential services.

USAID plans to address the following objectives:

**Restoring Economically Critical Infrastructure:** Assistance will rehabilitate critical infrastructure to help maintain stability, ensure the delivery of essential services, and facilitate economic recovery. Iraq's roads and ports will be rehabilitated to meet the needs of citizens and facilitate transportation of humanitarian assistance and commercial imports. Potable water and sanitation services will be reestablished to prevent disease. Assistance will restore power supply to health facilities, water supply facilities, and infrastructure that contribute to the local economy and employment generation.

**Supporting Essential Health and Education Services:** USAID will restore basic healthcare services to vulnerable populations, including delivery of essential drugs, equipment, and supplies to health facilities, and assist in health/disease surveillance. The assistance will supply health information/education to the public, build the management capacity of Iraqi counterparts, and help to promote equitable access to health services. Education assistance will increase access to primary and secondary public education for Iraqi children, promote retention of students in the classroom, strengthen school administration, and develop re-entry programs for out-of-school youth. Priority will be given to ensuring that girls and women have equal access to education.

**Expanding Economic Opportunity:** Assistance will promote a competitive private sector, generate employment opportunities, and improve agricultural productivity. Activities will extend credit to small and micro businesses; develop local, regional and international business networks; and provide workforce development and training. Agricultural assistance will supply agricultural inputs for the spring and winter planting season, and address livestock and poultry diseases. Farmers will be empowered to use modern agricultural technologies to enhance profitability and competitiveness. Agricultural policies and regulations will be introduced. Assistance will help to reestablish the Central Bank and Finance Ministry, establish a market-based telecommunications system, and stabilize the banking sector as a foundation for broad-based growth. Activities (implemented in cooperation with the Department of the Treasury) will build the capacity of the Ministry of Finance to undertake macro-economic policy analysis and budget planning, and support an independent Central Bank's capacity to issue and manage domestic currency, promote a competitive financial system, establish a market-friendly legal and regulatory environment, and develop a successful trade promotion strategy.

**Improved Efficiency and Accountability of Government:** USAID will foster social and political stability by helping meet citizens' basic needs within their communities and by providing Iraqis with an opportunity to participate in public decision-making. Activities will strengthen the capacities of local administrations to manage and deliver services such as potable water, education, and healthcare; assist the development of NGOs and civil society organizations; and support the preparation and implementation of an appropriate legal framework for decentralized government.

## **Egypt**

U.S. national interests in Egypt hinge upon a strong bilateral relationship to form an effective partnership to combat terrorism, resolve regional conflicts and promote regional peace, ensure regional security, and promote economic development. A stable and prosperous Egypt serves U.S. regional concerns and national security interests and provides an important economic partner for trade and investment. In keeping with recent U.S. foreign policy imperatives, adjustments to the program are adapting to changing global and Egyptian circumstances-especially following September 11, 2001. In particular, the Mission's program is being redesigned to fit the priorities of the recently announced Middle East Partnership Initiative (MEPI): economic reform and private sector development, education, strengthening civil society, and addressing women's development issues.

In 2002, the GOE undertook a number of economic policy actions including: (1) completing an IMF-sponsored financial sector assessment program; (2) enacting far-reaching legislation in money laundering and intellectual property rights; (3) proposing a comprehensive macroeconomic policy reform plan in "Egypt Policy Paper"; and (4) floating the Egyptian pound. The GOE also implemented a major set of agricultural policies such as effective water resource management, privatization of multiplication and marketing of seeds and promotion of transparency in decision making. The USAID funded pilot court model that aims at reducing case delays, ensuring the timeliness and quality of justice, and introducing modern management and appropriate automation into Egypt's courts has been accepted by the Ministry of Justice (MOJ) for nationwide replication. Four successful USAID/Egypt projects helped equip more than 9,400 teachers, supervisors and administrators with improved teaching and classroom management skills.

## **Jordan**

Jordan plays a pivotal role in promoting Middle East stability, combating terrorism and serving as a model of reform. His Majesty King Abdullah II is leading the Kingdom in economic and political reforms to improve the quality of life of all Jordanians, and striving to reach peaceful solutions to the region's many challenges. His Majesty's Social and Economic Transformation Plan, which shares much in common with the Middle East Partnership Initiative (MEPI), is the vision for expanding opportunities and benefits to all Jordanians. King Abdullah recently announced parliamentary elections for June 17, and the government has taken initial administrative steps in this direction -- an encouraging sign. Also, the king has set aside 6 parliamentary seats for women. While somewhat below what women's activists and groups were campaigning for, many have welcomed it.

Jordan faces several unique challenges, which impact greatly on its ability to reach its development and reform goals. First, prolonged economic effects of September 11th combined with ongoing regional conflicts have significantly shocked the economy in which one-third of the population lives at or below the poverty line. Second, Jordan is

one of the ten most water-poor countries on earth. While the population is expected to double by the year 2027, water resources are already stretched to the limit. Third, this population momentum and lack of water lead to serious economic challenges related to the need for the economy to expand to provide 46,000 new jobs in 2003 alone. USAID works hand-in-hand with the Government of Jordan, local NGOs and the private sector in a focused manner targeting water, creating jobs, health and family planning, education and civil society based on the Middle East Partnership Initiative. All Jordanians benefit from USAID's efforts.

Assistance to improve the quality of care and facilities of the Ministry of Health's Primary Health Clinics has resulted in improved care for the clients of all centers and improved facilities for almost 40 clinics to date. The Watershed Management Program concluded several assessments and provided recommendations on issues ranging from water quality monitoring to drinking water guidelines, and operations and maintenance plant protocols. USAID supported a national initiative to re-draw the investment promotion and facilitation institutions. This was accomplished in July 2002, and is currently awaiting passage into Law. A second important achievement included the passage of a Securities Law that meets international standards. With the passage of the law, foreign equity investors should be able to enter the Jordanian market with greater ease.

## **Lebanon**

Lebanon is still recovering from its sixteen-year civil war and making slow progress toward rebuilding its civil institutions, reestablishing the rule of law, and implementing economic reform. The United States has a strong interest in promoting a stable, independent, democratic, and economically strong Lebanon at peace with Israel and its neighboring states. Lebanon is challenged by the political and economic instability of the aftermath of September 11, 2001, as well as the continued violence and heated emotions across the region. A political leadership often mired in gridlock and strongly influenced by other regional players has not been able to provide strong direction for economic reform. USAID strategy aims at revitalizing and expanding economic opportunities in rural areas, through small-scale infrastructure and income-generating activities; promoting democracy and good governance, building capacity of local municipalities to plan and manage resources efficiently and transparently; and improving environmental practices, particularly community-based approaches that promote sustainable agriculture and environmental health. As a result of the USAID community development program, the social and economic situation of more than 430 communities has improved. More than 70% of the rural population, of which 110,000 live in South Lebanon have access to improved agricultural, social and environmental infrastructure (irrigation, agricultural roads, schools, dispensaries, water storage, sewer treatment and solid waste treatment). In FY 02, 66,000 families were reached and an additional 2,900 hectares of land -- out of a total of 27,000 hectares-- were improved to yield high-value crops and forage for cows, which resulted in about \$100 per month savings for each farmer.

## **Morocco**

Morocco has made great gains in recent years, but still faces formidable challenges. Among the most important is the rising poverty, due to high levels of unemployment and a labor pool largely unprepared for today's and tomorrow's job market. Morocco's citizenry is appreciative of democratic reforms and improved governance, but wants more. To help Morocco address its development challenges, USAID is re-orienting its program in Morocco to make economic growth- and, in particular, job creation, - the centerpiece of our strategy. The focus of this new strategy will be on activities directly linked to job creation. As we develop our new strategy for assistance in Morocco, we will work with the Moroccan government to strengthen its economic and educational reform programs which will enable it to benefit more fully from the U.S.-Morocco Free Trade Agreement now being negotiated.

## **West Bank and Gaza**

Escalating violence, terrorism, closures and curfews have resulted in the virtual collapse of the Palestinian economy and a growing humanitarian crisis. GDP has declined by 46 percent between 2000 and 2002. The number of Palestinians with incomes below the poverty line of \$2 per day is estimated at more than 70 percent of the population, while unemployment levels have climbed from 20 percent to more than 50 percent since the start of the Intifada. Acute and chronic malnutrition have increased to epidemic proportions, and psycho-social problems affect large sectors of the population. The most important challenges that USAID confronts is meeting the immediate and on-going emergency humanitarian needs of Palestinians while not losing focus on medium to long term development goals. Given the continued political stalemate, and the growing humanitarian crisis, USAID anticipates providing vital emergency and humanitarian assistance for at least another 12-18 months. USAID has programmed approximately \$35 million since April 2002 towards urgent humanitarian health, food and water activities to meet basic human needs of the Palestinian people. USAID partners are actively providing psychological trauma support to children, while training parents and teachers regarding counseling skills and techniques. Medical supplies, equipment, and pharmaceuticals are being procured to fill commodity gaps within the health system. At the same time, USAID is pursuing a robust medium to longer term development program focused on private sector revitalization, political and economic reform consistent with the policy priorities of the administration, and water infrastructure to meet this basic human need. USAID is working with NGO partners to monitor water supplies in more than 200 villages. Funds are available for immediate interventions when the water supply is dangerously limited, or where simple steps could greatly increase the safety of the water supply (e.g., supplying chlorine disinfection tablets, providing water in bottles or tanker trucks). Hundreds of destroyed roof-top water tanks have been replaced, renewing household water storage. USAID is also installing or repairing well pumps across the West Bank to increase water supplies, especially in rural areas and in villages most isolated by the closures.



## **Yemen**

U.S. assistance to Yemen is essential for furthering U.S. counterterrorism goals, and provides vital aid to one of the world's poorest nations. Over the past year USAID established a new program to improve basic health and educational programs in tribal areas in Yemen and plans to re-open an office there by the summer. Already, USAID-funded programs have made a significant impact on increasing voter registration and enhancing professionalism in the main political parties for the upcoming parliamentary elections. With ESF funding in the coming years, USAID plans to further support improving the educational status and health conditions of Yemenis, particularly women, and increasing income earning opportunities of people in poor tribal areas.

## **South Asia**

As we know from recent events in Afghanistan and along the Indo-Pakistan border, the threats posed by terrorism, violence, and the spread of weapons of mass destruction are very real to the people of South Asia. Terrorism, ethnic and religious conflict, and the ever-present risk of nuclear war present imminent dangers to the South Asian subcontinent.

USAID's assistance programs play an important role in addressing and preventing the many threats to U.S. interests posed by terror, violence, weapons, disease, crime, drugs, and hate. In the words of USAID Administrator Andrew Natsios, "this Administration has taken development off the back burner and placed it squarely at the forefront of our foreign policy."

Although the countries of South Asia are not eligible for MEPI, the Asia Near East Bureau is dedicated to applying the principles of the MEPI and the Millennium Challenge Account to our programs in South Asia. To be sure, not all of the governments in South Asia would meet the MCA high standards of good governance and economic openness today. However, it is our goal to work with governments and the people themselves to create conditions in which all South Asian countries can some day meet those standards.

Among our South Asian programs, Sri Lanka stands out as a nation emerging from decades of horrific ethnic conflict with great promise for development. There are a few troubling challenges as well. The Maoist insurgency in Nepal has caused us to reevaluate and redirect our program there to address the causes and impact of the conflict. In fact, we are working closely with our Mission Directors and Ambassadors across the region to re-evaluate whether our aid programs adequately address today's challenges. If they do not, we must either reshape or drop poorly performing programs. This is a continuing and evolving process that takes on new urgency in light of transnational threats such as terrorism.

In addition to our development assistance work, USAID's Office of U.S. Foreign Disaster Assistance is emphasizing training and preparedness programs in South and Southeast Asia to limit the economic and social impact of future natural disasters. Two

key goals are to enhance local response capacities and to decrease countries' reliance on international emergency assistance.

Following is a description of some of the key programs in which we are now engaged in South Asia, and of some of the successes we've achieved – and the challenges we still face.

## **Afghanistan**

Afghanistan was the number one recipient of U.S. humanitarian assistance before September 11, 2001, and America continues to lead the international community in providing assistance to Afghanistan today. Poverty, famine, a devastating drought, and years of war and civil strife have created a humanitarian crisis in Afghanistan, which was aggravated by years of Taliban misrule. The people of the United States, through USAID, have responded.

USAID is playing a leading role in meeting the Afghans' urgent need for food, water, shelter and medicine. Since September 11, 2001, the United States has provided nearly \$900 million for Afghan relief and reconstruction. In addition to the well-publicized schoolbook and seed distribution programs, USAID has

- reopened the Salang Tunnel and made preparations for keeping it open during the winter. More than 1,000 vehicles and 8,000 people use the tunnel every day. Seventy percent of the fuel for Kabul passes through it.
- Completed demining, grading, and leveling through 51 miles of Kabul-Kandahar-Herat Highway, and will begin asphaltting soon.
- Completed over 6,100 water-related projects, including wells, irrigation canals, karezes, dams, reservoirs, and potable water systems.
- Supported over 4,225 spot reconstruction projects such as government buildings, schools, roads, bridges, irrigation systems and other community projects that provide local workers with thousands of days of labor.
- Will rebuild thousands of schools, irrigation systems, and other vital infrastructure in villages adjacent to reconstructed highways.
- Is rehabilitating 2,500 miles of road, is reconstructing 31 bridges, and has kept open an additional three mountain passes.

In addition to assisting or facilitating linkages between local, regional and national governments with communities and NGOs in various priority regions of Afghanistan, USAID has also been providing direct support to the new Government of Afghanistan.

To date, USAID's Office of Transition Initiatives (OTI) has provided 50 small grants to over 26 different Afghanistan Government ministries and offices, totaling an estimated \$1.9 million. OTI programs in Afghanistan are providing valuable reconstruction and media assistance to government institutions in Kabul, but more importantly to local communities in many areas outside the capital. The programs have extended the reach and influence of President Karzai's government to the rest of the country by establishing radio communications and a government pouch system. Community Development projects also assist local municipalities in both working with local communities to identify priority reconstruction projects, and establishing coordination mechanisms to communicate needs with and receive direction from the central government.

USAID has provided additional support to the government by funding key consultants to President Karzai's office (Public Information Officer), the Ministry of Women's Affairs (Special Consultant to the Minister), and the Ministry of Agriculture (through implementing partner consultancies).

In light of all these accomplishments, I want to thank this Committee for its support of the Afghan Freedom Support Act. Absent this key piece of legislation, the Afghan people would face a far different, and much less hopeful future than they do today.

## **Pakistan**

USAID opened a field mission in Pakistan in June, 2002 after 12 years of rupture following the imposition of sanctions in 1990. Our goal is to strengthen Pakistan's capacity to combat terrorism by encouraging just governance, investment in people, and economic freedom. These programs are just getting off the ground now, so we cannot gauge their full effectiveness yet. However, the leadership and commitment of our Pakistani counterparts are very positive signs of future success.

***Education:*** Our highest priority is investing in the people of Pakistan. The illiteracy rate is 53 percent, one of the highest in the region. Nearly 40 percent of young people aged 15 to 20 are unemployed. As seen by the dramatic increase in private schools and madrassahs, the demand for education is strong. We need to help Pakistan meet this need, thereby also reducing the demand for madrassahs headed by uneducated extremists. Right now, USAID is enhancing teacher training for both public and private primary schools. We are providing funds to improve curricula, encouraging community involvement in the local schools and supporting adult and youth literacy programs.

***Governance:*** In October 2002, Pakistan held a national election which restored civilian government with a Prime Minister and National Assembly, but democratic institutions in Pakistan remain weak. Our focus is on strengthening democratic institutions and political parties, including the National Assembly and locally-elected legislatures. We also have a tremendous opportunity to work with communities and local, provincial and national elected officials on local development problems.

***Health:*** Infant mortality rates in Pakistan are 83 per 1000 live births, which compares poorly with other countries in the region. Only 31 percent of married women seek

prenatal care. In addition, Pakistan's annual population growth rate is one of the highest in the world at 2.8 percent. To address these issues, USAID has formed a partnership with the U.K.'s Department for International Development (DFID). Our work will focus on maternal and child health, family planning, AIDS prevention, and tuberculosis control at the provincial and community levels. Meanwhile, DFID will support the Federal health ministries.

***Economic Growth:*** 40 percent of Pakistan's 140 million people live below the poverty line. Recent economic growth rates have been disappointing, and low levels of foreign investment have made the situation worse. To stimulate growth, we are implementing a two-pronged approach. At the national level, our goal is maintain macroeconomic stability, reduce Pakistan's foreign debt and encourage the Pakistan Government to meet IMF goals. On a local level, USAID will promote microenterprise to create jobs in some of Pakistan's poorest and hardest-to-reach regions.

Overall, we have tailored the USAID program to Pakistan's primary development issues and have used the ESF cash transfer mechanism to address Pakistan's foreign debt. The FY 2003 transfer of \$188 million will be used to buy down \$1 billion in debt. The FY 2002 transfer was used to secure Pakistani spending in the social sector.

## **Sri Lanka**

Sri Lanka is another clearly defined example of putting the Administration's policies of accountable foreign aid to work. Until last year, Sri Lanka was on the road to becoming a non-presence post. In response to the promising ceasefire and peace process there, we are now moving swiftly to accelerate our investments. We have reversed staffing reductions and requested additional resources in FY 2004 in recognition that, at last, the country is on the right track.

In the near term, a peacefully negotiated settlement of the conflict is essential in order to secure a healthy environment for economic growth and promote U.S. trade interests. USAID's humanitarian assistance and longer-term economic reforms are designed to ensure the 'peace dividend' is distributed equitably among the peoples of Sri Lanka. Successfully reintegrating the thousands of Internally Displaced Persons and refugees from India into their home communities and resettlement villages is a priority. Homes, schools and hospitals need to be rebuilt. Water and sanitation infrastructures must be rehabilitated, and we need to make sure people have ways to earn a living and support their families.

USAID's FY04 program will target three main areas: increasing the country's competitiveness in global markets, building constituencies for peace through transition initiatives, and democracy and governance reform. The remaining funds will be directed to humanitarian assistance and to regional environmental activities.

## **Nepal**

Today the situation in Nepal is more hopeful than it has been in over a year. Just last week, representatives of the Maoist rebel group and the Government agreed to a Code of Conduct, a peaceful foundation for future negotiations towards a longer-term political settlement to the conflict. A few months ago, however, the future of Nepal appeared bleaker. A Maoist insurgency practiced unspeakable brutality, intimidation and murder, resulting in over 7,000 deaths since it began in 1996. The insurgents control a large share of the countryside, and have benefited from popular outrage over years of government corruption and denial of service to the people.

The destructive effects of the Maoist insurgency, however, should not distract attention from the gains Nepal has made over the past fifty years. It has transformed itself from an isolated medieval kingdom to a constitutional monarchy. Child mortality and fertility rates have significantly decreased. Literacy and food security have improved.

Yet these development gains are unevenly distributed. Poor governance and corruption, the forbidding mountainous terrain and lack of basic infrastructure, like roads, have led to wide disparities across regions and ethnic groups and between rural and urban populations. These inequities provided a fertile ground for the insurgency.

Our greatest challenge is to meet the immediate needs of those communities most affected by the conflict, former combatants and victims of torture, without losing sight of the Government's needs through successive stages in the peace process. USAID plays an important part in the USG's larger strategy in Nepal. Our emphasis is on health, economic security and governance reform to combat the poverty and disenfranchisement that facilitated the six-year insurgency. Our task is to expand opportunities for employment and generate growth in the private, trade, agriculture, and energy sectors. We will reinforce that work with efforts to improve public sector management to deter corruption and strengthen the rule of law.

## **Bangladesh**

Bangladesh is one of a handful of moderate, democratic Islamic nations in the world today. It is also an ally in the U.S. Government's efforts to combat terrorism. Promotion of democracy is an important U.S. objective in Bangladesh, since achieving and sustaining economic growth is based upon a strong democratic system of government. The need to combat HIV/AIDS is now a high level U.S. interest because the country appears to be on the brink of a serious HIV/AIDS outbreak. While HIV/AIDS prevalence is low today, Bangladesh shares most of the characteristics of high prevalence countries. Action is needed now to avoid the politically, socially and economically destabilizing affects of a widespread epidemic.

This year Bangladesh exceeded USAID's performance targets in economic growth. Other donors, the business community, and the Bangladeshi Government view USAID's small business and agribusiness projects as leaders in innovative, business-driven

approaches. Moreover, USAID was able to respond to several opportunities during the past year by initiating new interventions in the areas of information and communications technology, bank supervision, a national enterprise survey; a new trade leads facility, and a new Government investment strategy that complements longer-term activities. The U.S. Mission continues to work with the Government of Bangladesh to support a decision to export Bangladesh's abundant gas. Meanwhile deregulation of the power sector is rapidly proceeding.

Unfortunately, governance problems continue to hamper growth. For the second year in a row, Bangladesh was ranked as the most corrupt of 102 countries surveyed in Transparency International's annual corruption perceptions survey. Power and resources are highly centralized, leaving local government bodies with little ability or authority to control decisions that affect their constituencies. Political parties need support to transform bitter rivalry into constructive opposition. Only then can the Parliament focus on the many complex national issues facing the Bangladeshi people. Elections will be held in 2006; now is the time to start providing constructive assistance to level the playing field.

With limited prospects for the Government's real assistance in this area, USAID seeks to mobilize civil society. Our goal is to build demand for policy reform in the areas of local governance, parliamentary and political processes and human rights. This work has already met with some success for better informing the public. With three years of USAID support, Transparency International Bangladesh (TIB) has become a regional leader, coordinating the 2002 household corruption survey for not only Bangladesh, but also four other South Asian countries. We are also working at the community level to improve basic education, introduce innovative learning techniques, and integrate family planning and promote health to reduce long-term poverty and encourage economic growth and democracy.

## **India**

India has the potential to be a catalyst for economic growth and development in an unstable region, and is a key U.S. ally in the war on terrorism. At the same time, India—the world's largest democracy of 1.1 billion people—is home to over 300 million people living in abject poverty (more than Africa and Latin America combined).

USAID's program in India advances U.S. national interests: economic prosperity through opening markets; global issues of population growth, infectious diseases, and climate change; democracy concerns of alleviating poverty, reducing malnutrition, and improving the status of women; and enhancing India's ability to save lives, reduce suffering, and recover faster after natural disasters.

One of our biggest successes has been in reducing CO<sub>2</sub> emissions from the supply side. Now USAID is focusing on the demand side of the energy equation—distribution reforms. Policy changes at the local level, by providing consistent power for individuals and businesses, produce immediate results and improved revenue collection. Such reforms

will also reduce state subsidies, leaving more budget room for badly needed social sector investments.

USAID is providing high-level technical assistance to the Government of India in the area of economic growth. At the national level, our focus is on reforming state fiscal policies and private pensions. At the local level, we are helping local governments finance public infrastructure and improve policy. We are also emphasizing technology, trade and resource-allocation initiatives.

India faces severe health challenges: over 4 million people are infected with HIV/AIDS; polio is re-emerging in the Northern portion of the country; and each year India has more new cases of tuberculosis (1.9 million) than any other country. USAID has ongoing activities in all these areas. Our work in the State of Tamil Nadu has successfully tempered the growth of HIV/AIDS, setting a model for others in India.

### **East Asia and the Pacific**

As our nation is fighting terrorism in Iraq and Afghanistan, we must continue to pay attention to terrorism and other threats to stability in East Asia. Countries like Indonesia and the Philippines are also front line states in the war on terrorism. By strengthening economic reforms, democracy, education, and health, USAID programs help address the threat of terrorism directly in East Asia and the Pacific.

We are on the front lines of the war on terrorism in Southeast Asia. In the Philippines and Indonesia, USAID support has enabled the governments to take a stand against terrorism within their borders. USAID has provided viable alternatives for people who, unable to fulfill basic social and economic needs, might otherwise be drawn into terrorist groups, and has helped the Philippines and Indonesia to take policy decisions and enforce regulations that directly fight terrorism. For example, in both countries, USAID has contributed to successful anti-money laundering legislation.

At the same time, the variety of conditions across the different countries in East Asia means that we must tailor our response to the needs of each country in situations as varied as East Timor, Burma, Vietnam, and Mongolia.

In all of East Asia, USAID's programs address the conditions that provide fertile ground for terrorism: poverty, disease, unemployment, lack of education, economic decay, failing governments, political disenfranchisement, disrespect for human rights, and local conflict. USAID demonstrates to the people of East Asia that the United States is committed to improving their lives for the long term.

Indonesia, the Philippines, and East Timor represent countries where we are working with governments committed to a democratic path, yet which are facing serious internal conflict issues and economic struggles. We are providing direct support in addressing conflicts, for democratic transition and improved governance, and for economic reforms to stimulate trade and investment. We are also providing significant support for

improved health and for better environmental practices that lead to better health and sustainable economic opportunities.

In mainland Southeast Asia (Burma and the Burma/Thailand border, Cambodia, Vietnam, and Laos), we are working in countries with governments that have not shown that they are firmly committed to a democratic future. We have therefore designed our strategies to stimulate democratic change, working mostly through non-governmental organizations. Our programs in mainland southeast Asia focus largely on democratic transition, corruption and transparency, health (including HIV/AIDS and other infectious diseases), environment, education and trafficking in persons. These are critical themes in all of the countries.

Democracy and good governance is a common thread running through almost all our programs in East Asia. Corruption drains East Asian economies of millions each year. USAID helps governments to address corruption head-on, while also helping civil society to pressure governments to be transparent and accountable. As Cambodia, Indonesia, Mongolia, and the Philippines move toward elections in 2003 and 2004, the success of the incumbent governments in addressing corruption will become increasingly important.

Because East Asia still has not completely recovered from the 1997 financial crisis and must also deal with the current world economic downturn, its governments are having trouble staying the course on the economic reforms that would have a lasting effect. However, given the world economic situation, East Asia's performance, as a whole, is not bad. USAID is helping with key economic policy decisions and implementation, including bank restructuring in Indonesia, Philippines, Mongolia, and East Timor. We are helping Vietnam to implement the Bilateral Trade Agreement with the U.S. in ways that break new ground in strengthening the rule of law and improve government transparency.

The environment is another key area for USAID in East Asia. East Asia is home to some of the world's most endangered forests and wildlife. Population growth, poverty and corruption are generating unsustainable demands on natural resources in the region and exacerbating conflict. In response, we are assisting local governments to improve resource conservation through increased transparency, accountability, and improved management. In the Philippines, USAID is supporting local governments in Mindanao and surrounding conflict-affected areas to reduce illegal logging and destructive fishing. The coastal patrols have not only reduced illegal fishing, but also have improved efforts to control smuggling, trafficking and terrorism. We have also integrated the U.S.- Asia Environmental Partnership into our bilateral programs to help continue to promote public-private partnerships to address key urban environmental issues such as air pollution. For example, in Indonesia, USAID, working with the private sector, will reduce air pollution through improving the public bus system and introducing cleaner public buses. Air and water quality are important factors in improving infant and child mortality rates.



Trafficking in persons is one of the most critical and sad areas I would like to highlight. The amount of trafficking from and within Southeast Asia is alarming. Burma, Cambodia and Indonesia are currently ranked at Tier 3, the worst ranking given by the State Department's Global Trafficking in Persons Report. USAID, in partnership with State, is committed to preventing trafficking, protecting the victims, and supporting efforts to prosecute offenders. We have gained experience in this area in recent years and are establishing resourceful partners on the ground. Just last week the prosecution of two sex traffickers in Cambodia resulted in fifteen-year sentences and required compensation to the victims. State Department and USAID support enabled the Cambodian Human Rights Organization to present the case. The State Department and USAID want to keep up the momentum and expand on such progress.

Within this broader context, following is a description of some of the key programs in which we are now engaged in East Asia, and of some of the successes we've achieved – and the challenges we still face.

## **Indonesia**

Indonesia, the largest Muslim country in the world, plays an important role in U.S. efforts to combat terrorism and maintain political and economic stability across Southeast Asia. Indonesia is implementing a major transformation of its political and economic landscape while simultaneously addressing multiple crises – from terrorism and inter-ethnic, sectarian and separatist violence to endemic corruption and rising poverty.

Indonesia has USAID's largest aid program in East Asia. We have reconfigured the program significantly to respond better to the post-9/11 needs, helping moderate Islamic groups to have a bigger voice, to address financial crimes, and to improve basic education. We have played a key role in Indonesia's dramatic move to democracy and decentralized local government, and in restoring macroeconomic stability. We have a comprehensive program improving people's lives every day through health, environment, livelihoods, education, and political participation. We are working in partnership with the private sector to fight illegal logging. We have also ensured a protected habitat for orangutans, one of the world's most endangered species.

We are deeply involved in three important developments in Indonesia today:

- Signed on December 9, 2002, Aceh's fragile Cessation of Hostilities Agreement has been successful in greatly reducing the armed conflict. We supported the peace dialogue that led to the agreement and are the lead player in the monitoring. Security throughout the province has improved dramatically and we are working with other donors to ensure reconstruction and responsible governance under special autonomy.
- Indonesia continues to recover from the October 12, 2002 Bali bombings that killed over 200 people, including seven Americans. The economic impact devastated tourism revenues. USAID provided rapid emergency response that has helped the local economy to recover, and has worked with local groups to ensure that there are

no outbreaks of tensions. Bali continues to display a remarkable coherence and lack of conflict. Generally, the trend line is positive if the tourist industry continues to recover.

- Preparations are underway for historic direct elections in Indonesia in 2004, for local and national legislative positions, President and Vice President, and the Parliament. We are working with partners like IRI, NDI, and IFES towards smooth, free and fair elections and full and productive participation by all parties.

## **Philippines**

The Philippines is on the front lines of the war on terrorism in Southeast Asia. Beginning in FY 2002, approximately 60% of our bilateral budget has been directed to addressing social and economic conditions in Mindanao that would make its Muslim population less vulnerable to terrorist influence. USAID-managed assistance has already successfully integrated 13,000 former Moro National Liberation Front (MNLF) combatants, is training an additional 8,000 MNLF former combatants in 2003, and will train the remaining 4,000 in 2004. Complementary programs are helping Mindanao to put into place better health services and educational programs, as well as improve infrastructure and public administration in the Autonomous Region of Muslim Mindanao (ARMM).

In Mindanao and elsewhere in the Philippines, USAID's assistance in health builds on the Government's devolution of its health services to local government levels for general health care, TB and malaria management, immunizations, micronutrient supplementation, and family planning. USAID also focuses on stimulating the private sector to play a greater part in improving access to quality health services.

The Philippines' ability to address conflict in Mindanao is undermined by its worsening economic and fiscal performance. For example, in 2002, the public sector deficit was an alarming six percent of GDP, due to falling tax collections. USAID's Economic Governance program addresses the issues most fundamental to ending the Philippines' pattern of stunted economic growth, conflict and corruption. In 2003-04, special attention is being given to improving tax administration, due to the overwhelming importance of fiscal revenue to economic stability and social infrastructure as well as widespread perception of tax administration as a sore point in Philippine corruption. Other areas of assistance include procurement reform, customs reform, public expenditure reform, improving in-court and out-of-court judicial systems, implementation of Anti-Money-Laundering legislation and protection of intellectual property rights.

Governance is also weak in the regulation of public utilities and environmental management. USAID's program to protect natural resources includes strengthening the ability of national and local governments to address critical threats to marine and forest resources. USAID's work in energy and air quality aims to 1) establish an open, competitive market for generating and distributing electricity; 2) electrify communities of

former rebel soldiers using renewable energy in order to promote peace and raise their standards of living; and, 3) reduce vehicle emissions to improve public health.

## **East Timor (Timor Leste)**

East Timor is the world's newest nation, where USAID programs strongly support U.S. interests of democracy, economic development, and regional stability. We are playing a critical role in this exciting time for East Timor. We provide direct support to the Timorese in establishing a democratic government: in drafting and publicly vetting a constitution, in holding free and fair elections for the Constituent Assembly and President, in drafting and holding public hearings on critical legislation, and in establishing an independent media and an effective regulatory body to oversee it.

But the majority of Timorese are still very poor and live mostly in rural areas. Today, two in five persons do not have enough food, shelter or clothing. One in two have no access to clean drinking water, and three in four have no electricity. USAID worked in East Timor prior to independence, generating rural employment and raising rural incomes for 20 percent of East Timor's coffee farmers, in a country where 43 percent of the rural population farms coffee. USAID-supported coffee cooperatives broke the monopoly of the Indonesian military on coffee purchasing, enabling the Timorese to find better markets. Our economic development work is also improving food security and increasing rural employment through agricultural diversification and microenterprise development.

We are contributing \$12 million over three years to the central government for implementation of key elements of its national development plan. We are the second largest bilateral donor, after Australia. Donor coordination is good, and essential in this new nation. We are committed to a democratic and economically prosperous future for East Timor and will need to responsibly reassess our levels of assistance as expected Timor Gap oil and gas revenues come on line in future years.

In mainland Southeast Asia (Burma and Burma/Thailand border, Cambodia, Vietnam and Laos), we are working in countries with governments that have not shown that they are firmly committed to a democratic future. We have designed our strategies in each country to provide appropriate stimuli towards democratic change, working mostly through non-governmental organizations. Our programs in mainland Southeast Asia focus largely on democratic transition, health (including HIV/AIDS and other infectious diseases), environment, education and trafficking in persons. These are critical themes in all of the countries.

## **Cambodia**

Cambodia is one of the most compelling cases for development assistance. It ranks among the poorest countries in the world, with an annual per capita GDP of \$280, low literacy rates, poor health status, and the highest official HIV/AIDS infection rate in Asia (although Burma's actual rate may be higher). Cambodia suffers from the legacies of war, genocide and corrupt government. U.S. objectives in Cambodia include

promoting democratic practices, good governance, protection of human rights, and fighting disease and poverty.

We are there as the country takes tentative steps towards a democratic future. This year our focus is on the July 2003 national elections. We are helping the democratic opposition's ability to participate effectively in elections and are working to promote an environment in which voters can make informed decisions without fear of intimidation or reprisals. Years of USAID support have fostered the evolution of strong, motivated NGOs, and now we are working to strengthen their capacity to promote democratic reforms at the national level. After the elections, our support will continue to help build the capabilities of the parties to develop leadership and messages. USAID will help the civil society organizations we support better identify and expose corrupt practices and promote active engagement by the public to monitor government activities and advocate for change, especially in the realm of anti-corruption. USAID also supports indigenous business associations which advocate for improvements in governance and transparency – reforms that will be necessary for Cambodia's accession to the WTO.

Cambodia's health services are still very weak, so we are focusing on the provision of services. This includes rehabilitation of severely-malnourished children, vitamin distribution, life-saving skills training for midwives, bednet impregnation to prevent malaria, improving the availability of treatment for tuberculosis, birth spacing, and immunization outreach. The most significant investment is being made to prevent HIV/AIDS and care for its victims. Cambodia is one of USAID's rapid scale-up countries for HIV/AIDS programming. Since 2000 we have made significant progress in moderating the spread of HIV in Cambodia.

Strong and relevant education is the key to the future of Cambodia. USAID has begun to develop a program to improve the quality and relevance of Cambodian education, with the aim of keeping children in school longer, especially girls.

Consistent with appropriations legislation, we do not contribute funds to any entity of the Royal Cambodian Government (RCG), and we only engage directly with the Government in the areas of HIV/AIDS, primary education, trafficking, and maternal and child health. Although our principal partners in Cambodian development remain international and Cambodian NGOs, this increased flexibility in recent years to work with certain parts of the Government is enhancing our effectiveness.

## **Vietnam**

Vietnam, a country of 80 million people, is key to regional stability in a mainland Southeast Asia that is currently more unstable than it has been for a while. Our interests lie in helping Vietnam make the transition to a more open and market driven economy. This is an economy that has the potential to take off. We want Vietnam as a friend; as a trading partner and market for U.S. goods. It also occupies a strategic position related to China. Vietnam, at the same time, is a very poor country with great needs for our support.

The main thrust of the USAID program is support for the implementation of the U.S.-Vietnam bilateral trade agreement. Since the signing of the agreement in December 2001, imports from the U.S. have grown by 26 percent and exports to the U.S. by 129 percent. Our assistance, helping with the laws and regulations to enable smooth international trade and investment, improves the rule of law (related to business) and makes government more transparent. We also provide assistance to prevent HIV/AIDS, improve and increase services to the disabled, and protect the environment.

Despite the government's continued hold on power, the younger generation is growing in power. More than 50 percent of the population is too young to remember the war. They are interested in our support, our culture, language, and our goods. They welcome USAID assistance at the official and grassroots levels. Cooperation is positive. The Vietnamese have recently asked for USAID assistance with developing their new securities law and with a new groundbreaking NGO law. Our assistance in economic governance has the potential to grow into more positive work in the rule of law, democracy and civil society. This is a mutually advantageous relationship we should continue to build.

## **Burma**

Burma is an authoritarian state, with serious health, economic indicators, a drug trade, and rampant human rights abuses. U.S. interests lie in promoting democratic practices and universal human rights. Our Burma program is coordinated closely with the State Department. We provide significant humanitarian assistance to displaced Burmese on the Thai-Burmese border, and help groups to promote democracy inside and outside Burma. Our implementing partners have established successful education and health programs on the border; refugees are receiving good health care, and children are getting an education. Our assistance supports scholarships to provide higher education to young Burmese who will help develop a future democratic Burma. Internews has helped opposition groups get out their democratic messages with better media products. Last year we began to address the serious HIV/AIDS situation in Burma, where the infection rates, estimated as high as four percent, may be the highest in all of Asia. We hope to expand this program in FY 04.

## **Laos**

U.S. interests in Laos are largely humanitarian. Serious human rights concerns, widespread acute poverty and disease are major concerns. USAID has a modest program in Laos. We are contributing to employment and economic growth in targeted provinces through a silk production project. We are educating Lao children about unexploded ordnance (UXO), particularly in the most affected provinces. We are also training emergency medical personnel to deal with accidents from unexploded ordnance. With unexploded bombs from the Vietnam war era still on the ground in Laos, in some parts of the country a child is at risk simply playing outdoors. Through our assistance, children are able to identify UXO and know what to do to not get hurt and to safely report the

danger. While HIV/AIDS is not yet a severe problem in Laos, we are working hard to make sure it doesn't become one. Maternal and child health is a major concern we are beginning to address, especially for Laos' most vulnerable children.

## **Mongolia**

Mongolia is a separate case. The government has made the transition to democracy and a market economy over the past eleven years, and USAID is instrumental in seeing that those transitions are successful and provide equitable benefits to the Mongolian people.

We are very proud of our Mongolia program. We have helped to rebuild the financial sector, guide responsible privatization, automate the courts, and improve herders' livelihoods. There is still work to be done. The majority of the population is poor, lives in remote rural areas, and is cut off from many of the benefits of the country's advances. The judicial sector is weak and vulnerable to corruption. The economy is far from thriving. The political opposition is weak. Slums outside urban areas are growing, with few employment opportunities. We are addressing all these areas with a well-integrated, streamlined and high-performing program.

## **China/Tibet**

USAID is involved on a limited scale in China. At the request of the State Department, we are managing small programs in rule of law and in Tibet (sustainable development, environmental conservation, and cultural preservation). We are also beginning a modest amount of HIV/AIDS prevention work in two southern provinces as a part of our Greater Mekong HIV/AIDS regional strategy.

## **Regional programs:**

### **Thailand**

We have no bilateral aid programs in Thailand, but there are several regional programs operating in the country. We are opening a new regional support office that will support our bilateral and regional programs (HIV/AIDS, anti-trafficking, environment, and economic growth) in mainland Southeast Asia as well as our Burma border activities. The programs in Vietnam, Laos, and the Burma border, where we currently have no direct hire presence, will be managed from Bangkok. Our fast-growing HIV/AIDS assistance in the region will be directed from this regional platform. The regional office will also be the home for the regional Office of Foreign Disaster Assistance staff.

### **ASEAN**

USAID is playing a key role in support of the U.S. Government's new ASEAN Cooperation Plan. We have arranged for Information, Communication, and Technology (ICT) assistance to the ASEAN Secretariat and key ASEAN members to enable them to communicate effectively within the Secretariat and among member nations via the

Internet. We are also providing assistance to the Mekong River Commission to address critical regional environmental management issues. We aim to work with the State Department and ASEAN to address the alarming trafficking in persons problems in the region through a regional, intergovernmental approach.

## **Regional HIV/AIDS and Infectious Diseases**

HIV/AIDS is an extremely serious issue for USAID in East Asia. While HIV prevalence is still very low compared to sub-Saharan Africa, HIV/AIDS crosses borders easily in this part of the world and has reached adult prevalence rate of 2.7 percent in Cambodia and is estimated to be four percent in Burma. There are rates as high as 80% among prostitutes, and 93% among intravenous drug users in some parts of the region. Given these factors, and East Asia's large population, HIV/AIDS is a time bomb. We have initiated a Greater Mekong HIV/AIDS strategy, which includes Vietnam, Laos, Thailand, Burma and two southern provinces in China. Interventions include prevention, care and support, voluntary counseling and testing, prevention of mother-to-child transmission, policy and advocacy, and stigma reduction. USAID has joined forces with UNAIDS, AusAid, DfID, and other donors to advocate for HIV/AIDS at high political levels.

East Asia is also the home of seven countries with high tuberculosis burden and countries with multi-drug resistant malaria that is becoming increasingly difficult and expensive to treat. The regional program also addresses these diseases by strengthening training, policy, advocacy, and surveillance systems.

## **US-AEP**

Through the U.S. – Asia Environmental Partnership (US-AEP), USAID has developed innovative and successful government-business partnerships to address key environment issues and create markets for U.S. businesses. We have integrated the most successful elements of US-AEP into our bilateral programs and will no longer request funding as a separate line item.

## **Public-Private Partnerships**

The ANE Bureau established a public-private alliance mission incentive fund (MIF) in FY02 to encourage missions to seek out partnerships with private sector enterprises, donors, host country counterparts foundations, and local non-governmental organizations (NGOs), among others. A competitive process resulted the award of \$17.5 million to 12 projects in six countries with an average mobilization of more than four alliance partner dollars to each USAID dollar. In other words, the bureau's \$17.5 million investment in these activities are expected to yield over \$70 million in outside resources being applied to our development objectives. Examples of the types of programs supported by the MIF include:

- Working with Mirant Philippines and the Philippine Department of Energy on a solar energy project in Mindanao which is delivering electricity to over 3,000 people in remote areas to promote peace and prosperity;
- In Morocco, over 300 girls are assured a middle school education by providing scholarships and safe housing through a partnership with Coca Cola and the Moroccan Ministry of National Education;
- An alliance with British Petroleum in a remote province in Indonesia is working with civil society groups, private firms, and local governments to put natural resources to work for the economic and social betterment of the region while protecting a unique environment; and
- A timber alliance to combat illegal logging in Indonesia which harnesses resources from The Nature Conservancy, the World Wildlife Foundation, and Home Depot. The latter is groundbreaking because it builds on the strengths and talents of government, the private sector, and NGOs to confront the challenges to forest conservation in Indonesia.

These FY02 alliances were so successful that the bureau is supporting a similar exercise this year, and will endeavor to identify funds with which to promote a third and final round next year.

### **USAID Challenges**

One of the Committee's objectives in holding these hearings is to consider possible adjustments to our basic authorizing legislation, the Foreign Assistance Act of 1961. USAID has put forward several suggestions in this regard, and I hope that you and your staffs are consulting with our leadership about these suggestions. The demands on USAID to support new mandates to address global challenges -- Afghanistan, Iraq, HIV/AIDS, education, MEPI, and other pressing priorities - have increased exponentially, as have the costs of providing security for (and occasionally funding the evacuation of) our personnel and their families in this part of the world. Meanwhile, our ability to fund and staff these operations has reached its limit. The solution will have to involve not only the identification and provision of adequate resources, but also the need for new personnel and procurement authorities that will streamline and create more responsive systems. In this context, I am pleased to report that ANE is part of an Agency-wide process to analyze what it really costs for us to do business overseas. With this analysis in hand, we look forward to demonstrating our capacity and resolve to implement high priority USG programs throughout the ANE region in a cost effective and successful manner.

### **Conclusion**

We applaud the leadership of this Committee in addressing many key issues such as HIV/AIDS, tuberculosis and malaria as well as your work on promoting international religious freedom, combating the crime of trafficked persons and preventing famine. We look forward to continued close cooperation with you and your committee as USAID implements its development programs based on the President's vision of foreign aid as



articulated in the Millennium Challenge Account and in Administrator Natsios' vision for the Agency, *Foreign Aid in the National Interest*.

In conclusion, I would cite President Bush's words: "we fight against poverty because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. We fight against poverty because faith requests it and conscience demands it. And we fight against poverty with a growing conviction that major progress is within our reach". We look forward to joining with you and your committee in that fight.

Thank you.