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FOREIGN ASSISTANCE OVERSIGHT

TUESDAY, MARCH 2, 2004

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:06 a.m. in SD–419, Dirksen Senate Office Building, and S–116, The Capitol Building, Hon. Lincoln D. Chafee, presiding.

Present: Senators Chafee, Allen, Brownback, Alexander, Coleman, and Bill Nelson.

OPENING STATEMENT OF SENATOR LINCOLN D. CHAFEE

Senator CHAFEE. Good morning. Today we are going to have a hearing on the budget of the appropriate committees, subcommittees, and on behalf of the Senate Foreign Relations Committee I would like to welcome all participants and guests of this hearing on U.S. foreign assistance.

Today we will hear from Christina Rocca, Assistant Secretary of State for South Asian Affairs; Gordon West, USAID Acting Assistant Administrator for Asia and the Near East; William Burns, Assistant Secretary of State for Near Eastern Affairs; Don Keyser, Principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs; Roger F. Noriega, Assistant Secretary of State for Western Hemisphere Affairs; Adolfo Franco, USAID Assistant Administrator for Latin America and the Caribbean; Don Yamamoto, Deputy Assistant Secretary of State for African Affairs; Constance Berry Newman; USAID Assistant Administrator for Africa; Elizabeth Jones, Assistant Secretary of State for Europe and Eurasian Affairs; and Kent Hill, USAID Assistant Administrator for Europe and Eurasia.

We look forward to the testimony of all our witnesses and to the discussion of the role that U.S. foreign assistance can play around the world.

Since the mid-1980s, Congress has not fulfilled its responsibilities to pass a foreign assistance authorization act. In the absence of such legislation, the job of providing guidance on foreign assistance has fallen to the Appropriations Committee. During the past year, Chairman Lugar has been pressing forward with attempts to pass a foreign assistance bill, and I share the chairman's hope that our committee in the Senate will work during the coming weeks to pass a thoughtful foreign assistance authorization bill that carefully examines existing programs and addresses emerging needs.

We appreciated very much the testimony of the Secretary of State on February 12 on the administration's request to fund the

Department's domestic and overseas operations. Understandably, many questions at that hearing focused on broader U.S. policy. Today we will probe foreign assistance programs in much greater detail.

We hope to learn how the administration's fiscal year 2005 budget request will support U.S. foreign policy interests, including efforts to combat terrorism, to reconstruct Iraq and Afghanistan, to advance education and environmental protection, to reduce the threat of weapons of mass destruction, to bolster our public diplomacy, and to fight poverty and AIDS.

Today our hearing will consist of six regional segments, each led by the relevant subcommittee chairman. I will begin this process by leading the first two segments of our discussion, which will address foreign assistance for the Near East and South Asia. The third panel on East Asia and the Pacific will be chaired by Senator Brownback, and I believe that portion of the hearing will occur over in S–116 as there are floor votes scheduled.

After a 1-hour lunch break, we will resume for a hearing on the Western Hemisphere, which will be chaired by Senator Coleman, and Senator Alexander will chair our fifth panel on Africa. Our last panel will focus on Europe and be chaired by Senator Allen.

I thank all our distinguished witnesses and look forward to their budgetary insights, and I'll start with the Honorable Christina Rocca. Welcome, Christina.

STATEMENT OF HON. CHRISTINA B. ROCCA, ASSISTANT SECRETARY OF STATE, BUREAU OF SOUTH ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. ROCCA. Mr. Chairman, thank you. Thank you very much for giving us the opportunity to come and talk about how our 2005 budget request serves U.S. policy priorities in South Asia.

I have a longer testimony which I'd like to submit for the record and abbreviate the oral version, if that's OK.

Senator CHAFEE. Without objection.

Ms. ROCCA. Since we came together a year ago, U.S. assistance has helped to establish some dramatic milestones of progress in the region. In January, Afghans adopted a moderate democratic constitution. Women and girls have continued to rejoin schools and the work force. Afghanistan's annual economic growth rate was estimated at 30 percent for the second year in a row. A 18-hour journey was reduced to 6 hours by completion of the first layer of the Kabul-Kandahar road in December.

NATO agreed to assume leadership of the International Security Assistance Force for Afghanistan, ISAF, while the growing national army and police gathered strength and civil military provincial reconstruction teams extended security in the provinces.

In Pakistan, 550 al-Qaeda and former Taliban operatives have now been captured, including al-Qaeda operational commander, Khalid Shekh Mohammed, and a September 11 plotter, Ramzi bin al-Shibh. Along the border with Afghanistan, checkpoints and law enforcement agencies were strengthened. A second forward operating base was established in Peshawar, air wing surveillance and transport was supported, and a new access road construction was begun.

Pakistan's economic recovery proceeded at pace and the government's education reform efforts continued with a renewed focus on madrassas. Pakistan is helping to unearth the A.Q. Kahn proliferation network and we are asking them to share what they find with us.

In January, we launched our Next Steps in Strategic Partnership, NSSP, initiative with India. Regional stability increased as India and Pakistan began a dialog about the restoration of bilateral ties and regional cooperation. Despite suspension of formal peace process in Sri Lanka, the cease-fire and informal cooperation continue, and we are assisting elections scheduled for early April.

But the situation in Nepal is grim. Challenges remain in Bangladesh and in other countries, and we cannot rest until we see a fully peaceful, democratic and prosperous South Asia entirely free from terror and nuclear threat.

Our fiscal year 2005 budget request for South Asia will enable us to consolidate hard-won gains and press ahead toward our goals. Our fiscal year 2005 foreign operations resource request totals $1.9 billion. Of that, over $1.6 billion supports our No. 1 policy goal, combating terror and the conditions that breed terror in the front line states of Afghanistan and Pakistan.

Total U.S. assistance for Afghanistan this far, including for accelerated programs, comes to over $4 billion. The President's 2005 request of $1.2 billion for Afghanistan, which includes approximately $300 million from the Department of Defense, will sustain our accelerated efforts. Chief among these are building new democratic institutions following elections, training and equipping more army battalions and police, supporting military demobilization and reintegration, helping to end the drug trade, and fostering private sector investment for sustained growth.

In Pakistan, recent attempts on President Musharraf's life underscore the need to shut down terrorist organizations and the networks that support them, something the government is working hard to do. Our fiscal year 2005 request for Pakistan contains $300 million in foreign military financing funds and $300 million in economic support funds for the first of a 5-year, $3 billion Presidential commitment.

The symmetry is no accident. As we facilitate the capture of al-Qaeda and Taliban remnants with FMF, we will help tackle conditions that breed terror by providing up to $200 million for ESF for economic stabilization and growth and at least another $100 million in ESF will support social sector programs. Remaining funds in our request support ongoing law enforcement, education, democracy, and health programs.

The Next Steps in Strategic Partnership with India expands our cooperation on civilian nuclear activities, civilian space programs, high technology trade, and missile defense. As the initiative facilitates mutual economic benefits, we will maintain all U.S. international non-proliferation obligations and fund programs for enhanced export controls to India, Pakistan, and Afghanistan.

As our hopes for India and Pakistan for an India-Pakistan rapprochement continue, crucial work is needed elsewhere to promote regional stability. Our fiscal year 2005 request for Sri Lanka will

fund programs that are both an incentive to peace and a boost to reconstruction and reconciliation in war-torn areas.

The Maoists broke a 7-month cease-fire in Nepal last August. By October we imposed financial sanctions against the Maoists as a terrorist organization under Executive Order 13224. While the United States, India, and the U.K. and others support the government, we share the view that a military solution will not work. We are urging the king and the parties to unite to pursue a political solution to the conflict and ensure respect for human rights. Our fiscal year 2005 request will continue to support the government's efforts to counter the insurgents and reduce underlying causes of the conflict.

Promoting democracy and good governance is a goal firmly grounded in the President's belief in expanding freedom. Fiscal year 2005 funds requested for our democracy programs in South Asia will help bolster counter-terror, conflict prevention, and development efforts over the long term.

Our human rights programs will help combat trafficking in persons and support women's rights, religious freedom, and programs to reduce child labor. As we strengthen good governance, we will in fiscal year 2005 continue to support long-term economic growth, diversification, and free trade throughout South Asia.

Fiscal year 2005 funds requested for our economic programs will promote macroeconomic reform as well as help ordinary people to gain access to better education, health care, and income-generating opportunities.

Of 1 billion Muslims in the world, some 460 million reside in South Asia. Our public diplomacy and development programs are building U.S.-Muslim ties and understanding, like the President's recently announced Greater Middle East Initiative, now being developed in consultation with prospective participants. Our bilateral programs support freedom and prosperity throughout South Asia.

In fiscal year 2004, we retooled our $2 million regional economic support fund program to serve as an incubator for innovative or multi-country pilots to foster democracy and support education, income generation, or conflict resolution in key South Asian communities.

Thanks again for this opportunity to describe our 2005 budget request for South Asia. It remains crucial to enhancing our national security and promoting South Asia's stability, and I welcome your questions.

[The prepared statement of Ms. Rocca follows:]

PREPARED STATEMENT OF HON. CHRISTINA B. ROCCA

ACCOMPLISHING OUR MISSION

Chairman Lugar and members of the Committee, thank you for inviting me to come here today to talk about how our FY 2005 budget request will help implement U.S. policy priorities in South Asia.

Mr. Chairman, since September 2001 we have advanced our most vital security interests in South Asia quite dramatically. A moderate, democratic Afghan constitution was adopted in January, with national elections scheduled for June. Estimates now put Afghanistan's annual economic growth at 30% over the past two years; and we helped the government institute reforms to facilitate that growth. Completion of the first layer of paving of the Kabul-Kandahar road in December was a major step toward extending the authority of the central government and linking key regions. We are pleased that our NATO allies agreed last year to assume leadership of the

International Security Assistance Force for Afghanistan (ISAF). With our help, Afghanistan has made significant progress in establishing a new national army (ANA) and police force, and we have extended security through a network of civil-military Provincial Reconstruction Teams in the provinces.

Pakistan remains a crucial ally in the war on terror. Over 550 al-Qaeda and former Taliban operatives have been captured, including al-Qaeda operational commander Khalid Shekh Mohammed and September 11th plotter Ramzi bin al-Shibh. We have strengthened border security through support for an air wing, checkpoints, new outposts in Quetta and Peshawar, road construction to improve access, and training for—and improved cooperation between—law enforcement entities in the Federally Administered Tribal Areas. Pakistan's economy has moved from crisis to stabilization. The government continues to pursue education reform, including for madrassahs, aimed at preparing young Pakistanis to gain employment and compete in the global marketplace. Pakistan is making good progress in unearthing the A.Q. Khan proliferation network, and we are asking them to share what they find with us.

In January, we launched our Next Steps in Strategic Partnership (NSSP) initiative with India. The rapprochement between India and Pakistan that began last year has enabled not only a successful meeting on regional cooperation in January, but the beginning of a composite dialogue on the issues that divide them. Despite suspension of formal negotiations between the government and the Tamil Tigers in Sri Lanka since last year, and a political crisis within the government, the ceasefire there continues to hold.

Impressive as these developments are, we cannot afford to rest until we see a fully peaceful, democratic and prosperous South Asia, entirely free from terror and nuclear threat. Our FY 2005 resource request for South Asia will help consolidate hard-won gains and enable us to press ahead against the challenges that remain. Chief among these are—in the spirit of the Afghanistan Freedom Support Act—assisting Afghanistan's new democratic institutions, broadening security (including through the act's Department of Defense drawdown authority), ensuring a full economic recovery, and helping to end the drug trade in Afghanistan. In Pakistan, recent attempts on President Musharraf's life underscore the need to shut down terrorist organizations and the networks that support them; something the government is working hard to do. Resources requested for Pakistan will help facilitate the war on terror on all fronts. We must help Sri Lanka achieve a lasting peace and rebuild a war-torn society and economy. In Nepal, our resources will help to counter a brutal Maoist insurgency. Our programs also aim to help the moderate democracy of Bangladesh address governance, transparency and economic challenges.

FIGHTING TERROR IN THE FRONTLINE STATES

Over $1.6 billion of our $1.9 billion FY 2005 foreign operations resource request supports our number one policy goal—combating terror and the conditions that breed terror in the frontline states of Afghanistan and Pakistan. Total U.S. assistance for Afghanistan thus far, including this year's acceleration of reconstruction, comes to over $4 billion. The President's $1.2 billion request for Afghanistan in FY 2005, which includes $300 million from the Department of Defense, will sustain our accelerated programs. Following national elections this summer, we will help strengthen new democratic institutions from the national to local levels, and support the nascent civil society and independent media. We will also support counter-narcotics activities, and provide training and equipment for additional ANA battalions and train the remaining national and border police. The nexus between narcotics and terrorism is becoming increasingly apparent, and it is a top priority of ours, and of our international coalition partners, to stamp out drug production where we find it. While we will support continued macroeconomic reforms, invest in private sector development to create sustained growth and build necessary roads and bridges, at the grassroots level, we are reaching out to ensure a Bonn dividend. We will support women's centers that provide health and legal services; will build hundreds of schools and clinics through Provincial Reconstruction Teams; will train teachers and provide schoolbooks; and will help farmers re-establish their livelihoods.

The Government of Pakistan continues to capture al-Qaeda terrorists and Taliban remnants. President Bush has committed to work with Congress to demonstrate sustained support for these efforts and for ongoing economic, education and democracy reforms. Our FY 2005 request for Pakistan includes $300 million in economic and $300 million in security assistance for the first of a five-year, $3 billion commitment. The symmetry is no accident. As we enable Pakistan to combat terror by providing $300 million in Foreign Military Financing, we must help tackle conditions

that breed terror by expanding education and economic growth and employment opportunities and by helping to restore a fully-functioning democracy. The $300 million in FY 2005 Economic Support Funds (ESF) requested will include both macro-stabilization and social sector elements. Remaining budget resources requested for Pakistan in FY 2005—including Development Assistance; Child Survival and Health; International Narcotics, Crime and Law Enforcement; and Nonproliferation, Anti-Terrorism, Demining and Related Programs resources—will fund critical border security, counternarcotics and law enforcement programs, in addition to ongoing development programs for education, democracy and health that demonstrate our support to ordinary Pakistanis.

NEXT STEPS IN OUR STRATEGIC PARTNERSHIP WITH INDIA

In January, President Bush and Prime Minister Vajpayee announced our Next Steps in Strategic Partnership (NSSP), an initiative designed to cement our strategic ties with the world's largest democracy. This expanded cooperation on civilian nuclear activities, civilian space programs, high technology trade and an expanded dialogue on missile defense will bring significant economic benefits to both sides, while also achieving our nonproliferation goals through enhanced export control regimes in India and maintaining all our international nonproliferation obligations. Our FY 2005 resource request for India will help complete successful economic reforms, support HIV/AIDS and child survival programs, and provide aid for her most vulnerable groups.

REGIONAL STABILITY

Regional Stability is another high policy priority in South Asia. We credit the vision and statesmanship of Prime Minister Vajpayee and President Musharraf and their governments for the remarkable progress recently achieved toward resolving the issues that divide them. At the same time, India is conducting a simultaneous dialogue with the Kashmiri group, the All Parties Hurriyat Conference. We will be watching developments with hopes for continued success and will continue to support these efforts to resolve the long-running conflict. Our bilateral interaction with India and Pakistan includes wide-ranging discussions on how to control the onward proliferation of nuclear technology. We are urging both countries to bring their export controls in line with international standards and to enforce them effectively. Our FY 2005 request includes program support for their efforts in this regard.

In Sri Lanka, the 2003 suspension of formal peace negotiations between the government and the separatist Liberation Tigers of Tamil Eelam (LTTE) was followed by an October LTTE proposal for an interim administration in the predominantly Tamil areas of the north and east of the country, which we hoped would help the parties resume formal negotiations. But a continuing standoff between the Prime Minister and President has prevented a return to the talks; with parliamentary elections called for April. However, the Sri Lankan people want to see their leaders bring an end to this war. The ceasefire continues to hold. An informal peace process continues, bringing increased interaction among the ethnic communities, and growing trade and economic opportunity. Our FY 2005 request for Sri Lanka will fund short-term, high impact programs that are both an incentive to peace, and a boost to reconstruction and reconciliation in war torn areas. Nation-wide development and health programs will support the Government's economic competitiveness and anti-poverty efforts, while our democracy programs will support reconciliation and promote reintegration.

In August, 2003 the Maoist insurgents in Nepal unilaterally withdrew from a seven-month ceasefire and resumed military attacks and terrorist activity, leading the U.S. in October to designate the Maoists as a terrorist organization under E.O. 13224, which imposes financial sanctions against the group. The United States, India, the UK, and others in the international community stand with the Government of Nepal against the Maoists, but also share the view that a military solution is not possible and that a negotiated settlement is required. The balance between our FY 2005 requests for security and development programs in Nepal underscores this point. We are deeply concerned about suspension of the electoral process and numerous human rights abuse allegations against the government security forces and Maoists alike. Political parties and the King must unify under a multi-party democracy, ensure respect for human rights, and reach a political solution to the conflict for the benefit of all Nepalis. Our FY 2005 request will provide strategically-targeted economic, governance and humanitarian assistance in areas vulnerable to Maoist control, while long-term development programs address the broader conditions of desperate poverty and lack of opportunity that have bred instability.

GOOD GOVERNANCE

Promoting effective democratic governance is a goal firmly grounded in the President's belief in expanding freedom. Democratic development will bolster our counterterror, conflict prevention, and development efforts over the long term by establishing political stability and good governance. U.S. democracy programs in South Asia address the historic challenge of centralized, patronage politics. At one end of the spectrum, we are supporting Afghanistan's national elections in 2004. Throughout the region we are working with legislatures, judiciaries, local government, political parties, civil society and the independent media to tackle corruption and increase citizen participation. Our human rights programs combat trafficking in persons and child labor, while promoting women's rights and religious freedom.

ECONOMIC GROWTH

As we support Afghanistan's economic reconstruction and Pakistan's economic stabilization, we must help the other South Asian countries to reduce poverty, and countries dependent on textiles to diversify. Our bilateral economic programs support macro reforms to spur long term growth and trade, while helping ordinary people to gain access to better education, health care and income-generating opportunities.

CONCLUSION

Of one billion Muslims in the world, over 400 million reside in South Asia. Our public diplomacy and development assistance programs are building stronger ties and understanding between the United States and South Asian Muslim communities. Like the President's recently announced Greater Middle East Initiative—now being developed in consultation with prospective participants—our bilateral programs support freedom and prosperity throughout the South Asia region.

Our bilateral programs are complemented by our $2 million regional Economic Support Fund (ESF) program, which serves as an incubator for innovative or multi-country pilots to foster democracy or support education, income generation and conflict resolution in key South Asian Muslim communities. Projects thus far include expanding USAID Dhaka's successful community leader training on health, development and human rights and hopefully, helping to explore a similar program in Afghanistan. We are taking a regional Muslim women's rights network to the next level, helping to establish ongoing collaboration across borders to gain acceptance of women's rights under Islam, using successful models from Southeast Asia. We are also supporting the development of Pakistan's new independent radio through a grant to Internews.

In conclusion, our FY 2005 resources request will enable us to continue implementing U.S. policy goals that remain crucial to our national security as well as to the future stability of South Asia. Mr. Chairman, I thank you and the Committee for your generous time and deep interest.

Senator CHAFEE. Thank you, Secretary Rocca. Now we'll hear from Mr. Gordon West.

STATEMENT OF GORDON WEST, ACTING ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, USAID

Mr. WEST. Thank you, Chairman Chafee. USAID appreciates this opportunity to discuss our programs in the South Asia region. South Asia, as is well-known, is home to over more than half of the world's poor. Less known, South Asia is also home to over half of the world's Muslim population, in fact often overlooked due to the world's attention to the Middle East.

South Asia is also an area of change and dynamism, and this has brought both challenges and great opportunities to this region. Nowhere are those challenges and opportunities more apparent than in Afghanistan. We're now beginning our third year of operations in Kabul. We look back to meetings in Berlin and Brussels and Tokyo in the very early days, the beginning of the Afghanistan program, and the challenges were almost overwhelming.

We have seen since those days tremendous strides in the creations of ministries, of the building of basic infrastructure, roads, schools, clinics, the basis of an agriculture sector, the foundations for an operating economy, and indeed, there is much to be proud of in the accomplishments that the U.S. and its partners in Afghanistan have accomplished.

As noted in the upcoming sessions scheduled for Berlin, there is much yet to be accomplished. Largely we are looking at sort of a transition phase where the basics are there, but the capacity is yet to have been developed in terms of the Afghans taking over their own security, taking over their own role as head of government and a governing body, of being able to expand their economy and reach out to the rest of the world, of being able to expand and improve their services. This will very much be the attention of the coming years. A lot of the basis is now there but there's a lot of work to be done, and USAID looks forward to continuing to work closely with State, DOD, and the other donor partners of the world in taking on these challenges.

Clearly, security is one of the major factors that we face on a daily basis in Afghanistan, particularly in the south and southeast. And while it does demand our constant attention, it has not prohibited us from continuing and expanding our programs.

Pakistan is another of our major focuses in South Asia. We have now been on the ground for approximately a year and a half. Our programs started out with a large focus on basic health and education services. We are encouraged by the progress in both of those sectors. There is a considerable dynamism in the private sector, in the NGO sector, and increasingly in the government as we decentralize and expand the ability and the capacity to deliver these basic social services.

This past year has seen us dramatically increase our support in the democracy sector, focusing on developing the capacity of women in the legislative sector, on expanding the role of an open media, and of increasing civil society and rule of law. We are also initiating programs in the economic growth area focused on small business development.

In Nepal, we have dramatically shifted the focus of our program, largely to conflict mitigation. While we do believe that the Maoists can no longer threaten to overtake the country, we also recognize that without positive and effective leadership at the center, there are limitations to what the outside community can do to really push Nepal forward, and we hope for better days in the future.

In Sri Lanka, there have been setbacks, but we are still encouraged by the willingness to overcome the decades and, indeed centuries of conflict in that country. We are playing a leading role, along with our partners in the U.S. Government and the donor community in the peace negotiations and structure. We have our Office of Transition Initiatives and many other resources on the ground and we continue to focus on Sri Lanka as a priority. It is also among the candidates that may be within the realm of the Millennium Challenge Account over the coming years.

Bangladesh, a moderate Muslim majority, continues to progress. It has political challenges, but we have seen great strides in almost all the sectors we work. We are hopeful that this program will real-

ly be a model for our role in outreach to—it has been an outreach to the Muslim community in economic development and in the delivery of basic social services.

In India we continue to see a transformation of our relationship as India grows as a world power. We are very much focused on vulnerable populations. We also note that the HIV/AIDS threat in India is real and growing. There are four states in particular which are a focus of our attention. We have $13.5 million in HIV/AIDS programs working in India and we do believe this is a program that deserves and will continue to get increasing attention.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. West follows:]

PREPARED STATEMENT OF GORDON WEST

Chairman Lugar, members of the committee, I welcome the opportunity to discuss with you the important work that the U.S. Agency for International Development is carrying out in the Asia and Near East region. This has been a year of extraordinary challenges for the United States, and I am confident USAID has helped our nation meet those challenges.

OVERVIEW

The countries encompassed by USAID's Asia, Near East (ANE) bureau are at the core of U.S. national interests and foreign policy priorities. This region faces major development challenges including terrorism, instability, oppressive governments, HIV/AIDS, widespread corruption, and persistent environmental degradation. Strongholds of extremism and fundamentalism prey on poverty-stricken people who see little hope in the future. Regional pockets harbor terrorists and radicals who are of significant risk to those countries' governments as well as to the United States.

The lack of transparency in economic and legal institutions and severe restrictions on human freedoms impose a sense of fear and hopelessness that robs people of their dignity and freedoms. Oppressive regimes impose their will while sanctioning illicit activities that destroy opportunities for equitable economic growth and human well-being. These challenges hinder prospects for the millions of people in the ANE region living in abject poverty and, in many cases, terror.

The USAID missions in the ANE region carry out foreign assistance programs that meet these challenges while supporting key U.S. foreign policy interests. The wars in Iraq and Afghanistan have created challenging and dangerous working environments. On-going hostilities and random terrorist attacks extract a price, in terms of both dollars and personnel. Through perseverance, our professionals in the field are meeting this challenge and accomplishing those things asked of them by the President and the Congress.

HIV/AIDS is a plague that destroys communities and bankrupts social systems. In Asia and the Near East, eight million people are HIV positive, and each year hundreds of thousands die from HIV/AIDS-related illnesses. This could increase substantially if the epidemic is allowed to spread from high-risk groups to the general population in countries like India, China, Indonesia and Thailand.

Millions of girls and women in the ANE region are not allowed to pursue an education. The ANE bureau believes that education for all, regardless of gender or religion, is a key element to achieving the democracy and economic prosperity, goals that contribute to stability.

Rapid industrialization, unsustainable energy policies and growing populations are straining the region's natural resources and environmental systems. Urban air pollution levels in Asia are among the highest in the world. The consumption and destruction of natural resources is occurring at an unsustainable rate that does not allow for replenishment.

The programs USAID will implement to meet these challenges are closely linked to the joint State-USAID Strategic Plan, which aligns U.S. diplomacy efforts with development assistance. Throughout the region, USAID strives to "create a more secure, democratic, and prosperous world for the benefit of the American people and the international community."

PROGRAM AND MANAGEMENT CHALLENGES

Security is the single gravest and most costly concern to the Asia, Near East Bureau, and yet it is the most difficult to predict. USAID is grappling with how to plan and budget for unknown threats to adequately protect the professionals charged with carrying out U.S. assistance programs.

Iraq and Afghanistan top the list of countries with serious security concerns, but they are not alone. Jordan, Indonesia, Pakistan, Lebanon, Israel, and the Philippines, to name a few, also have security concerns. Virtually every country in the ANE region bears the burden of increased risk and the attendant security procedures and costs that accompany those risks. Meeting these challenges and protecting our most important asset, the people who design and manage these important programs, requires adequate resources.

In terms of program challenges, Iraq and Afghanistan will remain USAID's highest priorities in the ANE region. Rebuilding these countries will improve world stability. In Iraq, USAID efforts will allow a freed Iraqi people to govern their own country in an atmosphere of democratic freedom. USAID will require additional program and operating resources to continue the reconstruction and stabilization work in Iraq beyond 2005.

In Afghanistan, ANE has made great strides with completion of the Kabul-Kandahar road and new constitution. The Afghan people are now looking forward to free and open elections in the near future. ANE will continue to rebuild infrastructure while improving educational and economic opportunities that will allow democracy to flourish in these countries that have not enjoyed basic human rights for decades.

Education is a high priority in ANE. It is recognized that education is a key factor to stability, democracy and economic prosperity. New or expanded initiatives are being implemented in some countries, but more could be done to address radical and anti-American teachings being provided in some alternative religious schools.

Several countries in the ANE region are battling economically devastating epidemics of HIV/AIDS. In some countries the prevalence rate is beginning to slow or even turn around because of the interventions being taken. Unfortunately, the epidemic continues to grow in some of the more densely populated countries. For example, India, with a prevalence of just less than one percent, has the second largest number of HIV positive people in the world. In Indonesia and Nepal, the epidemic is showing signs of moving into the general population and will require intensive efforts to slow or stem its spread. Additional HIV/AIDS resources will be needed in those countries to combat the epidemic as it spreads to the general population.

NEAR EAST

Iraq

USAID participated in Operation Iraqi Freedom by moving into Iraq on the heels of combat troops. In nine months, USAID has achieved amazing successes in Iraq, in spite of gunfire and direct rocket attacks. The need for an immediate response to the reconstruction and humanitarian needs in Iraq this year required a shift of financial and human resources. USAID diverted resources from other missions in the region so that people, finances and contractors were ready to act as soon as they were allowed into Iraq.

Through close coordination with the Coalition Provisional Authority (CPA) and other USG entities, USAID is playing a key role rebuilding Iraq's infrastructure, aiding in the establishment of local and national governance systems, rebuilding the education and health systems and helping revitalize the national economy. A long-term effort will be required to rebuild Iraq and establish a democracy with a free, market-oriented economy in which the Iraqi people have a voice and choice in their future. A substantial financial commitment will also be necessary to ensure the safety of our professionals working in such difficult circumstances.

As the term of the CPA lapses, USAID will continue to work closely with State and other USO agencies to ensure that our on-going development efforts are properly aligned and complimentary to political initiatives. We will continue the relief and reconstruction work that will allow the Iraqi people to rebuild their lives as we help them rebuild their country.

Egypt

Egypt and the United States share strategic interests that include the achievement of freedom, stability and peace in the region. USAID's programs in Egypt support this goal by helping promote prosperity in Egypt and facilitating the country's ongoing, but incomplete, transition from an economy controlled by the state to a free-market oriented one. The greatest threat to domestic stability in Egypt is frus-

tration over the persistent lack of economic opportunity. With high rates of unemployment and underemployment, about one-third of Egypt's 69 million people now live below the poverty line. Without ready access to peaceful ways to express their aspirations and concerns, Egyptians may turn to ways that threaten stability.

To help Egypt meet these challenges in 2005, USAID programs will place special emphasis on three programs. First, the education program will continue to expand the benefits of community-based education reform to Upper Egypt and poorer parts of Cairo. Second, the governance program will continue to expand strengthening the role of nongovernmental organizations, increasing transparency and participation in government, and improving the quality of journalism and the administration of justice. Third, business investment—necessary for job creation—will be promoted through financial market strengthening and reform, customs reform, and increased support for small business development.

ANE recognizes the need to address issues in other Arab countries to head off growing radicalism and anti-Americanism. Assistance programs in Morocco and Jordan have been restructured to better respond to USG priorities and joint State-USAID strategies, with emphasis on education, democracy, governance and economic growth.

West Bank and Gaza

This past year held moments of anticipation and despair for the Palestinian people. The establishment of the Palestinian Prime Minister, implementation of significant financial management reforms by the Palestinian Authority (PA), and agreement by the Israelis and the Palestinians to President Bush's Road Map for Peace produced moments of great anticipation for the Palestinian people. For a time, both sides undertook limited actions consistent with the Road Map: Israel removed several illegal outposts and withdrew from Northern Gaza; and the PA took measures to exert greater security control over areas of the West Bank and Gaza (WBG), including negotiating a temporary ceasefire, with Palestinian militants. The breakdown of the ceasefire, a resumption of suicide bombings, the collapse of Prime Minister Abbas' government, and the stagnation of PA reforms, however, dashed those hopes.

Now, USAID faces competing demands on its resources. First are the immediate needs of the population, which are enormous. The fact that a humanitarian catastrophe has been averted in the West Bank and Gaza is due only to the large amounts of donor emergency assistance that has been provided. In spite of the valuable infrastructure projects planned, USAID has had to reallocate more than $200 million to emergency response programs. Through these programs, USAID addresses the basic needs of the Palestinian population through activities that improve and sustain performance in the health care system, create jobs and long term employment on an emergency basis, and provide assistance to rebuild damaged infrastructure and roads.

USAID funds also support political and economic policy reforms, in line with the President's call for reform of the Palestinian Authority, including the strengthening of key PA ministries and regulatory agencies, the legislature and the judiciary, and support for Palestinian NGOs that promote democratic values and moderation. USAID activities work to revitalize the private sector, including repair of damaged small and medium businesses, work with small and medium enterprises on improved management processes, financial restructuring, and the development of appropriate private sector and investment laws and regulations.

Jordan

Jordan faces several critical long-term challenges. Prominent among these is Jordan's high population growth rate that will cause the population to double by 2027. This challenge is compounded by high levels of poverty and unemployment; between 15% and 30% of Jordanians live on less than $439 per year. Further complicating the situation is a traditionally low level of participation in civil society, which leads to a perceived lack of personal freedom.

To address these challenges, USAID promotes Jordanian-led development. USAID's programs in Jordan are jointly designed and implemented with the Government of Jordan and thereby promote a stable, reform-driven Jordan. In so doing, the program not only strengthens a strong strategic ally in the Middle East but also serves as a model to less reform-oriented Middle Eastern nations.

Lebanon

In Lebanon, USAID, working primarily through organizations outside the Government, address the economic, political and environmental challenges that country is facing. USAID's program concentrates on improving living standards by revitalizing and expanding economic opportunities for small entrepreneurs and disadvantaged,

mine-affected people, encouraging trade and investment with WTO accession, strengthening American educational institutions, and building the capacities of indigenous groups. USAID programs also aim to improve environmental policies and practices by developing appropriate waste management practices, creating environmental awareness, and promoting water sector restructuring and efficient water management. In addition, USAID-funded activities encourage good governance and transparent practices by strengthening municipalities throughout Lebanon.

Morocco

Morocco is a middle-income country with the human and social development levels of a low-income country. Approximately 48% of adults are illiterate, placing Morocco 20th among the 22 Arab League countries (surpassed only by Mauritania and Yemen) in literacy rates. Women are particularly affected, with a female illiteracy rate of 62%, and higher in rural areas.

The U.S. Government's highest economic priority in Morocco is the negotiation, conclusion, and implementation of the U.S.-Morocco Free Trade Agreement (FTA). The FTA, which is in the final stages of negotiation, will accelerate the major economic reforms and restructuring that will attract investment, open global markets, and create jobs. USAID is providing support to the government of Morocco to enable it to maximize the positive effects of the FTA and help mitigate negative impacts such as increased rural unemployment. Over the next year, USAID will put in place new activities to create jobs, provide workforce training and assist the Government of Morocco to decentralize and better meet the needs of its people.

Yemen

USAID opened a new mission in Yemen during this past year. Our program there will address U.S. foreign policy objectives and, specifically, the war on terrorism. USAID will assist the Yemeni Government in improving their health and education systems while encouraging improved governance and participation.

SOUTH ASIA

Trafficking

Rapid social and economic changes occurring in this region fuel mobile migrant populations and growth of the sex and drug trades. Trafficking is one of today's greatest human tragedies. The U.S. Government estimates that up to a million women and children are trafficked annually. Some victims are tricked into leaving their homes with the promise of a better life and a well-paid job.

Some are kidnapped and still others are sold by desperate family members faced with inescapable poverty. USAID is working closely with the State Department in multiple countries in South Asia to implement programs to combat this evil.

Afghanistan

The reconstruction and development of Afghanistan continues at an accelerated pace, in spite of the continuing dangers there. The most striking success was completion of the first layer of pavement on 390 kilometers of the Kabul-Kandahar highway, which links Afghanistan's two largest cities. This achievement reduces transportation costs, improves economic growth prospects, and expands access to services for one-third of the country's population. Work in the transportation sector is now expanding to the Kandahar-Herat portion of this same highway and rehabilitation of over 1,000 kilometers of secondary roads.

In health and education, USAID is building clinics, supporting NGOs across the country, building schools, training teachers and providing textbooks. Agriculture is the livelihood for approximately three-quarters of Afghans, and USAID is working to improve productivity and market access as well as helping Afghans to expand into new crops. Building on a successful currency exchange program, USAID continues to assist the Central Bank and Ministry of Finance to strengthen the central government's economic management and budgeting. USAID also played a key role in December's Constitutional Loya Jirga coordinating logistics and providing technical assistance. Critical preparation is now underway for elections in the summer of 2004.

Pakistan

Pakistan is a key ally in the Global War on Terror and USAID-funded programs are working to strengthen the fundamental social and economic weaknesses there. One of USAID's foremost programs seeks to improve primary education. Improved and more accessible education will build the economy, counter extremism, and promote moderation among the population. USAID is also assisting the most vulner-

able segments of society, including women, infants, and children, by providing access to health, including reproductive health services.

USAID's democracy and governance program in Pakistan is working with civil society organizations, political institutions and the media to promote and strengthen democratic principles of good governance. An empowered civil society will create more effective, responsive local and national governance, making legislative institutions more accountable to constituents. Finally, a fourth and critical sector is economic growth. USAID is working to reduce poverty and increase income and employment for the poor, especially women and young adults. The program is assisting micro-entrepreneurs to start and expand businesses by providing a source of credit in some of the poorest, most isolated regions of the country.

India

India, the world's largest democracy, home to over one billion people (roughly one-sixth of the world's population) is a key partner with the United States in the war on terror and an anchor for security and economic growth in South Asia. Both nations want to dramatically transform their relationship. The Indian government is intensifying its economic and social policy reforms to decrease poverty and increase social equity and is committed to cutting the poverty rate in half by the year 2020.

USAID programs in India will continue to advance four U.S. national interests: (1) economic prosperity achieved through opening markets; (2) global issues of population growth, infectious diseases, and climate change; (3) development and democracy concerns of alleviating poverty, reducing malnutrition, and improving the status of women; and (4) humanitarian response by saving lives and reducing suffering associated with disasters.

In addition to the bilateral program, ANE's South Asia Regional Initiative/Energy (SARI/Energy) program encourages regional cooperation in energy development and the eventual trade in clean energy resources among South Asian countries. The United States-Asia Environmental Partnership promotes the adoption of clean and efficient technologies in addition to policies and practices that support the positive relationship between economic growth and environmental protection in India.

Sri Lanka

In Sri Lanka, USAID moved from a program closeout scenario in 2001 to the design and implementation of an ambitious program that supports a negotiated settlement to the 20-year conflict in that country. U.S.-funded activities provide transition and humanitarian assistance to those areas affected by the conflict while working to improve democratic institutions and processes. Through these programs, the respect for human rights is promoted and economic growth and stability through market-oriented interventions are being supported. USAID is also working with other donors to monitor the upcoming April 2004 parliamentary elections to ensure that they are free and fair.

Nepal

The Maoist insurgency in Nepal has been costly in human terms and has severely disrupted that country's already fragile economy. The problems have been exacerbated by the political impasse between the monarchy and the political parties. By supporting interventions that address underlying causes of popular dissatisfaction (poverty, inequality, and poor governance) which contribute to the insurgency, the U.S. is making an important contribution to fighting terrorism, promoting regional stability, and diminishing the likelihood of a humanitarian crisis. The USAID program is aimed at reducing the impact of the insurgency on individuals and their communities, increasing household food security, reducing fertility and protecting the health of Nepalese families, addressing the country's energy needs, and assisting the Government of Nepal in dealing with critical problems of poor governance, weak rule of law and inconsistent democratic practices.

Bangladesh

Bangladesh has progressed significantly during the past decade achieving self-sufficiency in rice production, lowering infant and child mortality rates, virtually eradicating polio, increasing girls' enrollment in schools, and consistently increasing annual GDP. USAID's program of assistance in Bangladesh is particularly attuned to the priorities expressed in the joint USAID-State Department Strategic Plan 2004-09. In particular, the program in Bangladesh supports the joint objective of promoting democracy and economic freedom in the Muslim world, reducing the threat of famine, and advancing sustainable development goals. U.S. strategic interests include improving health, education, economic development, and the environment for the Bangladeshi population, and minimizing the costs of natural disasters.

EAST ASIA

Regional Development Mission for Asia

USAID's Regional Development Mission/Asia (RDM/A) opened in Bangkok, Thailand in June 2003. The new mission manages regional and country-specific programs in Burma, China, Laos, Thailand, and Vietnam, as well as HIV/AIDS and environmental programs that extend East into the Pacific and West into South Asia. RDM/A also acts as the regional hub for services including contracting, administration, and disaster response. RDM/A will manage four programs: Cleaner Cities and Industries in Asia, Effective Responses to HIV/AIDS and Other Infectious Diseases, Improved Governance in South East Asia, and Special Foreign Policy Interests Addressed in South East Asia.

HIV/AIDS

HIV/AIDS continues to increase in Asia where, in several countries, the epidemic has moved from high-risk groups into the general population. This could put 3.8 billion people at risk throughout the region. Approximately 8 million people in Asia are infected, including one million who became infected with HIV just during the last year.

Low national prevalence rates in some highly populated countries conceal serious localized epidemics. In China and India alone, there are more than 5 million people, adults and children, who are infected. Unless HIV/AIDS prevention efforts improve, Asia could have 40 million infected persons by the year 2010. This would make the region the highest of any infected region in the world. The HIV/AIDS epidemic in Asia could be contained in Asia if adequate resources and prevention mechanisms are focused on the region.

USAID programs are supporting HIV/AIDS prevention, care and treatment in 15 Asian countries, where some notable successes have been achieved. For example, with USAID support and Government of Cambodia commitment, HIV/AIDS in that country has decreased from 4% of the adult population to 2.8%. However, the current flat-lined budget for HIV/AIDS activities will limit the level of effort USAID will be able to provide.

With continued funding for prevention, care and treatment, strategic planning, and support for high-level government policy support, the HIV/AIDS epidemic in the ANE region could be contained, thereby mitigating the impact of this dreadful disease on individuals, families and communities.

The Philippines

The Muslim population of Mindanao has been marginalized economically for decades and now lacks access to basic social services. The long neglect and inequities for people in these areas have contributed to deep seated feelings of resentment and alienation from the nation as a whole.

USAID has refocused its program to provide more funding to this fragile area to encourage economic development within the conflict-affected areas. Local organizations that support peace will receive support, as will programs for indigenous peoples affected by conflict. Microfinance initiatives play a key role in supporting small-scale projects serving the needs of impoverished women. Rural agriculture will remain a major focus, in tandem with specific interventions designed to reintegrate former combatants into productive social and economic roles. USAID is designing programs to improve the Autonomous Region for Muslim Mindanao's (ARMM) capacity to deliver basic services (especially in health and education sectors). USAID will continue to enhance access to justice by supporting programs that build the capacity of local level community justice systems.

USAID's new education initiative in the Philippines will address the disparities in education between the ARMM and the rest of the country. This will demonstrate a commitment to greater equality and help reduce the widespread sense of alienation and exclusion felt by many Muslims in the region.

Through these activities, more than 21,000 former combatants of the Moro National Liberation Front (MNLF) have successfully reintegrated into the peaceful economy and have not taken up arms again. Over 1,000 homes of former rebels have been electrified, and economic opportunities in Mindanao as a whole have expanded through producer organizations and high value crops. The rebel Moro Islamic Liberation Front (MILF) is now poised to seek a historic peace agreement with the government, and, according to President Macapagal-Arroyo, this is due in no small measure to the attractiveness of USG assistance directly benefiting the MNLF. USG assistance will not go to the MIFL areas until after the MILF has signed an agreement with the Government and cut all ties to terrorist groups. USAID's efforts to reintegrate former combatants have been so successful that the State Department

distributed a video presentation of the program to be used as a model for U.S. relations with Islamic communities worldwide.

Indonesia

USAID's 2000-2004 assistance program to Indonesia was designed to support a transition from 1998-era crisis response initiatives to strategic interventions that establish the foundation for economic, social and political reforms. These goals have largely been accomplished. With the planned level of FY 2004 funding, USAID will be the lead donor supporting transparent, inclusive and peaceful legislative and the first-ever, direct presidential elections in Indonesia.

The next step will be to provide assistance that will make it a more moderate, stable and productive country. USAID is embarking on a new strategic direction that will address these needs. The new strategy, which the Mission is currently developing and will carry them through the next five years, will be presented to ANE in March for discussion and approval. This strategy will focus on programs that will improve the quality of decentralized basic education, improve democratic and decentralized governance, elevate the quality of basic human services, maintain healthy ecosystems, and increase economic growth and job creation through assistance.

The education program, which will be initiated in FY 2004, is a new one based on President Bush's announcement of an Indonesian education initiative. Program activities will prepare the children of Indonesia to become productive members of the world economy. USAID programs will also prepare Indonesians to be effective participants in their own democratic society, while reducing extremism and intolerance in favor of democracy, respect for diversity, and resolution of societal and political differences through non-violent means.

Cambodia

Although the Kingdom of Cambodia continues with democratic governance issues, it has made progress. The July 2003 national assembly elections, partially funded by USAID, helped to create the most open political environment that country has seen in the past decade. The prime U.S. national interest in Cambodia is to reduce Cambodia's vulnerability to international terrorism and international crime (such as trafficking in persons and narcotics) through building the country's potential to become a democratic state with an effective legal and judicial system.

While not working directly with the Cambodian government, USAID's democracy and governance program seeks out and funds NGOs that challenge the political and judicial system to treat Cambodian citizens equitably. The Agency's support will continue to sustain the development of professional party organizations, expand participation of youth in politics, and provide all democratic parties a presence on Cambodian airwaves. USAID's health program will continue to increase the number of health centers that can deliver an integrated health package, ensuring links between HIV/AIDS and all other health programs. These health centers will provide services for maternal and child health, reproductive health, family planning, tuberculosis, HIV prevention, care and support, and community outreach. USAID's health programs will also focus on support for orphans and vulnerable children and prevention of mother-to-child transmission of HIV.

Mongolia

Mongolia has made significant progress over the past twelve years in establishing the basic framework for a democratic society. An impressive constitution is in place, along with laws and regulations that provide the foundation for even further progress in the years ahead. One of the tests of democracy is the ability to change governments through regular, free and fair elections and Mongolia has passed this test with nine major elections over the past decade, three each at the local, parliamentary and presidential level. Governments have been elected to power and then peacefully relinquished that power following the outcome of subsequent elections.

The upcoming parliamentary elections, scheduled for June 2004, will provide another important test of the democracy taking root in Mongolia. This is in marked contrast to its five Central Asian neighbors, each of which is still ruled by the same leader who inherited power following the breakup of the Soviet Union.

Mongolia's continued progress is by no means guaranteed and difficulties will almost certainly be encountered in the days ahead. As economic prospects improve, competition over the country's productive resources is likely to increase. The stakes will become higher and the issues more complex. USAID's programs in Mongolia are structured to build on these initial successes by focusing on legal reform and political processes.

Vietnam

Recent Ministry of Health reports indicate that between 4 and 6 million Vietnamese (6-8% of the population) suffer from disabilities. One out of every three Vietnamese children is born with or acquires an ambulatory, mental, sensory, or intellectual disability. In all, there are roughly one million children with disabilities in Vietnam.

Recognizing this compelling need, USAID and the international donor community have sought to mobilize the Government of Vietnam to respond to this need. USAID's efforts to build the capacity of the government to address this situation have achieved great successes through the Leahy War Victims Fund (LWVF) and the Displaced Children and Orphans Fund (DCOF). These two funds support a number of projects implemented by NGOs to provide prosthetics and orthotics, promote rehabilitation, improve advocacy and policies for the disabled, and develop inclusive education models for children with disabilities to be included in the regularized school system.

USAID programs also include an active HIV/AIDS program in Vietnam to contain the epidemic in that country. Prevalence rates are less than 1% but without continued interventions, the epidemic threatens to enter the general population.

East Timor

USAID will open an office in East Timor in 2004. This nation, which is only 21 months old, faces enormous challenges to its democratic and economic development. USAID is providing critical assistance that will help build a viable economy and strong democratic base for the fledgling nation. USAID's programs will work to develop the local economy while establishing an environment attractive for trade and foreign investments that will create jobs and reduce poverty. USAID also funds training in basic business and management skills to encourage small business development. The establishment of small retail purchasing cooperatives has helped to speed the local economic recovery in rural areas.

Experience in democratic governance, public administration and economic development are extremely limited among the East Timorese. USAID's democracy programs are working to strengthen governance and improve citizens' access to justice. Continued U.S. support will be essential to help government, media and civil society fill their appropriate roles in a free and open democracy.

Burma

Burma is ruled by a highly authoritarian military government. The Government reinforced its firm military rule with a pervasive security apparatus. Though resource-rich, the country is extremely poor. Four decades of military rule, economic mismanagement, and endemic corruption have resulted in widespread poverty, poor health care, declining education levels, poor infrastructure, and continuously deteriorating economic conditions.

USAID co-manages the Burma assistance program with the Department of State. These activities support democracy in Burma as well as pro-democracy groups outside Burma. They also meet the needs of Burmese residing in Thailand by providing access to humanitarian assistance, primary health care and basic education. Democracy activities include training of Burmese journalists and public information workers to improve the quality and dissemination of news and information on conditions inside Burma. USAID also funds scholarships for Burmese refugees to study at colleges and universities in Asia, Europe, Canada, Australia, and the U.S.

Laos

Laos is one of the poorest and least developed countries in East Asia. Although it is also one of the few remaining Communist states in the world, reforms underway in neighboring countries and continued availability of Thai broadcasting may create greater incentives for the regime to undertake necessary reforms.

USAID programs in Laos will continue to combat the spread of HIV/AIDS. Because Laos is surrounded by countries such as China, Thailand, and Vietnam, which have significant numbers of HIV infections, and given the level of international migration, it is very likely that the epidemic will continue to spread in Laos. USAID activities will fund necessary interventions to control the spread of HIV. Other programs in Laos include USAID's War Victims Assistance Project to reduce the impact of unexploded ordinance (UXO) in northern and central Laos. In addition, USAID's child survival and maternal health activities the Vulnerable Groups Inclusive Education Program strengthens inclusive education in Laos at both the policy and classroom levels to ensure that all children with disabilities in Laos are able to attend and achieve in school.

China / Tibet

USAID coordinates very closely with the State Department on all of our activities in China. The programs there have two objectives. The first is to improve China's legal infrastructure so that it is more compatible with a market economy and better protects its citizens' rights. The second program assists Tibetan communities in preserving their cultural traditions, promoting sustainable development, and conserving the environment. The first objective is being met by introducing key members of the Chinese legal and judicial system to constitutional principles that support the rule of law, transparency and justice.

The second objective is being achieved through activities that directly assist Tibetan communities in China. This program is implemented through NGOs headquartered outside China that provide Tibetan communities with access to the financial, technical, marketing, environmental, and educational resources they need to sustain their traditional livelihoods, unique culture and environment, and to avoid economic marginalization as China develops its western regions.

CONCLUSION

The foregoing summary briefly explains some of USAID's programs, achievements and challenges in the Asia, Near East region. While much has been accomplished, much work remains to combat terrorism, promote stability, advance democracy and human rights and halt the advance of HIV/AIDS. USAID thanks this committee for their support of USAID's mission. We are confident that with continued support, we can address the challenges ahead. Thank you.

Senator CHAFEE. Well, thank you for your testimony.

As we look at the history of the 2003, 2004, 2005 budgets, from what I see for the region in 2003, the total is $1.3 billion. Is that roughly accurate? 2004, $2.4 billion, but then falling back this year to $1.9 billion. Am I reading those figures accurately?

Ms. ROCCA. I believe so, yes.

Senator CHAFEE. And how, in the age of inflation, how is the wrestling match back at headquarters as you tried to confront a declining number for your region?

Ms. ROCCA. Well, the declining—I think that the difference in the numbers there that you're seeing is due to the fact that in 2004 we got a supplemental, which added a large amount of money to the Afghan account specifically. We think that with the $1.9 billion that we're asking for this year, we're going to be able to consolidate the projects we already started with the big boost of assistance we got in 2004 and continue to move those projects forward for 2005. I think there's sufficient funds there.

Senator CHAFEE. And that begs the question, do you have any expectation of a supplemental in 2005?

Ms. ROCCA. I don't have the answer to that, I'm sorry.

Senator CHAFEE. And in examining in 2005, the 2005 budget per country, as Mr. West was going through, certainly what jumps out is that Pakistan, $700 million and Afghanistan, $900 million, $929 million, almost $1 billion out of the $1.9 billion total, leaving scarce funding for the other members of the region. What jumps out at me in particular is India, if I have this right, $85 million compared to $700 million for Pakistan. How, as we carry forth our diplomacy between these two neighbors, how is the dynamics of confronting the disparity in foreign aid? Do I have this right, $700 million for Pakistan and $85 million for India?

Ms. ROCCA. Do you want to address it or shall I? I'll, just in general, our relationship with India is a different type of relationship than that which we have with Pakistan. With Pakistan we are—Pakistan is one of the front-line countries in the war on terror, and

a lot of the assistance that we're talking about providing to Pakistan is related directly to that issue. With India we have a different relationship. It's one with a growing world power and our assistance there is really focused on helping them deal with not only the remaining poverty, but also with some of the economic problems, which are still holding them back, such as their deficit. So we're providing technical assistance. It's on a different level from that which we need for Pakistan, but I'll let Gordon talk about specifics.

Mr. WEST. I'd just like to emphasize that the level of sophistication, educational attainment in India really makes this a rather difficult comparison. We actually see almost two countries, with the south being almost a developed country anymore, and the capacity of the government and the many states to manage its own affairs really puts it in a category where it increasingly is able to manage its own affairs.

There are many policy decisions, strategic decisions that India must take. We are an active partner in many of those discussions, but increasingly India is seen as a country which is and should be expected to manage its own domestic affairs.

Ms. ROCCA. If I could just add one thing. India is also a provider of assistance to Afghanistan and in Iraq as well, so it is also providing a large amount of money in its own right. It puts it in a different category.

Senator CHAFEE. Do you get howls of protest from the Indian Embassy that, how about this disparity? No? And your answer to the question was, there's more direction toward a military aid, which isn't as important in India as it is in Pakistan because of the front on the war on terror. And that also begs the question, is that a good policy to have to be directing so much targeted to military aid as opposed to economic aid?

Ms. ROCCA. Yes, because it is still, as I mentioned and as you said, sir, it's still a front line country on the war on terror, and the military assistance that we're providing is assistance that directly helps us fight that war, which is why we've got half and half, because we also want to be able to get to the root causes of the extremism that exists in that region. So we've got half in military assistance and the other half in economic support funds and development assistance, it's a little—actually, it's more than half and half actually.

Senator CHAFEE. And getting at the root of the causes of terrorism, can you talk a little bit about the programs coming out of State in that direction?

Ms. ROCCA. Absolutely. What we're looking at is—well, what we have done so far is the assistance that we've provided has gone to social sector reform and to education reform. For the 2005 budget, the $300 million that we're talking about that we are proposing, $200 million would be for either budget support or possibly debt relief, and that would certainly—we would expect and we would work out with the Government of Pakistan an arrangement whereby equal amounts would go toward the social sector.

Of the $100 million for the social sector, I have a notional breakout, but it's still being worked out, which is $25 million for continuing successful USAID projects, $25 million for university schol-

arships in Pakistan and in the U.S., $42 million in new education, health, and water projects, $7.8 million to train local government and support devolution, and $.2 million, Department of Commerce trade capacity building, which we're working with the Government of Pakistan so that they can open up their economy and that the benefits that the Pakistani economy is currently reaping can go down to the average person.

Senator CHAFEE. To move to the subject now of counter-narcotics in Afghanistan in particular, we've had hearings in which that has been highlighted as one of the biggest difficulties in Afghanistan, the spread of the narcotics industry once again. I remember at one hearing one of the witnesses said it's so open that they grow it on the town plaza, in some of the towns the opium's grown right out in the open, a corrosive effect on all the establishment of judicial or military. The narcotics growers have their own militias to protect their crops and just the corruption that flows from this illicit trade.

And by looking at the budgets in Afghanistan, if I'm looking at the line item, INCLE/ACI, the counter-narcotics line item, in 2003 in Afghanistan it was zero, in 2004 it jumped to $220 million, and then it slid back in 2005 to $90 million. That certainly raises some questions, if this is such a growing problem that it's eroding everything we're doing there, why the slip back from $220 million to $90 million?

Ms. ROCCA. Once again, as in most of the accounts that deal with Afghanistan, what we're looking at is a difference of—the 2004 money has actually been plussed-up by a supplemental. The amount that we've actually been working with has gone up, and in 2005 we've requested $90 million.

There's no denying that the drug issue is a big challenge in Afghanistan. It's one that we're working hard and putting renewed effort into, and the 2004 numbers I think reflect also money that the Department of Defense will be providing to this effort. It is also an effort that we're working very closely with our European allies, and the British have taken the lead on this. We are absolutely cognizant of the challenges that lie ahead, but we think that $90 million certainly as initial going number, it will help us continue what we will have achieved in 2004.

Senator CHAFEE. Could you just talk a little bit more in detail—this is a fair question—on more of the specifics of what we're doing. Is it crop substitution, is it eradication?

Ms. ROCCA. We're talking about eradication, we're talking about crop substitution, we're talking about training border police and border guards to help deal with the movement of the drugs. We've got agricultural projects, which I'll let Gordon talk about, but that's where the specific funding would be going to.

Senator CHAFEE. And if we've had the $220 million in 2004, have we seen success with the crop substitution, with the eradication, with the local military training, some of the areas that we've said where we spend the money?

Ms. ROCCA. I think it's too soon to claim any success yet. It's an ongoing effort and I think we need a bit more time before we're able to say what we've been able to accomplish with the 2004 moneys. But certainly I can tell you that it is an absolute—it's an issue

of absolute intense focus across the board, because everybody understands the undermining effect this could have on the stability of the country.

Senator CHAFEE. And I guess it goes back to the same question I had before, it begs the question, we must be anticipating another supplemental then if there's an intense focus on a subject, it does take resources. And to see it fallen from $220 million down to $90 million, that doesn't back up the assertion that there's an intense focus.

Ms. ROCCA. Well, first of all, I can't comment on a supplemental because I don't know. However, I think we also need to get the 2004 funds moving, and I think the $90 million will help, I think the $90 million is a very significant number for us to get out the door by 2005 as well.

Senator CHAFEE. And, Mr. West, any further comments on our counter-narcotics efforts?

Mr. WEST. Just to say that agriculture is one of the three areas, enforcement, interdiction, and alternative crop development. There has been great success in the Helmand area in expanding the areas that are dedicated to wheat and other crops, so there are other ways to earn a living, so there's no denying that the poppy cultivation has grown, but there is also reason for some optimism that as, particularly as markets develop and as exports start to become more common, that there are alternatives in the future.

Senator CHAFEE. Well, I know you have a hard job in declining revenue to address the myriad problems and the intense problems, as you said, in your regions. I know we in Congress, as Chairman Lugar said, we're at least trying to have an authorization bill to give some guidance to the Appropriations Committee, and I'm sure you have a difficult time trying to come up with a final number here, $1.9 billion for your region, but I commend you for your appearance here. I don't have any more questions.

Ms. ROCCA. Thank you very much, Senator.

Senator CHAFEE. Thank you.

Mr. WEST. Thank you.

Senator CHAFEE. And now we will take on the Near East. We'll take a short recess.

[Recess from 9:37 to 9:48.]

Senator CHAFEE. Welcome, Secretary Burns, Mr. West again for the second half of this panel, the Near East.

Secretary Burns, please proceed.

STATEMENT OF HON. WILLIAM J. BURNS, ASSISTANT SECRETARY OF STATE, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. BURNS. Thank you very much, Senator, and with your permission I'll submit my written statement for the record and just summarize my comments orally.

Senator CHAFEE. Without objection.

Mr. BURNS. I very much appreciate this opportunity to meet again with you to discuss our fiscal year 2005 budget request. There's certainly no shortage of challenges as well as opportunities before us in the Near East. I look forward very much to continuing to work with you and with other members of the committee in pur-

suit of a positive agenda for peace, prosperity, and freedom in the region built on genuine partnership with leaders and people in the Near East.

I have no illusions about the difficulties ahead, but I remain confident that such a positive hopeful agenda is the most powerful antidote to the violent extremism which threatens us all.

There are four key priorities around which we are trying to build partnership in the Near East and around which we are organizing our resources. First is the challenge of helping Iraqis liberated from the tyranny of Saddam Hussein to build the secure, stable, and prosperous country that they deserve. A year ago as we met in this room, American and coalition forces were advancing toward Baghdad.

We have learned a great deal since then, and there is no question that we have had to improvise at times, rethink our assumptions, and adapt our approach to realities on the ground. But there is also no question that Iraqis today are enjoying a level of freedom that they have rarely seen in their modern history. We look forward to the transfer of sovereignty to a new Iraqi Government this summer and to working closely with the United Nations in helping Iraqis organize an effective political transition. With the support of Congress, we also look forward to further progress in helping Iraqis to rebuild their economy.

Today's tragic bombings in Baghdad and Karbala are another reminder of the security challenges Iraqis face and we are working very hard to build effective Iraqi police and civil defense forces and to combat violence.

Mr. Chairman, I've been to Iraq five times in the last 6 months and I can't say enough about the extraordinary commitment and dedication of the people we have on the ground there, military as well as civilians. The contingent of American diplomats in Iraq today is by far our largest in any country in the Near East, and it will increase in the months ahead. The hard work and courage of my colleagues in Iraq will only grow more important in the coming period, given what we have at stake in a successful transition.

A second priority, no less significant than the challenge before us in Iraq, is resuming progress toward the two-state vision which President Bush has outlined and which is so deeply in the interests of Israelis as well as Palestinians. This will require bold choices for peace from Israelis and Palestinians themselves, strong leadership from the United States, and active diplomacy with our friends in the region and throughout the international community.

We are consulting intensively with the Israeli Government to determine how the concept of disengagement might serve to bring us closer to that two-state vision, and at the same time are continuing to urge the Israeli and Palestinian Prime Ministers to meet and try to revive the Road Map.

A third priority involves the crucial struggle against terrorists and their state sponsors, as well as against the spread of weapons of mass destruction. We have seen a major advance on both these fronts in recent months in decisions made by Libya. As we described to this committee last week, the administration is determined to build on this progress through patient and persistent diplomacy.

A fourth priority intimately connected to the other three is the historic challenge of supporting home-grown efforts at economic and political reform in a region which has for too long known too little of either. Such changes simply cannot be imposed from the outside, they must emerge from within. And the good news is that many societies throughout the greater Middle East are moving to modernize their economies and open up political participation as a matter of their own profound self-interest.

The United States and other friends outside the region can help in many ways, from assistance programs to trade agreements to educational exchanges, and it is profoundly in our self-interest to do so. That's why we are so appreciative of your support for the Middle East Partnership Initiative and assistance programs which our colleagues in USAID have been managing with great professionalism for many years.

Mr. Chairman, I can think of few challenges more significant in the years ahead for American interests and American values than turning our positive agenda built around the four priorities I've mentioned into real progress and real partnership in the Near East. Our economic and security assistance in the region has never been more critical, and our personnel and fiscal resources are stretched to the limit. We are grateful for the vigorous efforts of this committee and the Congress to ensure that the significance of what's at stake in the Near East is matched by the resources we need to succeed.

Thank you again, and I look forward very much to continuing to work closely with all of you. Thank you.

[The prepared statement of Mr. Burns follows:]

PREPARED STATEMENT OF HON. WILLIAM J. BURNS

Thank you, Mr. Chairman. A year ago, as we met in this room, American and coalition forces were advancing toward Baghdad. We discussed the challenges we would soon face in helping the Iraqi people rebuild Iraq as a peaceful, prosperous, and democratic nation. The challenges were real, and there is no question we have had to improvise at times, rethink some assumptions, and generally learn some hard lessons through experience.

A year later, we can look at a record of real accomplishment. I have traveled to Iraq five times in the past year, Mr. Chairman, and I can't say enough about the commitment and dedication of the people we have on the ground there; military and civilian, government and private. They are doing great things, every day, in Iraq, and it is paying off.

Together with our coalition partners, our friends and allies in the region, we have rebuilt infrastructure, addressed humanitarian needs, and—in full partnership with the Iraqi people—started re-establishing effective institutions of government and civil society.

Iraqis today enjoy a level of freedom they have rarely seen in their modern history, and that freedom will soon include the transfer of sovereignty to a new Iraqi government. *We cannot afford to be naïve about the substantial challenges that remain before us. But neither should we understate how far we have come.*

Helping Iraq to rebuild and develop its democracy will continue to be a major focus of our resources and energy in the coming year. But we also face a number of issues that must be addressed as part of a broad, comprehensive approach to bringing peace, stability, and prosperity to the region. I see four priorities.

First, the challenge of helping Iraqis liberated from the tyranny of Saddam Hussein to build the secure, stable and prosperous country that they deserve.

Second, the struggle against terrorists and their state sponsors, as well as against the spread of weapons of mass destruction.

Third, the challenge of renewing progress toward the two state vision which President Bush has outlined, and which is so deeply in the interests of Israelis as well as Palestinians.

Fourth, the historic challenge of supporting homegrown efforts at economic and political reform in a region which has for too long known too little of either.

We appreciate the close and fruitful collaboration we have enjoyed with this committee in shaping our policy responses to these challenges, and in ensuring the resources are available to get the job done. With that in mind, I would like to spend a few minutes going over some of the details in each of the priority areas I have identified.

IRAQ

We continue to work closely with the Coalition Provision Authority (CPA) and Iraqi Governing Council (IGC) in their efforts to stabilize the security situation in Iraq, reinvigorate the Iraqi economy, and to forge a political process rooted in democratic values that will lead ultimately to a federal, democratic, unified and prosperous Iraq. We are working, along with the United Nations, our coalition allies, partners in the region, NGOs, and the international community to lay the foundations for an Iraq with pluralistic and democratic government institutions, protections for civil liberties, and equal rights without regard to ethnicity, religion, or gender.

The transfer of authority from the CPA to an Iraqi government on June 30 will be a key milestone. The United States will need to maintain a substantial presence in Iraq after the transition. We are moving ahead with plans to establish in Iraq what will be the largest U.S. diplomatic mission in the world. The Baghdad Embassy will draw staff from across the government to help the newly sovereign Iraqi government face a dauntingly complex array of challenges. Funding is our most urgent issue. The current level of program activity in Iraq exceeds by orders of magnitude the staffing and budgetary levels that the State Department and other U.S. Government agencies devote to typical Embassy operations. We have limited funding from the 2003 supplemental to establish Embassy operations in Iraq including $35.8 million for Embassy startup, operational, and security expenses and $61.5 million for establishing interim facilities. Our operational needs for FY05, above the $17 million in the President's FY05 budget request, will need to be addressed in the future.

ARAB/ISRAELI PEACE

No achievement would resonate more in the region right now than restoring a sense of hope and progress toward realizing the President's goal of a two state solution to the Israeli-Palestinian conflict. In order for this to happen, both Israelis and Palestinians will have to see a different reality emerging than the one they see today. It is becoming increasingly clear that the emergence of a democratic, peaceful Palestinian state alongside a secure Israelis not just a dream of the Palestinian people. It is intimately connected with Israel's future as well. To make it happen, vigorous U.S. leadership, as always, will be key. Our assistance package will continue to be a vital part of our approach. Economic and military assistance to Israel—over $2 billion annually in FMF and, for fiscal year 2005, $360 million in ESF—helps provide the security and economic vitality for Israel to take risks for peace. Our $75 million in annual ESF for the West Bank and Gaza addresses immediate humanitarian needs while developing essential infrastructure and advancing President Bush's goal of seeing reformed and renewed Palestinian institutions. In addition to ESF for the Palestinians, USG contributions to UNRWA typically make up over one-third of that agency's annual budget (total support for fiscal year 2003 reached $134 million). In this way we address the continuing humanitarian predicament while working to build the foundations for a viable, democratic state.

Our efforts at peace reach beyond our bilateral relationships with the parties and into a variety of tracks that encourage greater regional interaction and multilateral peace activities. As the 25th anniversary of the Camp David accords approaches, the Multinational Force and Observers continues to play an essential role in support of the Egyptian-Israeli relationship. We remain committed to our long-standing multilateral programs aimed at encouraging dialog and cooperation between Israel, the Palestinians, and other Arab States, although no money was earmarked for it in the FY 2004 Omnibus Bill. The resources devoted to our Middle East Regional Cooperation program—we are seeking $5 million in FY 2005—promote scientific collaboration between regional universities, NGOs, and research centers.

FIGHTING TERRORISM AND WMD PROLIFERATION

We have continued to focus our military and economic assistance throughout the region toward disrupting terrorist networks, denying support and sanctuary to terrorists, and, bringing terrorists to justice. We have sought to help our friends and allies to strengthen their legal, regulatory, and enforcement capabilities. Together

with the Departments of Justice, Treasury, and others, we have provided training and technical assistance to help regional governments enhance their financial oversight and regulatory authority over banks, charities, and informal money exchange networks, known as "hawala," that have been used by terrorists to fund attacks, obtain fmancing for their activities, and disguise their assets. These efforts have been paying off. At our urging, regional states have taken significant steps to prevent the misuse of charities and informal remittances as sources of funding for terrorism.

Our FMF programs, and our strong bilateral military relationships with many regional states, support both our anti-terror effort and our WMD objectives. Last year, increased assistance to critical frontline states such as Jordan, Bahrain, and Oman was instrumental in helping us to stage coalition operations in the region. Assistance to Yemen and others enhanced anti-terror capabilities, and our ability to work together with friends in the region to stem WMD proliferation.

Libya is a good example of how far we have come on both of these issues. Through intensive diplomatic efforts, backed up by multilateral sanctions—and in partnership with the courageous families of the Pan AM 103 victims—Libya has finally accepted responsibility for the actions of its officials, paid appropriate compensation to the families of the victims, and must make a clear commitment to halt permanently support for all forms of terror. In the past several months, we have also been involved in an intensive and highly successful effort by which the Libyan government has taken steps to disavow and dismantle its WMD programs and Missile Technology Control Regime (MTCR)-class missiles as well as ratify the Chemical Weapons Convention (CWC) and the IAEA Additional Protocol that allows nuclear-related inspections at any time. Significant challenges continue to face us in Iran and Syria with regard to their WMD programs, and we will continue to work directly and in concert with our allies to address these issues.

ECONOMIC MODERNIZATION AND DEMOCRATIC CHANGE

The fourth set of issues on our policy agenda, closely intertwined with the other three, is the longer-term issue of supporting efforts from within the region aimed at democratic change and economic modernization. Political, economic, and educational reform as well as expanded opportunity for women and youth are essential for the long-term stability of the region. We must prevent the frustrations of today from producing the terrorists of tomorrow. To realize this goal, the President's "Forward Strategy for Freedom" includes as components both the U.S.-Middle East Partnership Initiative (MEPI) and the Greater Middle East Initiative (GME).

In 2002, the Secretary launched the Middle East Partnership Initiative as our principal vehicle to enhance economic, educational and political opportunity in the Arab world. MEPI seeks to establish or enhance region-led reform efforts that will strengthen democratic practices, expand political pluralism and the freedom of expression, promote the rule of law, advance economic reform, and improve access to and the quality of education in the region, as well as expanding opportunity for women and youth in the Middle East.

The President's Greater Middle East Initiative is also designed to respond to calls for reform in the region. We are encouraging states in the region to develop and agree on a new document or "charter" that lays out basic political and economic freedoms and principles. We believe the upcoming G-8, U.S.-EU, and NATO summits are opportunities for these institutions to respond to calls for change from the region and to act in concert to support the forces seeking positive change in the Greater Middle East.

LOOKING AHEAD

The great challenge of restoring hope and integrating the Greater Middle East into a more peaceful and prosperous world is one to which the United States must rise. But in the end our success will be measured by whether we are able to achieve a partnership with the people of the region based on a common vision. To do this, we must convey a message of freedom, opportunity, and dignity to the region's people. We must restore hope and confidence as the best antidote to chaos and extremism.

As always, we will need the guidance and support of this committee, the Congress, and many others. We certainly appreciate the vigorous efforts of this committee to ensure we have the resources to meet these policy challenges. As we move forward, I look forward to working closely with all of you. Thank you.

Senator CHAFEE. Thank you, Mr. Secretary.

Mr. West.

STATEMENT OF GORDON WEST, ACTING ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, USAID

Mr. WEST. Thank you, Chairman Chafee, Senator Nelson. We appreciate this opportunity to review USAID's budget and programs in the Middle East region. Let us start with Iraq, which represents USAID's largest new undertaking since the Vietnam war. We've been on the ground now for approximately one year. We have a staff of about 160 persons in Baghdad. We're managing a program now of approximately $4.2 billion with more anticipated in the months to come.

One of the major focuses has been on the power sector. It's absorbed a lot of our energies, if you will. Our target is to get to 6,000 megawatts by this summer. We're well on the way to achieving that target.

Water and wastewater is a major undertaking. Although the results of all the engineering works is not evident yet, there are through the summer and fall season roll-outs of many of the wastewater and water facilities that will greatly improve the ability to deliver water and to rid of waste, which is a large issue in child survival rates throughout the country.

Telecommunications is progressing quite rapidly. We have the opening and the functioning of the Umkasr port. The Baghdad airport is open. It is not ready for commercial service due to security concerns, but the facility is ready to go. Roads, bridges, schools, clinics are well underway in terms of reconstruction programs. We have rebuilt or upgraded 2,400 schools throughout Iraq.

Child immunization rates are about 90 percent now, which is where it should be.

We have great success in other areas, but most specifically I would note the strength of the combination of local government programs, community action programs through grantees, our Office of Transition Initiatives, the Office of Foreign Disaster Assistance, and the tremendous capabilities of our military civil affairs units, which have combined in a community development program and strengthening of local governance, which we believe has really been under-advertised and is the bedrock for the future of good government and delivery of services and a new and democratic society in Iraq. We are very encouraged by what's going on at the grassroots level.

Meetings were held in Abu Dhabi. We really feel that the next phase is critical and encouraging. We're working actively with state military and now the U.N. and other donor communities to map out the next year in terms of transitions, both to self-government and to the expansion of the development of the capacities of the Iraqis to manage their own affairs.

In Egypt, we've seen a time of equally dynamic change and momentum. We've seen a shift of what was a very much status quo program to a much more productive dialog between us. It's not all positive. We've had good results in areas of education, customs reform, monetary change, civil society. At the same time we have areas of contention. We currently have a fair amount of money held up because of issues of privatization, transparency, intellectual property rights, but we believe this is a good sign. It's a sign that

there is serious dialog and issues are being addressed that affect the future of the Egyptian people.

We have a solid program in Jordan. We are very encouraged by the leadership and the openness, both economically and politically, that is demonstrated in that country.

We have what was a program that was nearing close in Morocco, which has now taken on not only free trade but education, democracy, and other key issues. We are encouraged and hopeful for a very productive future in our expanded Morocco program.

We also have a brand-new Yemen program. It's off to a good start. It's a challenging environment, but we believe it will have an impact in that country.

Thank you very much.

Senator CHAFEE. Thank you, Mr. West. I have a question as to the Iraq line item, and it's probably a simple answer, but I see it in 2003 but I don't see it in 2004 or 2005. I don't see any line item for Iraq. You have every other country but I don't see Iraq. Why is that?

Mr. BURNS. Sir, as I recall the figures in the 2004 supplemental, there's a request that has to do with establishing an interim embassy facility and then in 2005 there's another request that's related to the operating expenses of State Department personnel in Iraq, but clearly we're going to need, the administration is going to need to seek, at a time the White House chooses, greater resources in terms of setting up and staffing our embassy in Iraq, but that's a decision at least with regard to timing that hasn't been made yet. That's just with regard to the issue of the new American Embassy which we are planning to open the 1st of July.

Senator CHAFEE. Yes, but my question is, in looking at the budget as you have broken in down, the various line items into the various countries and regions, I have Algeria, ATA regional, Near East Asia, Bahrain, Egypt, Israel, Jordan, Lebanon, Middle East multilaterals, Middle East Partnership Initiative, Middle East regional cooperation, Morocco, and on down, Saudi Arabia, Tunisia, but I don't see Iraq. I do see it in 2003, Iraq, Iraq opposition, Iraq pre-positioning, Iraq war crimes tribunal line items, but I don't see anything on Iraq in 2005. Why is that? Why the change from 2003 into 2004 and 2005?

Mr. WEST. The 2004 numbers do not include what is still an uncertain figure of what portion would be managed of the supplemental II by USAID. We know right now there is approximately $2.6 billion, which has been identified, $1.8 billion has been put into the infrastructure sector, and the health education, economic growth, and governance——

Senator CHAFEE. Where do I find those though? They've got to be in print somewhere.

Mr. WEST. The 2207 report was the last authoritative report in terms of budget allocations, but the CPA has yet to make final determinations on many of the sector allocations, so we ourselves are hoping soon to have some final numbers. FY 2005 clearly is dependent on similar issues of decisions on what the appropriate timing of seeking additional funds is. The supplemental II program was more than a 12-month budget figure, so to the extent that carries us through 2005, we will likely be using many of the funds

that have been provided in the supplemental II for the 2004/2005 period.

Senator NELSON. Will the chairman yield?

Senator CHAFEE. Yes.

Senator NELSON. Mr. Chairman, that is not a clear answer, and it is a part of what is the problem in a request for funds, either through an authorization or through an appropriation. The administration, the executive branch of government, has a clear responsibility to request funds of the legislative branch and to state that very clearly what your request is, instead of saying you're going to refer part of it to a supplemental. We've been through this drill on the Defense budget as well where moneys in the President's budget are not even put in there for the expenditures in Iraq for Defense.

And now you're telling us this is the same thing with regard to this budget request in the State Department. That's just unacceptable.

Senator CHAFEE. Thank you, Senator Nelson. I'll continue my questioning. Could you—so there is going to be a supplemental request? Will you go that far for Iraq?

Mr. BURNS. Sir, I think with regard, I just addressed the issue of setting up the embassy, as I said, we've tried to lay out in the numbers that we've offered some of the costs that we anticipate, but we anticipate there'll be more costs that we'll have to request through a supplemental. But I'll leave it to the White House in terms of the timing of that issue, sir.

Senator CHAFEE. The timing and the amount? You don't have any forecast of the timing or the amount?

Mr. BURNS. I don't, sir, this morning.

Senator CHAFEE. OK. And I'll finish a couple questions and turn it over to Senator Nelson. In looking at the numbers for the region, it goes from $8.4 billion in 2003 down to $5.5 billion in 2004 and $5.4 billion for the region, the total region of the Middle East. And the reason for that drop-off from $8.4 billion down to $5.5 billion and $5.4 billion is that the money comes in the supplemental? Is that accurate? Is there any other line item that shows why such a dramatic decrease?

Mr. BURNS. No, sir. I mean, as you know, with regard to the, for example, the Egypt and Israel economic assistance programs, we've been on a glide path for a number of years, so in terms of ESF there's been a predictable decrease in the amounts year by year running through fiscal 2008.

That's one explanation, but in other areas, as my colleague mentioned, with regard to Morocco, for example, with regard to the Middle East Partnership Initiative we're seeking increases for the reasons that I outlined in my opening statement.

Senator CHAFEE. It seems as though it's such a dramatic—if a glide path is different from a fall off—a step from $8.4 billion down to $5.5 billion. That's a dramatic, dramatic decrease, as opposed to a glide path, and I can't find exactly where in the numbers, I was hoping you could help me, in how that dropped off, where and what line item, or was it a mix of—over the course of taking from every account? You can't—oh, I'm sorry, Mr. West.

Mr. WEST. It's fairly much exclusively the lack of a portion of the supplement, the second supplemental funds. As Assistant Secretary

Burns mentioned, we do have some modest reductions on a continuing basis in Israel and Egypt that is almost made up for by increases in MEPI funding in Morocco and others, so the real change there is the fact that the second supplemental is not reflected in the later year number.

Senator CHAFEE. OK, fair enough.

Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman, and Mr. Chairman, you can sense the frustration in my voice and it has nothing to do with the two of you gentlemen, because you are excellent public servants and you're doing the best you can under a very difficult situation, and in many cases you become the messengers of messages that are delivered to you by the White House and what I'm saying doesn't have anything to do with partisan politics, nor does it have anything to do with an election year. I'd be saying the same thing on the constitutional responsibility of the legislative branch and the authorization for expenditures and the appropriations for expenditures.

And we've seen this now in many instances where there's an attempt to obfuscate and hold off to the future, and that is transgressing the constitutional separation and checks and balances that we have. So I wish you all would heed the chairman's questions and come forth with the information of what is requested for this 2005 authorization.

Typically what happens is we don't ever get an authorization bill, Mr. Chairman, so they don't have to deal with us. They go and deal with the Appropriations Committee and do it much later and do it in supplemental budgets, and that's just not a way to run a railroad. So you'll have to understand some of the frustration that I have. If I were President, we wouldn't be running it this way, and by the way, I'm not running for President. I'm one of the few Senators that's not running for President.

All right, let me ask you this. What is in the President's budget to organize and create and stand up what is going to be the largest embassy in the world, the U.S. Embassy in Baghdad?

Mr. BURNS. Sir, what is—as in the 2003 and 2004 supplementals, there's a total of about $96 million, which we've set aside for various costs connected to beginning to set up that embassy, and in the 2005 budget there's a fairly modest initial request of something less than $50 million to do the same thing.

We clearly are going to need more resources as we move ahead to set up this embassy. We have now, as I indicated in my opening comments, well over 100 of my colleagues, American State Department personnel on the ground working in the CPA in Baghdad as well as in provinces around the country, and we're going to need to sustain, as you suggested, a very large diplomatic presence there, our biggest in the NEA region for some time to come.

It'll clearly be, as any of our missions are overseas, a very important interagency effort involving our colleagues from other agencies throughout the government in order to sustain our support for successful transition in Iraq. So the figures I mentioned to you are just a first indication of what we can anticipate in terms of cost, but this is going to be I think a big and very important investment, not

just for American diplomacy but for the U.S. Government for some years to come.

Senator NELSON. And that's $50 million that's in the budget and plus—what was the other figure that you mentioned?

Mr. BURNS. The total figure as I recall it in the 2003 and 2004 supplementals is about $96 million. Part of that was set aside for establishing an interim embassy facility in Baghdad, and the other has to do with other costs of supporting our diplomats there.

Senator NELSON. But in the 2005 budget, which starts in October of 2004, you would anticipate that the expenditures for setting up an embassy in Baghdad in the period of time from October the 1st of 2004 to September the 30th of 2005 is going to be much greater than is put in the budget now.

Mr. BURNS. I would expect that there would be a greater need there, sir. I don't have a precise figure to offer you today. We tried as best we could to look at predictable expenses and offered the figure I mentioned to you, and we'll look forward to staying in close consultation with you on this.

I understand entirely the frustration that you described before and we're wrestling with the situation as well on the ground, where it's very important for us to put not only our best people out there, but to support them in the best possible way. I don't think there's—there certainly isn't a higher priority in terms of the policy issues we deal with in the Near East Bureau than helping Iraqis to make a success of their transition.

Senator NELSON. Mr. West, you had a comment.

Mr. WEST. Thank you, Senator Nelson. I'd just like to add a few observations on the operational challenges and structures that USAID sees. Currently we have approximately 700 Foreign Service officers serving worldwide. We used to almost have that many in India or Brazil or Korea in the 1960s. We have downsized to the point where when we face challenges such as Iraq and Afghanistan, the fight against HIV/AIDS around the world. It is straining every ounce of our fiber to fulfill our commitments. We have done an outstanding job in Iraq. We will continue to do that. But it does trickle down throughout the Agency in terms of the impact on all our operations.

First and foremost I would like to say that our operating expense structure I think is one of the sources of the issue, whether it's just a matter that it needs to be increased or whether we need a new paradigm for our operating expense versus program funding. There are options. Our bureau is the key bureau this year in the Agency to look at some experiments, but the issues are very real. We are not in adequate numbers. We are not trained nor able to deploy in the manner we really need to, given the challenges in the role for USAID in the future in foreign affairs.

On the same vein, Iraq is quite different than the challenges we faced in the past, for instance, in Vietnam where we created whole bureaus and structures, the collapse of the wall and the fall of communism where we had the SEED Act and the Freedom Support Act, which gave the Agency broad abilities to not only address the specific country but to gear up as an institution and address the problems we face.

And we have been able to take into account specific operating actions on a rolling basis in Iraq, but we do not have that umbrella structure and we are actually encouraged by Chairman Lugar and others to look at some of the lessons learned in Iraq, Afghanistan, and others. We look forward to continued dialog on how we can do it better in the future.

Senator NELSON. In your report earlier about water systems, sewer systems, roads and bridges, all of that is very good. Now, speaking of that, if you would answer, are there attempts still to sabotage all of that infrastructure as we had seen early after we had taken over? And tell us, if you will, bring us up to date, what was the explosion that occurred last night and what did that relate to?

Mr. BURNS. Senator, with regard to the explosions that were reported earlier today in Baghdad and Karbala which resulted tragically in a very significant loss of life, dozens of innocent people killed, most of them Shi'a worshipers. This is one of the holiest days in the Shi'a Muslim calendar and there were a series of explosions in both Baghdad and Karbala, one of the holy Shi'a cities in the south of Iraq, as I said, which caused a very tragic loss of life.

I haven't seen any claims of responsibilities yet for those particular acts of terrorism, but it's a reminder, as I said in my opening comments, of the difficulties of the security situation, and we're working very hard to help Iraqis get police forces back on the street and to help stand up their civil defense forces. And that's going to continue to require a lot of effort, not just on the part of the United States, put on the part of others in the coalition as well.

Senator NELSON. And how about the sabotage of infrastructure?

Mr. BURNS. Well, just in general terms, sir, it's still a threat. I think the incidence of those kinds of acts of sabotage has actually decreased in recent months, but again, I don't want to underestimate the nature of the threat. It continues to be a challenge for the Iraqis and for the CPA and U.S. forces and coalition forces, which we'll continue to be very mindful of.

But we've made a great deal of progress, as Mr. West can elaborate on, in terms of rebuilding and getting back up to pre-war levels in terms of power generation, oil exports, a whole range of things. So it remains a threat, but I think we've made a good deal of progress working with Iraqis to help regenerate some hope in the economy.

Senator NELSON. On the basis of your answer, it would seem that you're saying that most of the violence is directed at individuals instead of at the infrastructure, and if that is the case, how much effect have those explosions of trying to create mayhem and fear among the populations, both indigenous as well as foreign, how has that affected the international donor effort? And as part of that answer will you tell me how much has been contributed?

Mr. BURNS. Yes, sir. Let me start with the answer to the question and then turn to Mr. West. I think the international donor effort, which was manifested last fall in Madrid at what was historically the single biggest commitment by donors to a reconstruction effort. That produced a total of $33 billion in commitments, including the very generous contribution that the Congress made possible on the part of the United States.

As Mr. West mentioned, there was in Abu Dhabi the last couple of days another meeting of the donors to talk about ways in which they can apply those resources to needs in Iraq. A significant delegation of Iraqi ministers there to explain how they're using the moneys, what their priorities are. So I think the donor effort not only hasn't flagged, but I think it's actually strengthened in terms of the commitment of many countries, international financial institutions to help Iraqis rebuild, notwithstanding the continuing security threats that are out there.

Senator NELSON. And how much is being contributed?

Mr. WEST. Basically the World Bank trust fund and the UNDP trust funds have just been created. The United States was the first to put in its base contribution. There was a very good meeting of the minds in Abu Dhabi in terms of the areas of emphasis. The World Bank, UNDP, will be focusing on the level of donations into those trust funds, has not yet been notified, it's just beginning. The Japanese really are the first ones out of the chute, if you will. They have up to $500 million in terms of designated programs on the ground.

Security is a big issue for all the other donors. They are very much looking to the United States for guidance on how to operate successfully in Iraq, and this will be a year of a lot of challenges in terms of getting more legs on the ground, more operating units. Many of them will be operating with Amman as a base and coming in and out. But it is going to be a challenging but a promising year in terms of expanding donor presence.

Senator NELSON. Mr. Chairman, I'm not accustomed to asking a question three times. The question I'll ask for the third time is, how much has been contributed by the international donor effort?

Mr. WEST. May we come back with an answer, with a written answer to you as of today how much has been contributed?

Senator NELSON. Is the implication of your question zero has been contributed?

Mr. WEST. No. There have been contributions from the United Nations, from Japan, but we will have to get back to you with an answer.

Mr. BURNS. Sir, I just add the figures that were committed, for example, in Madrid, and the meetings in Abu Dhabi are a continuation of that process, the Japanese committed to a total of nearly $5 billion. You had commitments made by Saudi Arabia, for example, and Kuwait of about half——

Senator NELSON. Those are commitments. I'm talking about contributed.

Mr. BURNS. Money that's actually expended on the ground——

Senator NELSON. That's correct.

Mr. BURNS [continuing]. We'll have to get you those specific figures, but that was the purpose, sir, of this meeting in Abu Dhabi too was to try and translate that.

Senator NELSON. Thank you.

[The following information was subsequently supplied.]

IMPLEMENTING MADRID PLEDGES: NON-U.S. DONOR DISBURSEMENTS

Of the $32 billion in pledges for 2004-2007 at the Madrid Donors' Conference, $13.584 billion was from non-U.S. sources. Of this, $5.55 billion was pledged by the

World Bank and IMF in lending programs. The remaining $8.034 billion was from 36 countries and the European Commission.

Now that there is an internationally recognized government in Baghdad, the World Bank and IMF are discussing with the new Iraqi Interim Government its interest in their lending programs.

As of June 30, 2004, of the $8 billion in pledged donor assistance, other donors had disbursed $1.148 billion of their pledges, according to State Department estimates. This does not include other assistance these donors already provided to Iraq, such as humanitarian assistance, military assistance, or other aid to Iraq and the Coalition.

It also undercounts some donors where we do not have detailed information or confirmation from the donor countries on amounts disbursed for bilateral assistance. For example, we understand the UK has disbursed about another $60 million in bilateral project assistance.

The bulk of the $1.148 billion disbursed by donors has been in the form of deposits to the International Reconstruction Fund Facility for Iraq (IRFFI), which is comprised of UN and World Bank trust funds. The UN and World Bank trust funds are now starting implementation of their initial IRFFI projects.

Disbursements and implementation have been complicated by the security situation in Iraq, but nonetheless are continuing.

Disbursements by non-U.S. donor countries of over $1.14 billion in the first six months of a 4-year pledge of $8 billion indicate a disbursement rate comparable to disbursement rates by our donor partners for previous post-conflict assistance efforts, though on a bigger scale.

The Iraqi Interim Government (IIG) through its Iraqi Strategic Review Board (ISRB) is playing a central role in coordinating donor assistance and setting assistance priorities.

For additional information on reconstruction progress, including examples of progress on the ground attributable to international donations, you may want to refer to the Quarterly Section 2207 report on reconstruction progress. This report is posted on the White House Web site. Appendix 2 includes international donation information.

Senator CHAFEE. Thank you, Senator Nelson. Secretary Burns, you're a career Foreign Service officer, speak Arabic, and stationed Ambassador to Jordan, and the Djerijian report released in—commissioned by the administration and released in the fall showed that the anti-Americanism is rising to shocking levels. In the effort we're making in the Middle East and the region that you understand well, are we going backward?

Mr. BURNS. Sir, there is no doubt, as the Djerijian report described, that there is deep frustration throughout the region, throughout the Near East, for a whole variety of reasons. There's frustration with American policy, there's frustration with a lack of movement in opening up economies and political systems in people's own societies. There's deep frustration, as you well know, with the lack of progress on the Palestinian issue.

So there are a whole range of sources of that mood, which can be a very ugly one, as you described. It seems to me that the best policy approach to dealing with those challenges, and this is something that the Djerijian report indicated, has to do with the kind of broad positive agenda that I tried to describe, in other words, a vigorous effort on the part of the United States to show that we can work in partnership to deal with those sources of frustration, whether it's on rebuilding Iraq, whether it's on the Palestinian issue, Arab-Israeli issues more generally, or on the historic challenge and the truly critical priority of helping leaderships and people in the region open up economies, open up political systems, create greater opportunities.

All of those issues, it seems to me, are connected, and changing the mood in the region to the extent that the United States can

help do that is going to be a function of progress in all of those areas.

Senator CHAFEE. And do you see the resources following that goal as we look at the total for the region? As I said, it goes from $8 billion down to $5billion except for the effort in Iraq. The Middle East Partnership is a year old and now we have a chance to look at it, and as you said, the issue that seems to be the galvanizing one is the Israeli-Palestinian issue. Are the resources there in this budget to address some of these critical, critical issues?

Mr. BURNS. I think they are there, Senator. I mean, we've looked very carefully at each of those programs in the Middle East Partnership Initiative, since, as you did say, it's a new program and so we've tried to work very carefully with you and with your staffs to ensure that those moneys are well-spent so that they provide a good basis for us making expanded requests in the future.

I believe it's critically important for the United States to devote far more attention than administrations that I've worked for over the 21, 22 years I've been in the Foreign Service have been devoted to issues of political participation, economic modernization, educational opportunity. It's one of the great challenges I think, not just for the United States in the region, but for the peoples and leadership of the Near East, and there's a lot we can do to help.

So what we want to do is try and demonstrate that that $150 million that we've requested is well-targeted, that it will be well-spent, and that it is part of a comprehensive effort that's also connected to the bilateral programs, whether in Egypt or in Jordan or in Morocco or Yemen or other parts of the region that we've also identified.

We also want to make sure, and this is something we've tried hard to do in the Middle East Partnership Initiative, that we are trying to link together all the various tools of American policy. The President has laid out a target of a Middle East free trade area by the year 2013. The bilateral FTA with Jordan provides a very solid foundation for that.

We're about to announce later today a significant achievement with Morocco in our FTA negotiations and we're making very good progress with Bahrain, thanks to the efforts of my colleagues in USTR. So I think this is in part a function of assistance levels, but it's also in part a function of brining all of those different instruments of policy together.

Senator CHAFEE. And to followup on Morocco, in the budget it's going this year, 2005, up to $57.3 million up from $19.8 million. Can you explain why that is and why—should that be part of the MEPI?

Mr. BURNS. Yes, sir. On the economic side, I would say several things. First, King Mohammed and his government have launched what is in our judgment a very serious and very courageous program of reform, and so as we look at Morocco, it's very much in the American interest to invest in the success of those reform programs.

Second, Morocco itself has come under terrorist attack, including last May. It's significant, I think, that all of the perpetrators of that attack came from the same slum in Casablanca, and what it reinforces to us is the importance of helping to show some sense

of economic and social hope in Morocco, precisely the kind of goals that King Mohammed has laid out.

So it seems to us to be very much in the American interest to look at ways in which we can expand support for serious efforts at reform and help create a model of success in Morocco in much the same way that we've tried to do in Jordan and we're trying to do in other countries in the region.

Senator CHAFEE. Very good. And the line item for Gaza and the West Bank, that's gone from 2003, $124 million down to 2004 and 2005 about $75 million. First of all, why the drop? I know that's a year old, and how is the money being spent?

Mr. BURNS. I'd just make one comment and then I'm sure Mr. West will add to it. The difference has to do with the $50 million in supplemental assistance that you provided for the Palestinians. The $75 million annual figure in ESF assistance has been fairly consistent in recent years, and Mr. West may want to comment on the purposes to which those resources are put.

Mr. WEST. Basically our programs right now are largely directed to humanitarian and, if you will, basic relief programs. It is a very difficult environment to be operating a proactive development assistance program, so we're largely trying to rebuild damaged communities, to keep basic job creation programs going while issues get resolved at the political level.

Senator CHAFEE. Could you go a little bit further on the success in what we're doing in West Bank and Gaza with that $75 million, rebuilding? Are we getting a return on our investment?

Mr. BURNS. Senator, I think we are despite all the difficulties involved. As you know, the plight of Palestinians in Gaza and in the West Bank is extremely difficult and getting more difficult over time. What we've tried to do, as Mr. West suggested, is focus on not only some long-term infrastructure projects, water projects in particular in Gaza, which serve a very important long-term need of Palestinians, but also, given water scarcity throughout the region, for Israelis as well.

Second, we've tried to focus, particularly in Gaza, the northern part of Gaza, on emergency programs that help in rebuilding from some of the destruction of the Intifada in recent years, put people to work in the course of reconstructing roads and other kinds of infrastructure projects. And that also has had some tangible benefit in an area that's been extremely hard-hit, and we have very high unemployment rates for Palestinians, again particularly in Gaza.

Senator CHAFEE. And just to followup, I'm trying to keep my questions to the budget. I know when Secretary Powell appears, we veer off into policy and I'm trying in this subcommittee to focus just on the numbers, but I do believe it's relevant to how we spend our money in the questions I just asked as to where are we on the Road Map. Has Ambassador Wolfe in the area, is—you talk about investing in the West Bank and Gaza while the Intifada goes on. Obviously it seems like a poor investment to rebuild a road that's going to be shelled the next week potentially or a building or water works or other infrastructure. Where are we on the Road Map?

Mr. BURNS. Well, Senator——

Senator CHAFEE. Has Ambassador Wolfe been in the region? Is anybody——

Mr. BURNS. No, sir. I was there last week with some colleagues from the NSC staff and I expected——

Senator CHAFEE. Can I just interrupt? I'll just ask, is Ambassador Wolfe still at all involved or is he kind of phased out of this?

Mr. BURNS. Yes, sir. Well, he's, you know, working in his——

Senator CHAFEE. At one point he was the lead person for the Road Map.

Mr. BURNS. In terms——

Senator CHAFEE. If there was one person to look at, it would be him, correct?

Mr. BURNS. Yes, sir. In terms of the——

Senator CHAFEE. Has that changed?

Mr. BURNS. In terms of the monitoring mission to—that was set up last summer to try and ensure that we're making progressing on the Road Map, that's right, that's the role that Ambassador Wolfe has played. As I said, I was, along with some colleagues from the NSC staff, in the region last week. I expect to be traveling again soon.

We remain very much committed to the Road Map. The Road Map is at a stalemate at this point, as you know. We have strongly encouraged, including in the meetings I had with Israelis and Palestinians last week, a meeting between the two Prime Ministers, between Prime Minister Sharon and Abu Alla, to look at ways of reviving our progress on the basis of the Road Map.

And we've also, as I mentioned in my opening statement, been consulting with the Israeli Government about some ideas that they've put forward with regard to disengagement, ideas which are interesting and which give us something to work with. And we're looking clearly at ways in which those kind of ideas can be applied to promote the two-state vision which President Bush has outlined and which is so critically important to Israelis as well as to Palestinians.

Senator CHAFEE. Can you give me any reason for hope?

Mr. BURNS. For all the difficulties in the path to progress, and you know them very well, Senator, it seems to me so critically important to both Israelis and Palestinians to revive hope in a political process, to move away from the terror and violence which have done so much to undermine not just the security of Israelis, but the legitimate aspirations of Palestinians, that I continue to believe that with strong American diplomacy and leadership working with our partners in the quartet, our friends in Egypt and Jordan, that we can help find a way to reopen a pathway toward some greater hope and political progress.

The Road Map offers a clear pathway to do that. It requires political will. It also requires some diplomatic activism and ingenuity on our part, and that's what we're going to continue to apply, because as I said, there is no greater challenge before us in the Near East region than trying to revive that sense of hope.

Senator CHAFEE. Without a doubt. I'll move to Libya. Do you plan to come back and request any aid? There is no line item for Libya. Do you plan to come back if sanctions are lifted?

Mr. BURNS. No, sir, not at this point. I don't know of any plans to do that. As we discussed last week when I appeared before the committee, I think we've—the Libyans have made significant

progress in fulfilling the WMD commitments that they've made, and we've announced a number of things that the United States is going to do in recognition of that.

I'll meet with the Libyans again later this month in March and we'll look forward to continuing to build on that progress. But, to answer your question, sir, no specific requests at this time.

Senator CHAFEE. And last, I have one more question. Any requests you have of Congress as to how we should lift any sanctions or restrictions that might be on any aid or any action we should be taking on this side of the branch of government?

Mr. BURNS. I don't have any specific requests at this time, sir, with regard to——

Senator CHAFEE. Restrictions in Iran or any restrictions on aid to Iran or any other—no?

Mr. BURNS. No, sir, not at this point. On Libya we'll stay in very close touch with you as we move ahead in that relationship. But with regard to the other areas we've discussed, the Partnership Initiative and other areas, as I said, we're very grateful for the support that you have provided for the resources that we've requested and we'll look to expending them in an effective way.

Senator CHAFEE. Well, thank you. Any comments, Mr. West, before you're let off the hot seat?

Mr. WEST. Just one last comment. We didn't go in great detail on the MEPI partnership. It's been a learning process, but we have promising signs. We have a strong partnership with State on this. It's allowed us to operate in many countries that USAID has not before traditionally worked in, and we are encouraged by the trend. Thank you.

Senator CHAFEE. Well, as many have said, the success in the region, and I believe it firmly, and as the Djerijian report suggests is looked at and you hear it from so many of the diplomats from the region is looked at at the ongoing struggles between the Israelis and the Palestinians. And I believe firmly that if the administration shows more effort in that arena, it'll pay dividends in the entire Muslim world, and for some reason we're just, as Secretary Burns says, in this horrible stalemate that's hurting our interests in the region.

Thank you, gentlemen.

Mr. BURNS. Thank you, Senator.

Senator CHAFEE. We'll recess until the next subcommittee.

[Recess from 10:37 a.m. to 11:04 a.m.]

OPENING STATEMENT OF SENATOR SAM BROWNBACK

Senator BROWNBACK [presiding].

I'll call the hearing to order. Thank you, gentlemen, for joining me here today. I appreciate you very much coming forward. I think we'll just go right into your presentations so we can hear that. Your written statements will be put into the record. I appreciate very much your service and we want to do this as getting some understanding and outlines of where you hope to put the budget and the funds that you're given.

Two people are testifying today, Mr. Don Keyser, Principal Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, State Department, and Mr. Gordon West, Acting Assistant Admin-

istrator for Asia and Near East, USAID. I appreciate your being here and we'll receive your testimony.

Mr. Keyser.

STATEMENT OF DONALD W. KEYSER, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF EAST ASIA AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. KEYSER. Thank you very much, Mr. Chairman, for the opportunity to come here and to discuss the assistance programs that we in the Bureau of East Asia and Pacific Affairs are looking at for fiscal year 2005. By way of prelude, let me say that my boss, Secretary Kelly, would have been very happy to be here. He will be testifying this afternoon before the committee on his recent trip to North Korea. This morning he's with the Foreign Minister of the Republic of Korea, and indeed at this very minute he's in the White House with the Foreign Minister.

Senator BROWNBACK. Good. No problem.

Mr. KEYSER. Thank you. As you said, Mr. Chairman, we have a fairly long statement that's already in the record, so if I may, I'll simply skim lightly over some of the high points to save time.

Senator BROWNBACK. Please. Just hit the key items of areas that you want to really deal with and delve into as an entity for this upcoming year.

Mr. KEYSER. Right. Thank you, sir. Basically we have put counter-terrorism at the very top of our list of priorities for obvious reasons. It has been there, but it is our primary strategic target for the coming year. It moreover is a strategic foreign assistance goal, which relates to each of the other strategic priorities that we have had traditionally in this bureau and that have taken added importance obviously in the aftermath of September 11.

So quickly, these are: promoting regional stability; fostering democracy and human rights; encouraging economic prosperity; fighting or combating transnational issues and international crimes, such as trafficking in persons, narcotics trafficking; and preventing the spread of weapons of mass destruction. Each of these, in our view, is interrelated into a coherent whole.

Very quickly, on counter-terrorism the goal is to root out terrorism throughout the region and to root it out both where cells exist, as in, for example, the Philippines, and also at the same time to attempt through our assistance programs to address the underlying conditions that foster the growth of terrorism. So a high priority for us is indeed the rule of law and promotion of institutions of civil society and so forth and so on.

We are working to this end both bilaterally and through regional organizations such as ASEAN, the ASEAN regional forum, and APEC. Increasingly we have attempted to put into the agenda of those regional organizations that overriding goal of combating terrorism.

I stress this because even though APEC, for example, is an organization created to deal with economic issues, increasingly we have managed to persuade our partners in that organization to look at the phenomenon of terrorism as one that affects economic growth, it affects the ability of societies to conduct the kind of economic ac-

tivities that they wish to discuss. So we're working, as I say, both bilaterally and multilaterally to that end.

Regional stability has long been the bureau and the Department's main strategic goal in East Asia and the Pacific. We will do this, of course, through sustaining the alliance structures we have. We have five major allies in the region, the Republic of Korea, Japan, the Philippines, Australia, and Thailand. I would note simply that we have had as a mission since the outset of the administration the goal of fostering and strengthening those alliances, and I think that has borne fruit in the aftermath of September 11 in particular, whether directly or more quietly in the case of Thailand.

Each of these five strategic partners, treaty alliance partners, have contributed both to the overriding goal of combating terrorism and they have also been stalwart partners in the mission that we've undertaken in Iraq, both in the military sense and now in the reconstruction sense. So essentially, regional stability is a major goal. We have many components to that that we can get into later.

Democracy and human rights. Fundamentally we have seen a great deal of progress in the region. I think it's a subject that can and should be remarked upon that we're looking this year toward five different elections in East Asia and Pacific of the nations with which we have close relations. In addition, Taiwan, that we, of course, don't recognize as a nation but nonetheless is a vibrant democracy and 23 million people will have an election as well. So we are looking ahead to six free and democratic elections in East Asia and Pacific during this year.

I flag this to your attention, Mr. Chairman, because later today Secretary Powell will be giving a speech before the Heritage Foundation on the theme of democracy, and in that speech he will note that, I think 10 years ago, 15 years ago, to have projected that we would be talking about this degree of democratic development, this degree of building of the institutions of civil society would have been regarded as a very pleasant dream but a very tough dream to realize.

Many of us recall well that 20 years ago we heard leaders such as Lee Kwan Yew talk about an Asian system of values. By that, they meant Asians concentrate on economics, others in the United States and in Europe with their traditions concentrate on human rights. Well, not so. What we have found, in fact, is that throughout Asia, as elsewhere, people wish to have democratic societies, they wish to cast votes, they wish to have their individual liberties protected.

A large part of what we do in East Asia is to support these tendencies, both where they already exist and where they are yet to be achieved, in China, for example.

Another area, very quickly, open markets and economic development. This is self-evident. We seek to promote open markets, economic developments, sound economic policies. This is not only a goal worth being pursued in itself, but it is also essential, crucial to the war against terrorism. If nations are developing economically, it seems to us some of the root causes of terrorism perhaps are mitigated, and it seems to us that the overall goal of combating

terrorism and of promoting regional stability will be better achieved.

As part of that, I would say that we're looking in particular at China, a massive issue, and to say it's a big issue almost sounds like parody since China obviously is the world's largest nation with 1.3 billion. For us, the issue of China's compliance with its WTO obligations, in particular with its commitments to pursue offenders against intellectual property rights, is a major goal. We have sought to address that goal through a series of assistance programs that we have had working and through various and sundry exchange programs and other programs that we have projected for the future.

Weapons of mass destruction. Again, we have for some time sought, both internationally and in the East Asia/Pacific region, to deal with the question of weapons of mass destruction proliferation. Through last year I think we have seen considerable strides taken in our relations with China. China undeniably had been a major concern to us, it remains a major concern to us in terms of its proliferation activities.

The good news, Mr. Chairman, is that in the past year we have had some episodes of meaningful, concrete cooperation with the People's Republic of China, including, I suppose it can now be revealed in a public setting, one instance involving proliferation or possible proliferation toward North Korea.

The Chinese cooperated closely with us in response to our provision of certain information. This was a story broken by Asahi Shimbun about 2 weeks ago, and I'm delighted to say that the Chinese saw fit to confirm it, so it's now something that the Chinese not only were prepared to do with us quietly, they're prepared to, I think, bask and take some credit for what they've been doing.

That having been said, there are still a great many entities in China that have been involved in activities of concern to us. We have sanctioned them when necessary. We will continue to sanction them. So we have in that connection requested another $2.6 million in fiscal year 2005 in order to address export control issues. We think we are making some headway on that. We hope to make more.

Beyond all that, there are various areas highlighted in our presentation this year where some slight adjustments from previous years are marked. One of those I would call to your attention, Mr. Chairman, is in Cambodia. Cambodia has had an election as you know. They've not yet been able to form a government. We have been counseling, we have been urging the various parties in Cambodia to come together as quickly as they can to form that government.

One goal of most in Cambodia has been to form a tribunal, a war crimes tribunal. For many in Cambodia, for many in Southeast Asia, there has been a goal of bringing to justice those who are still alive who participated in the atrocities that took place under the Khmer Rouge regime, and to bring closure to a horrific episode in that nation's history.

We have, as a government, said that we believe that such a thing will be useful, such a thing deserves support, and we have said that we have been interested in making a due contribution toward

such a tribunal if one is constituted and if there are the right conditions attached to that. So we have marked that and I mark it here today, sir, as something that we do look forward to contributing toward. It remains controversial, however, and I won't deny that.

I think with that I'll simply close. I've spoken enough and the formal testimony is on the record. I'd be happy later to answer any questions you might have. I want to thank you again for the chance to be here.

[The prepared statement of Mr. Keyser follows:]

PREPARED STATEMENT OF DONALD W. KEYSER

Mr. Chairman, I am pleased to share with the Committee our priorities for foreign assistance programs in the East Asia and Pacific region for fiscal year 2005.

OVERVIEW: U.S. INTERESTS

EAP has placed counter-terrorism at the top of its list of strategic foreign assistance goals for FY 2005. In light of a continued terrorist threat in Southeast Asia, evident in major bombings in Bali and Jakarta in the past two years, efforts to combat terrorist activity have been central to the pursuit of EAP's strategic goals that encompass the following: our traditional, primary long-term goal of promoting regional stability; fostering democracy and human rights; encouraging economic prosperity; fighting transnational issues and international crime; and preventing the proliferation of weapons of mass destruction.

Counter-terrorism: Terrorism in the Asia-Pacific region is a serious threat to U.S. national security interests, including the welfare and security of American citizens in the region and the security of friends and allies. It poses a direct and immediate threat to regional trends toward stability, democratization, and prosperity that are otherwise generally positive. The Bureau's goal is to root out terrorism and address the underlying conditions, including the absence of rule of law, that make the region vulnerable to terror.

EAP will work with countries in the region bilaterally and through regional organizations to strengthen their capacity to combat terrorism and to foster the type of international cooperation needed to fight the global war on terrorism.

In Indonesia, for example, we intend to build on the successful efforts, funded by the NADR account, to continue training and to expand the Indonesian National Police's Counter-terrorism Task Force.

And, we will use the increase in FY 05 ESF funds for Indonesia to support basic education through our USAID program as a key element in the effort to combat terror. This initiative, announced by President Bush in October of 2003, will prepare Indonesia's children to be effective participants in their own democratic society while reducing extremism and intolerance, and supporting democracy and respect for diversity.

The bureau will leverage U.S. efforts through cooperation with friends and allies, particularly those with the capability to help build regional CT capacity, including Japan, Australia, Korea, Singapore, Thailand, Malaysia, and China.

Regional Stability: Regional stability has long been the Bureau's main long-term strategic goal. In FY 2005, regional stability will be advanced through success in attacking terrorism. EAP will sustain alliances with our five treaty partners in the region while promoting their increased integration into U.S. regional and international strategy; promote stability in Northeast Asia, including on the Korean Peninsula; support the positive integration of China into regional and global institutions; strengthen regional institutions for managing political and economic challenges, including the ASEAN Regional Forum (ARF), ASEAN, and APEC; and pursue regional growth and integration through FTAs, Trade and Investment Framework Agreements (TIFAs), market openings, and other economic liberalization measures, as well as through democratization and rule of law programs.

The ASEAN Cooperation Plan is an essential tool for building long-term stability in Southeast Asia. To support activities under the ASEAN Cooperation Plan, we have requested $2.5 million for FY 05. The funds will be used to bolster the ability of ASEAN to play a constructive and stabilizing role in Asia, to facilitate cooperation to address transnational issues, to foster economic and political integration, to spur development and to enhance our influence in a region of significant economic importance to the United States.

We are requesting $250,000 in FY 05 for Regional Security to support U.S. efforts in the ASEAN Regional Forum to shape regional views on issues such as arms control, counter-terrorism, and maritime security through seminars, workshops, and exchanges and to promote regional stability through strengthening regional institutions in which the United States participates.

Democracy and Human Rights: The relative stability of the EAP region has allowed democracy to take hold in many areas, including South Korea, the Philippines, Mongolia, Thailand, and Taiwan as well as many Pacific Island states. This year will see citizens of five nations in the EAP region—namely Indonesia, Korea, Philippines, Malaysia and Mongolia—plus Taiwan go to the polls.

EAP will continue to promote democratization and improvements in human rights throughout the region and will work closely with EAP countries, including Indonesia as it continues its democratic transformation. With our help and that of other major donors, Indonesia—a secular state with a diverse and predominantly Moslem population—could become an example of tolerance and democracy and a model for other countries.

Through our USAID programs, we are assisting NGOs in Cambodia in a wide range of areas, including human rights, labor rights, good governance, rule of law, and an independent press. In Indonesia, we will support programs that advocate public tolerance and strengthen local governments, in addition to our basic education initiative.

The situation in Burma remains grim, as we have just made clear in our human rights report. Human rights abuses continue; Aung San Suu Kyi, other NDL leaders, as well as other political prisoners remain under detention. The government has given no indication how it will involve the democratic opposition and ethnic groups in its plan for national reconciliation nor has it outlined a timeframe for these discussions.

Our FY 05 assistance to Burmese citizens inside Burma and Burmese refugees in neighboring countries, particularly Thailand, is intended to strengthen grassroots democratic institutions and to press the Burmese government to improve its human rights record and to cease persecution of religious and ethnic minorities.

Open Markets/Economic Development: Promoting open markets, economic development, and sound economic policies is not only a critical regional goal, it is also a vital element of the war on terrorism. Economic prosperity reinforces democratic institutions, fosters stability, encourages the peaceful resolution of differences, and supports U.S. commerce and trade.

The Asia-Pacific region is key to global economic growth. While the region has moved a long way down the path of recovery since the economic crisis of 1997-98, resumption of dynamic growth rates will require significant financial and corporate restructuring and improved economic and political governance, including an end to endemic corruption, and expanded trade and investment. The U.S. role—through bilateral assistance, free trade arrangements, support for reforms and regional programs in APEC and ASEAN—will be critical to the success of this transformation.

Free trade arrangements with the U.S. will be an important vehicle for driving competitive trade liberalization in the region. We are moving ahead with the Enterprise for ASEAN Initiative (EM), which offers the prospect of FTAs between the United States and ASEAN countries that are committed to reform and openness. The goal is to create a network of bilateral FTAs which will increase trade and investment, tying our economies more closely together. The EAI has already resulted in an FTA with Singapore, which came into force in early 2004. We have completed negotiations with Australia for an FTA, and we have announced intentions to enter into FTA negotiations with Thailand. We continue to support granting normal trade relations (NTR) to Laos.

China's compliance with its World Trade Organization (WTO) obligations, its transition to a market economy and its emerging economic influence are economic developments that EAP will monitor closely. The bureau will also use multilateral regional bodies such as APEC as a way of promoting market-oriented reforms and open trade and investment regimes. In addition, to fulfill our obligations under the South Pacific Multilateral Fisheries Treaty, we are requesting $18 million in ESF in FY 05. This treaty ensures continued access for U.S. commercial fishing vessels to the Pacific Ocean Tuna fishing areas. In the Philippines our funding through USAID will support micro-financing, anti-corruption, civil society, governance, and other programs to promote economic development in empoverished areas. Our ESF request for East Timor of $13.5 million will support the development of its civil society and new democractic and economic institutions.

International Crime and Transnational Issues: Transnational issues, including terrorism, narcotics, human trafficking, and infectious diseases, are a serious threat to regional stability. EAP works with INL, OES, USAID and other agencies on these

transnational challenges to develop multilateral approaches to supplement existing bilateral efforts.

One of the most important contributions we intend to make in FY 05 is in the area of human trafficking. We have requested $1 million in FY 05 assistance for EAP's Regional Women's Account to support a regional approach to combat the scourge of trafficking in persons (TIP). As TIP is a problem that crosses and takes advantage of national borders, we must mobilize a regional effort to counter it. Funding will focus on empowering women through political participation, economic independence, and the elimination of violence against women. Our efforts will concentrate on TIP projects in Tier 2 countries where trafficking problems are most severe.

Weapons of Mass Destruction: FY 2005 placement of WMD proliferation as a strategic goal is based on the assumption that current positive trends in nonproliferation cooperation with China will continue. We are working to pursuade China to adhere fully with its existing bilateral and multilateral nonproliferation commitments and to cooperate fully in pre-licensing and post-shipment verification checks related to U.S. dual-use exports. EAP will also work to obtain Chinese cooperation in encouraging other countries to adhere to the guidelines of the international non-proliferation regimes. EAP is working within the Six Party Talks process to secure the complete, verifiable, and irreversible elimination of North Korea's nuclear programs. In FY 2005, the bureau will continue the effort to prevent, contain, and reverse the possibility that any WMD or their means of delivery might become available to rogue nations or non-state terrorist organizations.

For FY 05, the Department has requested $2.6 million in export control assistance for the EAP region. The recent accounts of a black market in sensitive nuclear-related goods involving companies in the EAP region make this funding critical to our efforts to end WMD proliferation.

MODIFICATIONS OF CURRENT RESTRICTIONS

EAP would like to expand programs for a small group of EAP countries, including Cambodia, in the future.

In Cambodia, Public Law 108-199 for FY 2004 restricts assistance to the central government, with limited exceptions. There are several areas where closer cooperation with the central government would be in the U.S. national interest: enhancing counter-terrorism capabilities; promoting rule of law and justice; developing a smaller more professional military; and supporting a credible Khmer Rouge Tribunal.

Cambodia needs training in immigration, border security, and other areas critical to our global fight against terrorism. We need to be able to train and work directly with the government agencies concerned with CT. All individuals and units we work with will be carefully vetted.

Many of Cambodia's problems stem from or are exacerbated by the shortcomings in its legal and judicial system. U.S. assistance for judicial reform and anti-corruption efforts would promote our interests in a number of areas, including: combating trafficking in persons, resolving human rights abuses, improving international adoption procedures and bringing Cambodia into compliance with WTO legal standards.

Public Law 108-199 also prohibits funding for any tribunal established by the Government of Cambodia. It has been the longstanding policy of this and prior Administrations to seek accountability and bring to justice those responsible for the genocide carried out by the Khmer Rouge regime from 1975-1979. In June 2003, the UN and Cambodia signed an agreement to establish a credible Khmer Rouge Tribunal. We have urged all parties to work to ensure the Tribunal will execute its jurisdiction in accordance with international standards of justice, fairness, and due process and would seek to make an appropriate contribution to such a tribunal.

CONCLUSION

The foregoing represents a brief overview of EAP bureau goals and objectives, and the resources necessary to meet them. It incorporates our best assessment of the region-wide demands and requirements we should work to meet, but as we mentioned in last year's testimony, it cannot incorporate resource requests for major, unanticipated events that could emerge without warning in the region, including on the Korean Peninsula.

Senator BROWNBACK. Thank you very much. Mr. West, do you want to put anything forward or——

Mr. WEST. Briefly, if I may.

Senator BROWNBACK. Yes.

STATEMENT OF GORDON WEST, ACTING ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, USAID

Mr. WEST. Thank you, Mr. Chairman. We see in East Asia in particular some encouraging news in terms of the 5-year economic straits, difficulty straits are gradually lifting. At the same time, we see a region that perhaps is not as competitive as it was before and certainly has political insecurity challenges, which, certainly on the security side were not a part of the fabric of USAID's attention in some of these areas.

Our biggest priorities in the region are the Philippines and Indonesia, where we have large presence countries. In the Philippines we have almost totally directed our assistance to focus on the issues of development and separatism and terrorism in Mindinao and the souther islands.

We've had an ongoing program for 10 years now. More recently, we have directly engaged, as you know, with the MNLF, with considerable success in terms of being able to create livelihood opportunities, beginnings of civil society. This year we have added initiatives in education, basic education and exchanges that will allow us to address the poor state of both public and private education facilities throughout the country but especially in the Mindinao area.

We have on the shelf funding that would allow us to engage with the MILF should there be a break. We are not at the moment going forward with any of those programs, but there are some positive signs. We don't know if anything would happen before an election. We are prepared to work very closely with the State Department and others on the ground should those opportunities come forward.

We are prepared to put a modest amount toward the election that's coming. Those will largely be helping the institutions in the monitoring process for those elections.

In Indonesia, we also, as Mr. Keyser mentioned, there is a major election this year. We have put substantial resources toward preparing for these elections. This will be a very active year on that front.

We have also engaged in a substantial increase in our commitment to education. We had some fairly low-level programs before, largely through the Asia Foundation. As a result of the announcement by President Bush, we have committed to a 5-year, long-term program in education. It's focusing on decentralized authorities building the local capacity to manage education. We are looking at centers of excellence on a district basis, a large emphasis on community, women's involvement. Many of these areas will also include areas where we have Islamic schools to generally upgrade the capability of registered and qualified schools across the board. This is a very important initiative.

We also continue with economic reforms and Indonesia is one of the potential countries that face an HIV/AIDS threat, so we are active in trying to protect the country from that, from HIV/AIDS.

In mainland Southeast Asia, we largely focus increasingly on transnational issues. Those include HIV/AIDS, infectious diseases, trafficking in persons, corruption, trade capacity and development. We're also engaging increasingly with ASEAN to strengthen its ability to bring together the Southeast Asia region.

These transnational issues, to the extent they also involve areas of crime, whether it's trafficking, drugs, also have a clear intersect with terrorism. It's clear that the criminal and terrorist worlds are increasingly intertwined in countries that are either weak or failing, such as Burma. The weakness of governance in Cambodia do offer opportunities for terrorist elements. We've seen resurgence in the Malaysian border. We see issues on the Burma/Bangladesh border.

In response, we are increasingly working closely together with State, not only on a bilateral but on a regional basis. We have created a regional mission in Thailand that will increasingly take on many of these transnational issues.

That's all I have.

Senator BROWNBACK. Thank you, gentlemen very much. I have a series of issues I want to raise with you, and we're going to have a series of rollcall votes, so I don't think there's probably any way you can address all these, but what I'm going to mention to you is things that I'm going to be pressing on here and in the Appropriations Committee as well on areas that intersect your region that you're working on.

And first, I really applaud and appreciate your efforts. I think there has been an incredible movement of liberty and freedom in that region, as you noted of what Secretary Powell's going to speak on. You really couldn't have imagined this being at this level, to the point that in December of this last year I was in Hong Kong calling for democracy and to a rousing crowd and a—what, about 2 weeks earlier there had been 100,000 people out in the streets of Hong Kong calling for democracy.

Wow. I mean, that's pretty significant, to the point that North Korea, that during most of my tenure has been a hermetically sealed place. We haven't known what's going on before now. We're getting out virtually daily new information from refugees that are coming out, chemical weapons testing, Gulag system, much of it's just horrific, but we're finally hearing and knowing some of the things going on, and a lot of that's due to the pressure really the administration's placed on them, and I think that's important.

To Vietnam, where the trade relationship has grown dramatically, and I was just back there in January, but some of the human rights issues haven't moved along as well. Religious freedom in the State Department's annual report was really just citing problems with Vietnam and religious freedom, and I stated to the officials in Vietnam, this relationship is growing, it should, that's as it should be, but here is a big impediment if you don't start addressing it, and there's no reason for you not to address it, and I'm hopeful they will receive that well.

Several areas that are also on my list, Burma and putting in the officially elected government. I tried to get into Burma this year and was denied a visa by the Burmese not allowing me to go into that country. It has to remain a strong, hard focus.

And then it's not just Burma. When I was on the Thai-Burmese border a couple of years ago, what the Burmese junta has done has forced a number of people into—just on that Thai border—and the people are just prey for traffickers and criminal elements. So you're seeing all these little girls getting trafficked into brothels that just

is a death sentence on them. That is a disgusting thing that the military government and what it's pushing has then had this huge human side effect on it.

I want to draw your attention to something that we're going to try to press through that's tied with that. We take in refugees into the United States and it's an admirable thing we do. We don't take in near as many as we could. I think last year we took in about 25,000. We funded to 75,000.

I have introduced a bill called the Widows and Orphans Act. Of the 25,000 we took in, only 1,000 were widows or young orphans, and of the refugee population around the world, it's estimated that population of widows and orphans is about 34 million. In other words, most refugees are widows and orphans, and yet the ones that can fight through the system to make it here are generally young, healthy males, because they're the ones that can rigorously dig through the system. The ones most subject to trafficking, to raid, to refugee camp crimes are widows and orphans. They're the most vulnerable. This bill would allow a new category for State Department to identify people that are in vulnerable categories, and instead of requiring them to swim up through the stream to make it, it allows us to pick them out and say, you know, this is somebody that ought to be moved to the United States for safety purposes and keep them from being trafficked. We're going to try to press that on forward.

On the trade front, I do agree with you on the WTO accession by China and that we've got to press them to live up to their obligations. They have created an economic juggernaut and done a brilliant job of it. You really got to tip their hats to them. I was up in the North Korea-China border region a year and a half ago and they cracked open a four-lane limited access road into a fairly remote region of the country, wasn't anybody on the road, we turned around and went the wrong way for about a half mile because somebody behind us had a flat tire, it was a snowy day, so that also contributed to a lack of traffic. But I was saying, you know, as an economic activity, you got to give it to them. They are cracking open regions of that country just left and right. It's a wise economic strategy. But they've got to live by their WTO obligations and that impacts our people here.

I've been pressing hard that we get the beef markets open back up in Asia. That's a particular concern of my State with Japan, the BSE case. And I understand why they did that, but it is time that we open that market and really press them to get that moving open again.

Two final issues I just want to point out to you, because they're ones we're going to be working on. I hope you get soon resolution. There is a group of Vietnamese refugees in the Philippines that are left over from the Vietnamese boat people. I think it's about 1,200 to 1,800. I called the head coordinator of that last week to say the issue of these people needs to be resolved, this is 15 years old now, and it's a limited population pool and I think they need to be allowed into the United States, but just let's get it examined, let's get it determined where these folks are going to.

Then the final issue is we've got a bill pending on North Korea. It would allow asylum and refugee status to North Korean refugees

seeking status in the United States. Currently there's a legal coefficient against that because they can by constitution go to South Korea. If we're to support the freedom, we need to be able to take some as well, and that would be a narrow authorization issue for State Department. We would try to get that authorization to State Department.

The broader issue is on the six-party talks if those move forward that—I agree with trying to deal with the nuclear issue, but this is the worst humanitarian situation in the world. The numbers I've seen, about 2½ million people have died in the last 10 years in North Korea. That's a tenth of the population, a little more than a tenth of the population, and if we do the deal where they stop developing nuclear weapons and we pay money to prop up the regime and these people are left to die, you talk about a weapon of mass destruction. Killing 2½ million people in 10 years is a weapon of mass destruction and I disagree with that, and if the administration comes to the Congress and says, we want money for this agreement, and does not address the human rights issues in North Korea, I will be opposing that, even thought it is a laudable goal that you're after to get rid of the nuclear weaponry in North Korea and we need to do it. But if the price is leaving these people in a gulag to die where food aid that we pay for doesn't get to the targets and when they're not allowing us to monitor it to get to the targets, I do not agree with that, and that is not a humanitarian way for us to go.

We now know what's going on inside of North Korea. We didn't for a long time but we do now. And so for us to say, well, it's going on but we've got this objective here, I can't abide by it. That's too high of a price to pay in human lives and their suffering. We're not seeing North Korean refugees all over China, we're now seeing them in Vietnam, in Burma I'm told, in Thailand, you know, as they keeping walking out trying to get to some freedom. We really need to stand with them.

That's a long discussion, but I wanted to tell you of some things that we are working on that hopefully will by and large be very helpful to your mission, but other items that may have some impact on your work. I appreciate any response or you don't need to respond to it at all. It's really your choice, but I wanted to let you know those things.

Mr. KEYSER. Thank you, Senator. Let me start with the last, the Korean situation part, because Jim Kelly, my boss, has just come back from there and will be testifying this afternoon, and then part because I've had the privilege of meeting with you previously on some of these issues.

I'll simply say that I know my boss, Jim Kelly, will say that we look forward to working with you and with the committee. We, as an administration, appreciate the passion, the conviction, and the spirit of American values that you bring to this whole question about what to do about the people who are suffering in North Korea. I think we share very much the goals that you have outlined. I think we certainly are more than prepared to work with you to figure out how to do that correctly.

On the question of how this fits into the current six-party talks process, I'd like to reassure you, sir, that every presentation by Jim

Kelly at the outset of these talks features a comment on the human rights situation in North Korea as one that we must address should we ever get to the point of talking about normal relations with the DPRK. As you say, in the six-party talks, we are focusing laser-like on the nuclear issue, but the other is not forgotten. We have made plain both that we have looked with horror at what takes place in North Korea. We didn't use the word gulag, but among ourselves we did use the word gulag, that's what it is undeniably.

We've made plain that where the North Korean regime abducted Japanese citizens, Deputy Secretary Armitage has said on the public record that we regard that as an act of state-sponsored terrorism. North Koreans have not appreciated that particular parlance, but as the Chinese would say, seek truth from facts. It was that. This was a bizarre thing to do by any standards, a brutal thing to do, it must be solved. So the Japanese are putting that forward in these talks as well and we're making plain that we support the Japanese in that. This kind of thing must be dealt with.

In terms of the refugees, we certainly support the intent of the legislation that you are proposing, Senator. We are featuring in a set of bilateral talks we have with the Chinese a segment to address that overall situation. We've not yet had the progress that we hope to have in that, but we remind the Chinese of their obligations to the U.N. High Commissioner for Refugees. We tell them that while we understand their definition of many refugees as economic migrants, and indeed, many may be seeking a better economic life and a way of sending money back across the border, the fact remains there needs to be a mechanism to screen these individuals to see what their circumstances are, to ensure that they're not persecuted or tortured or killed if they are sent back to North Korea.

So we are, I think, trying quite hard to persuade the Chinese that they have an obligation by way of their signing on to the relevant convention in 1951, and they have a moral obligation to this as well. So we do try to engage them in this. We are working with them, we are working with the U.N. High Commissioner for Refugees on this, and certainly I think we would be—if we could find a way to do it, we would indeed come forward to request assistance, moneys to support whatever kind of intervening effort, what ever kind of relocation, a resettling effort. Sorry for that very long answer.

Senator BROWNBACK. That's a good answer. I appreciate that. Any other items, Mr. West, that you'd care to respond to?

Mr. WEST. No, sir.

Senator BROWNBACK. The way I look at it is that we're really in synch on most of these issues and see great opportunity. I really am amazed at the window that we have. If we can stay the course, you can really see your way through to a real burst of freedom in a region that impacts several billion people through it, so I look forward to working closely with you on pressing your budget so that we can get that, that you can have the adequate resources that you need to move these items on forward.

Gentlemen, thank you very much. Is there anything else, Mr. Keyser or Mr. West?

Mr. WEST. No.

Mr. KEYSER. Thank you very much.

Senator BROWNBACK. Well, I appreciate you being here. For the record, other members of the committee and I may have additional questions for the record. Therefore, I'd like to ask that responses to questions for the record be made in a timely manner so as to help guide members during the foreign assistance mark-up that's on Thursday. The record will be kept open for 24 hours to accommodate any additional questions that members might have.

Gentlemen, thank you very much. God speed to you. You can bring freedom and liberty to a lot of people.

Mr. KEYSER. Thank you, Mr. Chairman.

Senator BROWNBACK. This part of the hearing is ended. We will recess until 1 p.m.

[Recess from 11:37 a.m. to 1 p.m.]

Senator COLEMAN [presiding].

OPENING STATEMENT OF SENATER NORM COLEMAN

Senator COLEMAN. We're going to reconvene this hearing of the Senate Foreign Relations Committee on the President's budget for foreign assistance, this panel focusing on the Western Hemisphere. Assistant Secretary Noriega, Assistant Administrator Franco, we are pleased to have you here with us to testify about the President's foreign aid budget for Latin America and the Caribbean, particularly at a time when I know both of you have been so busy.

Latin America and the Caribbean are strategic to U.S. national interests. Besides geographical proximity, these nations by and large share our values, democracy, economic freedom, and human rights. We hope to see these nations flourish economically and politically, and I'm pleased to see these priorities evident in the President's budget.

Democracy is not without its challenges in this hemisphere, however. In the last 5 months, we have seen two Presidents resign under popular pressure. That these were not military coups is a sign of Latin America's progress in recent decades. Still the threat of instability casts a shadow on the future throughout the region.

Jean Bertrand Aristide's decision to end his Presidency concludes a difficult chapter in Haiti's history. Now is the critical moment for the U.S. and the international community to put ourselves to the task of supporting Haiti's future. We must act quickly to help through this transition and we must consider long-term support for Haiti so that Haiti's future will be an improvement over its past.

I know there has been considerable debate in Washington over the issue of Haiti, and with the events of the last weekend, that division has only intensified. Some blame the Clinton administration for placing too much trust in the untested Aristide in 1994. Others accuse U.S. policy of neglecting Haiti and abandoning Aristide. Making the debate more explosive, there are even those who attempt to explain U.S. policy based on race.

For the record, let me lay out my view on today's hot topic. I have absolutely no reason to believe that President Aristide was kidnaped and I do believe that his departure from Haiti will ultimately help that nation move forward.

I think it's very regrettable, by the way, for members of this Congress to give any credence whatsoever to the statements of Aristide himself regarding what transpired here. President Aristide was democratically elected, but that does not mean that he governed in a democratic way. Aristide broke and politicized the Haitian police. He chose to rely instead on a paramilitary group of supporters to harass and even kill opponents. He has been accused of drug trafficking and corruption and lost the confidence of Catholic priests, from whose ranks he had risen. Rigged Haitian elections in 2000 were never resolved and Aristide has been ruling by decree.

Having lost the trust of the Haitian people, Aristide decided to resign from the Haitian presidency. He was not overthrown by a coup d'etat and the United States did not conspire toward his ouster.

Secretary Powell assures us that the U.S. did not intimidate Aristide into leaving, but that we did help him escape. If Aristide is changing his story now, I'd urge my colleagues to consider who they trust, a failed leader who owed his survival to thugs and paramilitary gangs, or the United States Secretary of State.

While Congress has an essential role in holding the administration accountable on foreign and domestic policy, I do believe we do a disservice to the people of Haiti if we spend too much time turning the latest crisis into a political rallying cry in this country. Haiti has had a troubled 200-year history and Haiti's problems have persisted regardless of which political party held power in Washington. Today I think we ought to be more concerned about Haiti's future than our own varying interpretation of Haiti's past.

I think there is an incredible moment of opportunity here for the U.S. and the international community to join together to make a sustained and long-term investment in Haiti. Haiti needs our help, it does not need our bickering. The deployment of Marines is a good start, but that must be accompanied by political reform, humanitarian aid, institution building. We have the opportunity to act in concert with the international community and I commend the unanimous passage of the resolution on Haiti by the United Nations Security Council. America and the world must not waiver on our commitment to Haiti's long-term stability.

Through a serious approach I believe we can help Haiti turn away from its difficult past. That will require pro-Aristide and anti-Aristide Republicans and Democrats black and white to put our heads together rather than to point fingers at one another.

Next week the Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs will hold a hearing to review Haiti's recent crisis, but also and more importantly, to find a way forward for Haiti and the U.S.-Haitian relationship. I look forward to hearing my colleagues' wealth of experience and constructive ideas for Haiti's future at that hearing.

Moving to other regions, other areas in the region, the hemisphere, recent events in Venezuela are also troubling. President Chavez's increasing rhetoric is not helpful, nor is the coercion of the Venezuelan electoral commission. Venezuela is undergoing a democratic test today and the international community fully expects President Chavez, as well as the electoral commission, to

abide by international norms as well as the Venezuelan constitution.

Colombia remains the largest recipient of foreign aid in the Western Hemisphere. Colombia is a country that knows what it is to engaged in a war on terrorism and we in the United States should continue to support President Uribe's bold efforts.

U.S. anti-narcotics efforts in the region also support Colombia's neighbors, Peru, Bolivia, Ecuador, Brazil, Panama, and Venezuela. In the case of Bolivia, recent unrest resulted in the resignation of President Gonzales Sanchez de Lozada. Many of us remain concerned about stability in Bolivia, and I hope the witnesses will address in their statements how our foreign aid budget will encourage stability in Bolivia under the Carlos Mesa government.

The nations of Central America have made remarkable progress in the last 20 years, but continue to struggle with crime and poverty and deserve our support and partnership. In the Caribbean, the U.S. supports such important shared goals as transnational crime prevention and border security.

Last year, Congress enacted two new global foreign aid initiatives which I was proud to support, the global HIV/AIDS initiative and the Millennium Challenge Account. I know both of these programs are just getting started, but I would like the witnesses to speak briefly about their impact on Latin America.

The President's budget also includes an increase for the Peace Corps to keep them on track, for which a doubling of the number of volunteers. I strongly support this increase and would note that the President's budget also includes funding for the first ever Peace Corps program in Mexico.

I believe in the foreign assistance budget. I believe it is an important tool for our foreign policy. I also believe in the importance of congressional oversight. I am pleased to have two distinguished witnesses here to talk about our foreign aid budget for the Western Hemisphere. When my distinguished ranking member, Senator Dodd, on the subcommittee comes, I will defer to him for a statement, but at this time I will then just proceed with the testimony.

Testifying on the foreign aid budget for Latin America and the Caribbean are two men who are no strangers to this subcommittee, Assistant Secretary of State, Roger Noriega, and Assistant Administrator for the U.S. Agency of International Development, Adolfo Franco.

Assistant Secretary Noriega, before you begin I want to thank you for all your efforts to manage Haiti's ongoing crisis. I know this has been a demanding time for you. I also know Assistant Administrator Franco has been very busy overseeing humanitarian aid to the Haitian people, so we begin by thanking you both and look forward to your testimony.

Secretary Noriega.

STATEMENT OF HON. ROGER F. NORIEGA, ASSISTANT SECRETARY OF STATE, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. NORIEGA. Thank you very much, Mr. Chairman. I have a prepared statement, which we've made available, and I offer it for your making part of the record.

Senator COLEMAN. It will be part of the official record.

Mr. NORIEGA. Thank you very much, Mr. Chairman. I have a brief opening statement. Let me emphasize that in our work with the region, we definitely work as a team, USAID, State, the other agencies that have a direct role on this, and we emphasize communication with the Congress, and let me just say that we are always available to you and your staff to communicate on the important issues and welcome this opportunity to do so in a more formal setting.

The Western Hemisphere has a unique place in our foreign policy and assistance programs. Our own destiny is uniquely bound to that of our neighbors in the north and the south through their constant movements of goods and people across our long shared borders. Our open societies, however, are vulnerable to external and internal threats, crime of all kinds, internal conflict, and as September 11 made very clear, dangerous new forms of terrorism as well.

Our foreign assistance programs address these interconnected problems. We aim to encourage continued progress throughout the hemisphere toward effective participatory democracy with broad-based economic growth, human development in both personal and national security.

In 1980, fewer than half of the countries of the hemisphere had freely elected democratic leaders. Although some democracies in our hemisphere are troubled, Haiti comes to mind immediately. Today 34 of our 35 countries have freely elected governments. Only Cuba does not.

As we have seen in country after country the return to democracy, in some cases after an end of long internal conflicts, has raised expectations that have not been fully fulfilled. While some gap in performance is unavoidable, in many countries the gap remains dangerously wide or is even growing, so we have to respond to this crisis of rising expectations. The institutions of government are simply not organized or sufficiently funded to be able to respond effectively to the reasonable demands of the people.

Haiti is in the midst of yet another crisis. While the manifestations of Haiti's ills are poverty and misery, the roots causes are political and institutional. A government that has failed its people in every way in recent years. We are working very hard with our international partners to seek a solution to the political crisis in Haiti that respects democratic rule. We have a resolution of the U.N. Security Council, as statement of the OAS. We are working with our people and counterparts on the ground to support a formation in the very near term of an independent government headed by the new President and a new Prime Minister, and we are very pleased by the offer of several countries in our hemisphere and outside our hemisphere to make security forces available in the very near term to accompany this process of democratic and political normalization under a new constitutional leader.

Meanwhile, our assistance programs promote the development of democratic processes in Haiti for training and the positive engagement of civil society groups in the issues of governance. This will be particularly important as we go ahead in Haiti.

Bolivia and Venezuela remain causes for considerable concern and interest. A principal objective of our democracy program in Bolivia is to draw the long-marginalized indigenous population into political life in Bolivia. That is a policy of the Bolivian Government today and we support it. It was a policy of the previous administration and it is a policy of President Mesa. We hade a Bolivia support group along with Mexico. It brings many donors around the table and others who offer political support from inside the hemisphere, from outside the hemisphere that are looking for ways to accompany the efforts of Bolivia to address the fiscal gap that plagues that country, to address the issue of governance and the confidence of its people, so we have a very active engagement and a very good team working to support Bolivia.

In Venezuela, we continue to support efforts to find a peaceful, constitutional solution to the political impasse, which is now entering its third year. Venezuela is plagued by an extraordinary level of polarization, which is on a daily basis exacerbated by President Chavez. However, the Venezuelan people are by and large taking advantage of the constitutional means that they have available to them to have a say in their own future, to contribute to a peaceful resolution of the political crisis and to reach national reconciliation. It's a long, complicated, difficult process, but we hope that people will choose the political recourse rather than any sort of violent means.

Our foreign assistance resources will be used to strengthen the operations of democratic political parties and democracy-related non-governmental organizations in Venezuela.

In Cuba, our policies to encourage a rapid peaceful transition to democracy are characterized by strong support for human rights and an open market economy. The President has named an executive branch commission which will make a report to him before May 1 or on May 1. That is a commission that is determined to make recommendations on hastening the democratic change in Cuba, but also determined and prepared for a change so that we can respond agilely and decisively to ensure that there is a remarkable, profound, broad change in Cuba that will give the Cuban people a chance to make a decision about their own future.

These are but a few examples of how our policy will support democracy, and our foreign assistance programs are tailored to the circumstances in our individual countries that we deal with. The second pillar of our Western Hemisphere strategy is economic growth. This is a process that is by consensus in the hemisphere. It's a multilateral process. The programs and the policies that we're supporting are really reached by consensus and consultation with our neighbors.

At the special Summit of the Americas held in Monterrey in January, the leaders discussed the social issues, poverty, alienation, and equitable growth. They agreed on a host of concrete actions to fight corruption and to promote transparency, invest in health and education, and promote growth through trade and economic reforms.

Our assistance programs will help implement the commitments that were made by our neighbors. These are practical commitments that don't all look for what other countries can do for them, what

donor countries can do for them, but just as importantly, I would suggest more importantly, what they can do for themselves to take full advantage of the resources that come to them through the income generated by trade, through remittances, and through investment. They have to retool their economies so that they are able to make the best use of these resources and to spread the economic opportunity that is manifested by these resources, to spread it to people from all walks of life. For example, we'll support legal and regulatory reforms that will help small- and medium-sized enterprises and property owners and to bring informal businesses into the formal sector so that they can have access to capital, will be subject to regulation that's a wise regulation, will pay their taxes, and again, be in a position where they are able to expand their operations and employ more people, because overseas as well as here, jobs are the best sort of social program.

We will help countries develop the capacity to provide business services, including access to credit and markets and to enable them to compete in the global economy, and USAID does a remarkable job in emphasizing this trade capacity-building.

As international standards increasingly require attention to the environment, we will promote the best use of environmental management practices, including access to financing for their implementation. We will also promote transparency and accountability in government institutions so that people have confidence in the first instance in the government.

We remain firmly convinced that trade is the most effective means of increasing prosperity in the hemisphere, to create economic growth, to spread that economic growth to people across all walks of life. The summit declaration in Monterrey reaffirmed the commitment to complete the FTAA on schedule, that is to say, by January 2005. We are also moving forward with several bilateral agreements with the Andean countries, with Central America, with the Dominican Republic, with Panama, and these are extraordinarily important too, but we do have our sights set on the regional trade agreement, because we think that's important that we all grow together in every sense of that expression.

At present, too many in the hemisphere are trapped in poverty and suffer from malnutrition. Consequently, we are continuing to dedicate significant resources to improve nutrition and health care in specific countries in regions. Haiti, Nicaragua, and the impoverished coca-growing regions of Bolivia and Peru are among the recipients of that sort of assistance.

The United States is the largest bilateral donor for HIV/AIDS prevention and care in Haiti, and one of the President's HIV/AIDS initiative focus countries. We also do an awful lot of work in combating HIV/AIDS in the Caribbean region and in other parts of the Americas.

We look forward to the initiation of programs through the Millennium Challenge Account, which will provide an important new source of financing for lower income countries and establish sound economic policies, invest in their people, and demonstrate the political will to establish transparency in government and to conform with the rule of law.

You asked how this is going. I think it's already had an impact, because countries recognize that this is a source of financing that will be made available if they meet certain requirements, so these countries are taking special care to adopt the kinds of policies that they need to make them more eligible, more likely to be a recipient of that sort of MCA financing.

I believe personally that the countries of the Western Hemisphere that are led by democratic re-elected leaders who are committed to market policies that are our trade partners, that are in the natural market for us, are uniquely qualified really for that sort of MCA assistance. That sort of investment will make all the more difference in the lives of these people because it's an investment along with the people of these countries, along with their governments that are adopting the right policies. So we believe that the MCA has great promise for the Americas.

We anticipate several countries in the hemisphere will qualify for that sort of assistance in the very first year and we hope that the Congress does provide the President's request for the MCA for the second year as well, because we will be prepared to move very quickly, particularly in this hemisphere, to present programs that are well-developed and have good partners and will leverage the kinds of results that we want to see in the Americas.

While the hemisphere is making progress in the development of effective democratic institutions and open economies, this progress is threatened by the inability of countries to control crime and demonstrate to all citizens the value of the rule of law. Indeed, the lack of personal security is now recognized in many countries as the primary threat to the stability of democratic re-elected governments.

The goals of democracy and security are thus two sides of the same coin. We cannot pursue one without the other, and both are critical to our own security here at home.

Much of our assistance to the region focuses on strengthening criminal justice institutions and processes, development assistance, ESF, and INCLE funds are also used for such purposes. Assistance ranges from training and equipping counter-narcotics and other specialized units to sector-wide efforts aimed at implementation of new criminal procedure codes.

The rule of law is at the basis of everything we do. It's the heart of economic growth and it has to be part of our program. In many countries, such efforts are proceeding at a parallel and are coordinated by our country team, USAID, State, and others. Many countries also need to give greater attention to crime prevention and victim assistance.

Colombia continues to present the most urgent case for law enforcement and other assistance in the region. Colombia supplies 90 percent of the cocaine consumed in the United States. Terrorist organizations moreover fund their activities with the proceeds of drug traffic, making a unified response absolutely necessary.

We appreciate the expanded authority that Congress has provided to allow our assistance program to support Colombia's unified campaign against drug trafficking and terrorism. Our Andean counter-drug initiative for 2005, our request would provide $150 million for programs to address underlying social and institutional

issues and $313 million for narcotics interdiction and eradication in Colombia.

The alternative development and institution-building programs include emergency and longer-term assistance to vulnerable groups and displaced persons, as well as programs to promote the rule of law, local governance, and human rights. The total Andean counter-drug initiative request for 2005, including Colombia, is $731 million. These funds are needed to support a unified Andean regional campaign against drug trafficking and narco-terrorism.

In other countries, INCLE funds are used to help governments build strong law enforcement and related institutions that can stop the threats of international drug trafficking and transnational organized crime before they reach U.S. soil. For example, in Mexico we have built trust and an unprecedented track record of U.S. law enforcement cooperation over the last 4 years. We will develop a comprehensive law enforcement training plan with our Mexican counterparts to enhance police and prosecutorial capabilities to combat serious crimes affecting citizens of both countries. We will support initiatives such as the U.S.-Mexico border partnership to improve security along our southern border.

Mr. Chairman, in the wake of September 11, we have refocused our anti-crime programs to emphasize and sharpen their counter-terrorism impact. The administration of justice programs throughout the region generally address problems in the criminal justice systems. Because of the serious street crime problems in Central America, including violent gangs, some of which have reached into this community as well, we are also looking for ways to enhance crime prevention efforts with the work of enforcement agencies and community organizations.

On the military side, our FMF military financing request for fiscal year 2005 will provide professional training and equipment to meet three distinct requirements: to support the efforts of the Andean region to establish and strengthen national authority over remote areas that shelter terrorists and illegal narcotic activity; to reinforce homeland security by controlling approaches to the United States; and to improve the capability of security forces in the region to participate in coalition—in peacekeeping operations.

I visited El Salvador recently and met with the family members of Salvadorean troops that are over in Iraq, and these people want to be part of the new future for Iraq, want to be part of a new world where there is a multilateral response to help countries out of tough times and through terrorism.

When El Salvador, Honduras, Nicaragua, and the Dominican Republic volunteered troops for these operations, they did not have the equipment or the training to enable them to be incorporated immediately into our programs. We proposed to address such deficiencies through FMF to allow their continued participation in peacekeeping operations.

Training provided under the IMET program will expose foreign students to U.S. professional military organizations and procedures and the manner in which military organizations function under civilian control.

To summarize briefly, Mr. Chairman, our objectives in the hemisphere are clear: to strengthen broad-based economic growth;

strengthen democratic institutions; to provide for basic human needs in most urgent conditions; and to protect people from both internal and external security threats.

Our foreign assistance programs, and specifically our fiscal year 2005 budget request, provide an accurate overview of the many challenges still before us. We are engaged intensely with the countries of the hemisphere across a wide spectrum of issues to bilateral and multilateral mechanisms. We must also offer concrete assistance as they work toward our common objectives, and I ask your support for full funding for the administration's fiscal year 2005 budget. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Noriega follows:]

PREPARED STATEMENT OF HON. ROGER F. NORIEGA

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the Administration's foreign assistance priorities for the Western Hemisphere. The Western Hemisphere has a unique place in our foreign policy and assistance programs. Not only is it our home, but we also share with the other countries certain defining events and values that have given form to our political institutions and culture. Our own destiny is uniquely bound to that of our neighbors to the north and south—through the constant movement of goods and people across our long borders seeking markets, education, jobs, or simply new experiences. Our open societies, however, are vulnerable to both internal and external threats—crime of all kinds and dimensions, internal conflict and, as September 11th made clear, dangerous new forms of terrorism.

The most encouraging development in the hemisphere over the last two decades has been the decisive shift to democratic governance. In 1980, fewer than half the countries in the hemisphere had freely elected leaders. Although some democracies in our hemisphere are troubled—Haiti comes immediately to mind—today thirty-four of our thirty-five countries have freely-elected governments. Only one—Cuba—does not. Beginning at the 1994 Summit of the Americas, thirty-four Heads of State and Government have repeatedly endorsed democracy and free trade as guiding principles. They have also approved ambitious work plans to achieve these and related goals. The Summit action plans—which both orient and reflect major components of our foreign assistance program—describe the broad spectrum of activities still needed to ensure that democracy's promise of freedom and prosperity reaches all who reside in the Western Hemisphere.

We recognize that the path toward true democracy for all nations of the hemisphere has not been smooth. But we must continue to invest in the Hemisphere's future. Democratic, prosperous nations make the best neighbors. They are likely to maintain peaceful relations with others in the region and safeguard the rights of Americans living within their borders. They are likely to foster favorable investment climates for U.S. firms and open their markets to U.S. products. They are likely to work with us to combat trans-national threats and to advance views similar to our own in multilateral fora such as the UN, the OAS, and the international financial institutions. We must continue to strengthen this Inter-American community.

DEMOCRACY

To take root, democracy must provide much more than free elections. As we have seen in country after country, the return to democracy—in some cases at the end of long internal conflicts—has raised expectations that have not been fulfilled. While some gap in performance is unavoidable, in many countries the gap remains dangerously wide or is growing. The institutions of government are simply not organized to be able to respond effectively to the reasonable demands of the people. The avenues for participation that we take for granted in the United States—an active civil society, established political parties, and a free market economy that encourages entrepreneurship, among other things—still are not fully developed in many countries in the region. These structural impediments are compounded by world economic trends and national fiscal problems, as well as crime and other threats to security, all of which have placed further demands on elected leaders.

Our foreign assistance program addresses these interconnected problems. We aim to encourage continued progress throughout the hemisphere toward effective democracy with broad-based economic growth, human development and both personal and national security. Let me give you some examples.

Haiti most dramatically illustrates the perils of democratic government. The country is in the midst of yet another crisis despite the dedicated efforts of the international community, including the OAS and the United States. After years of undemocratic governance, President Aristide became the victim of his own repressive and autocratic rule. President Aristide voluntarily resigned when he realized that he could no longer depend on armed gangs to maintain him in power. And in the end, those were the only elements of possible support left to him. He alienated the democratic opposition in 2000 when he refused to remedy fraudulent legislative elections, despite requests from opposition leaders and the international community. Violent suppression of peaceful protest demonstrations, sometimes with the complicity of the Haitian National Police, further polarized the political landscape, as did intimidation of journalists and the credibly alleged participation of local officials in extra-judicial killings.

While the manifestations of Haiti's ills are poverty and misery, the root causes are political. President Aristide's government failed its people in every way. Now we can make a new beginning in helping Haiti to build a democracy that respects the rule of law and protects the human rights of its citizens. The U.S. and its partners in the international community will work intensively with Haiti's interim government to restore order and democracy. We are participating in the multinational force authorized by UN Security Council Resolution 1529, and will also work with our international partners in efforts to reform the Haitian National police. Restoring democracy and the rule of law in Haiti will require lots of work for us and the international community, but we are committed to the task.

Just a few months ago, Bolivia was in the headlines. When Gonzalo Sanchez de Lozada was elected president of Bolivia in August 2002, we looked forward to working with him to implement, among other things, market-oriented economic reforms he had previously developed. However, he was forced to resign this past December by popular demonstrations against some of those very policies. While there was a constitutional transfer of power to Vice President Mesa, Bolivia's indigenous majority remains underrepresented in the government and deeply suspicious of institutions which provide little of benefit to the poor. A principal objective of our democracy program in Bolivia is to draw the long-marginalized indigenous population into political life. We are also assisting the Government's anti-corruption campaign, continuing to support improvements in the administration of justice, and helping to increase the Government's responsiveness to citizen needs through support for decentralization as well as for the national legislature. The consolidation of democracy in Bolivia is our top performance goal for the country. We believe that a stable democracy is a necessary condition for success in the fight against illegal drugs.

Venezuela remains a cause for considerable concern. The crisis of governance—brought on by President Chavez' increasingly anti-democratic actions and the strong opposition of the traditional elites—is now entering its third year. The National Electoral Council will announce soon whether sufficient signatures have been verified to convoke Presidential and National Assembly recall elections. The United States has a major interest in preserving and regenerating democracy in Venezuela and facilitating a peaceful, constitutional solution to the ongoing political crisis. Foreign assistance resources will be used to improve the functioning of institutions that underpin democracy, in particular stronger, more democratic political parties and democracy-related NGOs. The absence of such dependable actors has greatly increased the distance between Chavez and his detractors and prolonged the crisis, with devastating effects on the national economy as well. We will also be dedicating resources to help Venezuela reverse this long-term economic decline and promote sound growth-oriented macroeconomic policies.

Other examples of assistance to strengthen democratic institutions include a five-year project in Peru focused on the national legislature, judicial reform, and decentralization and activities in the Dominican Republic to support civil society advocacy for political reform and training for the media. In Ecuador, a decade has passed since a president has completed his term of office. Our challenge there is to work at all levels—both within and outside the government—to reinforce the message that politics must stay within constitutional bounds. Assistance will include training on civil-military relations, exchange programs on constitutional democracy, and support for selected civil society groups to demand effective democratic government. In Paraguay, where more orderly constitutional processes are the goal, we will promote consensus between the executive and legislative branches on issues of rule of law, state reform, and protection of human rights. Mexican democracy too is at a critical stage in its transition toward more open and participatory government. Assistance there will strengthen the rule of law through judicial reform and support greater transparency and accountability in government.

In Cuba, the one country in the region that does not have a freely elected government, our policy is to encourage a rapid, peaceful transition to democracy characterized by strong support for human rights and an open market economy. With increased ESF resources, we will augment our support for Cuba's embattled civil society and increase our efforts to break the information blockade Castro has imposed on the island. We will provide a voice to Cuba's independent journalists and human rights activists. In this way, we will help Cuba's strongly motivated civil society to work for freedom in political, economic and other fields. We intend to help create the conditions that will bring to an end the hemisphere's only totalitarian government and reintegrate the Cuban people as members of the community of the Americas.

PROSPERITY

At the Special Summit of the Americas held in Monterrey, Mexico, this past January, the democratically elected. Heads of State and Government declared their commitment to economic growth to reduce poverty. Called in response to problems that have arisen since the Third Summit in April 2001, the Special Summit focused on private sector-led growth to reduce poverty and fighting corruption. There was much discussion in the lead up to the Summit and at the Summit itself around social issues and economic equality for all members of society. Hemispheric leaders agreed on a host of concrete actions to fight corruption and promote transparency, invest in health and education, and promote growth through trade and economic reforms.

Among these specific commitments, leaders agreed to reduce the time and cost of starting a business and to strengthen property rights by the next summit in 2005. Leaders agreed to triple lending by the Inter-American Development Bank through private sector banks to micro, small and medium-sized enterprises by 2007. They also agreed to create conditions for reducing by at least half the average cost of remittance transfers by 2008. All these steps are intended to facilitate entrepreneurship and increase access to capital. The Summit declaration welcomed the progress achieved to date toward the establishment of a Free Trade Area of the Americas (FTAA) and reaffirmed the commitment to complete the FTAA on schedule, that is, by the January 2005 deadline. The declaration contained numerous other statements of support for sound macroeconomic policies, prudent fiscal management, and public policies that stimulate domestic savings, meet the need for creation of productive jobs, and contribute to greater social inclusion.

As with democracy as a form of government, there is broad agreement throughout the hemisphere on objectives, on the principles that determine overall economic success and prosperity. The problem is once again a performance gap, the gap between political declarations and reality. After decades of government control of basic industries and other mercantilistic policies, the structure of the economy in many countries cannot readily be reoriented to a free market system, which also needs regulatory and other support mechanisms to ensure a level playing field. Our assistance programs will help support legal and regulatory reforms to help small- and medium-sized businesses and property owners and to bring informal businesses into the formal sector. We will also help countries develop the capacity to provide business services, including access to credit and markets, to enable them to compete in the global economy. As international standards increasingly require attention to the environment, we will promote the use of the best environmental management practices, including access to financing for their implementation.

An overriding issue in the quest for equitable growth is corruption. Corruption undermines the rule of law and distorts economies and the allocation of resources for development. In Monterrey, the leaders pledged to intensify efforts to combat corruption and other unethical practices in both the public and private sectors. They pledged to strengthen a culture of transparency and deny safe haven to corrupt officials and those that corrupt them. They called for promoting transparency in public financial management. They called for robust implementation of the Inter-American Convention against Corruption, and its follow-up mechanism, and committed to develop specific measures to strengthen international cooperation toward this end. In addition, Leaders pledged to hold consultations if adherence to their transparency and anti-corruption objectives is compromised to a serious degree in any Summit country.

In support of the transparency commitment, U.S. assistance programs will promote transparency and accountability in government institutions. In Bolivia, we will provide technical assistance to support civil service reform and anti-corruption training for police, military, prosecutors and judges. In the Dominican Republic, we will help mobilize a civil society coalition for transparency in government and support the development and implementation of a national anti-corruption plan. In

Nicaragua, we will support reform of the law governing the operation of the Office of the Comptroller General and continue to provide assistance to the Attorney General and National Police to support prosecution of public corruption cases. These examples illustrate the different approaches being taken by individual countries toward the same objective of greater transparency in government.

We remain firmly convinced that trade is the most effective means of increasing prosperity in the hemisphere. The United States already imports from Latin America and the Caribbean goods valued at more than 120 times the total amount of its assistance to the region. We will work to expand trade—and the prosperity it brings—through the FTAA, the Central America Free Trade Area, and bilateral agreements as appropriate. We will call upon the United States Senate to help us make this vision a reality by providing advice and consent to ratification of these agreements at the appropriate time. Trade related assistance, such as that just alluded to, is an integral part of our trade strategy. My colleague Adolfo Franco of USAID will discuss in greater detail our current efforts to build trade capacity throughout the hemisphere.

INVESTING IN PEOPLE

While I have been talking about political and economic structure and processes, people are the intended beneficiaries of all our programs. We aim to facilitate the development of open political and economic systems that serve the needs of the people and enable them to prosper and pursue their own individual objectives within the framework of a rule of law. At present, too many in the hemisphere are trapped in poverty and suffer from malnutrition. Without attention to their basic human needs—food, basic sanitation and quality education and healthcare, they will never be able to participate in the gains generated by economic growth and expanded trade. Consequently, we are continuing to dedicate significant resources to improve nutrition and healthcare in selected countries and regions.

In the poorest country in the hemisphere, Haiti, two-thirds of the population lives below the absolute poverty line, unable to meet minimum daily caloric requirements. This fact alone is enough to launch thousands of undocumented migrants toward our shores each year in unseaworthy vessels. Haiti is also the country most severely affected by HIV/AIDS, with a prevalence rate of between 4.5 and 6%. U.S. assistance to Haiti, channeled largely through nongovernmental organizations, focuses on the most vulnerable—those suffering from chronic malnutrition, communicable disease and illiteracy. The U.S. is the largest bilateral donor for HIV/AIDS prevention and care in Haiti, using a public/private partnership to provide a comprehensive set of prevention and education activities to reduce the rate of new infections, as well as programs to provide care and support for those already infected or affected by the disease.

In Nicaragua, the second poorest country in our hemisphere, our programs address fundamental obstacles to development, including food aid to ameliorate the impact of rural unemployment. We are also providing assistance to diversify agricultural production and link agricultural products to local, regional and global markets, giving small farmers a stake in the national economy. We are working with the Nicaraguan Government to expand access to primary education and improve the infrastructure and quality of schools, to reform public policy and management of health issues, and increase access to sustainable health care for low- and middle-income families through the private sector health market. All these activities aimed at helping individuals meet immediate needs bring those people into the economic and political life of the country, expanding prosperity and participation in democratic governance.

Examples of other programs we ask you to fund include assistance in Bolivia and Peru, particularly in high poverty coca-growing regions, to improve nutrition and enhance the capacity of public and private sector organizations to meet the population's health, nutrition and education needs. In the Dominican Republic, programs focus on health sector reform, improving reproductive health services, and controlling the spread of HIV/AIDS and tuberculosis. In Honduras, we are supporting President Maduro's Poverty Reduction Strategy, developed as part of the Highly Indebted Poor Countries Initiative and designed to improve access and opportunities for low-income Hondurans via an improved investment climate, better social services and more effective municipal governments. As the center of the HIV/AIDS epidemic in Central America, Honduras will also receive assistance to improve prevention and care for people contracting the disease. A regional program for the Eastern Caribbean works with NGOs, community-based organizations, and governments toward the same ends.

We look forward to the initiation of programs through the Millennium Challenge Account, which represents a major departure from past practices in distributing U.S. economic assistance. The MCA will provide an important new source of financing for lower income countries that establish sound economic policies, invest in their people and demonstrate the political will to establish transparency in government and conform to the rule of law. This month the Millennium Challenge Corporation will propose eligibility criteria for nations to participate, and in May the MCC will select a final list of countries to receive assistance. We hope that several countries in the Western Hemisphere will qualify in the first year, and that additional nations will become eligible in the future. We will be working to ensure that the initial ftmding provided by Congress delivers the promised results: reducing poverty by significantly increasing economic growth. As the President has stated, the MCA will provide people in developing nations the tools they need to seize the opportunities of the global economy.

SECURITY

While the hemisphere is making progress in the development of effective democratic institutions and open economies, this progress is threatened by the inability of governments to control crime and demonstrate to all citizens the value of a rule of law. Indeed, the lack of personal security is now recognized in many countries as a primary threat to the stability of the democratically elected government. The goals of democracy and security are thus two sides of the same coin. We cannot pursue one without the other, and both are critical to our own security here at home.

For many people in the region, the immediate perceived threat is common crime—theft of property, assaults, kidnapping, and murder—and is a direct reflection of some governments' inability to provide adequate police services. However, this is the tip of the iceberg. Intermingled with these same local criminals—and taking advantage of the same gaps in the criminal justice systems—are those engaged in international organized crime. The drug traffickers, alien smugglers, and traffickers in persons, among others, all, thrive in the same fertile ground of inadequate laws, often untrained and inexperienced personnel throughout the justice system, and a long history of not enforcing the laws on the books. While there are certainly variations among countries, in too many countries only the poor are incarcerated, generally for long periods of time without trial and without access to counsel. To reverse this situation and establish criminal justice systems capable of prosecuting high visibility crimes against prominent defendants on a regular basis is a monumental task. The countries of the Americas must meet it to secure the rule of law and sustain democratic governance.

Much of our assistance to the region focuses on strengthening criminal justice institutions and processes. ESF and INCLE are the primary source of funds for such programs. Assistance ranges from training and equipping of counternarcotics and other specialized units to sector-wide efforts aimed at implementation of new criminal procedure codes. The latter reach out at a policy level to all elements of the criminal justice system—police, prosecutors, judges and public defense services. In many countries, such efforts are proceeding in parallel and are coordinated by the Country Team. We feel that it is critical to look at justice systems as a whole to identify the weak points in coordination between agencies. These are the critical gaps that need to be filled for successful prosecutions. Both the lack of competence in investigative techniques and competition among police, prosecutors and judges over investigative responsibilities are serious obstacles to the effective prosecution of crimes in the region today. Many countries also need to give greater attention to crime prevention and victim assistance.

Notwithstanding Haiti, Colombia continues to present the most urgent case for law enforcement and other assistance in the region. Counternarcotics remains at the center of U.S. relations with Colombia, which supplies 90% of the cocaine consumed in the United States. However, as Colombia's three terrorist organizations—the FARC, ELN, and AUC—fund their activities with the proceeds of drug trafficking, a unified response is necessary. We appreciate the expanded authority that Congress has provided to allow our assistance program to support Colombia's unified campaign against drug trafficking and terrorism. Our FY 2005 request for funding builds upon the successes of programs begun in FY 2000 with the Plan Colombia Supplemental and sustained by subsequent Andean Counterdrug Initiative (ACI) appropriations. Our ACI request for FY 2005 would provide $150 million for programs to address underlying social and institutional issues and $313 million for narcotics interdiction and eradication. The alternative development and institution building programs include emergency and longer-term assistance to vulnerable

groups and displaced persons, as well as programs promoting the rule of law, local governance, and human rights.

The total ACI request for FY 2005 (including Colombia) is $731 million. These funds are needed to support a unified Andean regional campaign against the drug trade and narco-terrorism. In Peru, coca cultivation has already been reduced by 70%. Our FY 2005 request ($112 million) will support the further eradication of illicit coca and opium poppy cultivation, interdiction, maintenance of USG-owned air assets, and the development of rural infrastructure to prevent the spread of illicit economic activities linked to narcotics trafficking. We will pursue similar activities in Bolivia at a somewhat lower level ($91 million). We are seeking $26 million for Ecuador, where programs will aim primarily to stop spillover from Colombia and the transit of drugs destined for the United States, and $9 million for Brazil, to support an interagency operation to fortify the northern border through riverine control. We also request $6 million and $3 million for Panama and Venezuela, respectively, for interdiction and other law enforcement activities. Given Panama's strategic location and its well-developed banking sector, our goal is to help Panama develop its own capabilities to protect itself from criminal exploitation of all kinds. We also propose to increase support for port, canal, and maritime security.

Mexico is the major transit country for cocaine entering the United States. Mexican opium and marijuana cultivation is also a serious threat, and Mexican traffickers figure prominently in the distribution of illegal drugs in this country. Over the last few years, we have built trust and an unprecedented track record of law enforcement cooperation with the Mexican Government. Successes have come by targeting individuals involved in criminal activity, the goods they are trafficking, and the assets they accrue. With INCLE funds, we intend to sustain the progress made since 2001 in interdiction capacity while supporting eradication, surveillance, and intelligence capabilities. We will develop a comprehensive Law Enforcement Training Plan with Mexican counterparts to enhance police and prosecutorial capabilities to combat serious crimes affecting citizens of both countries. We will support initiatives, such as the U.S.-Mexico Border Partnership, to improve security along our southern border. We will also continue to work with Mexican authorities as they reevaluate their domestic legislation, including the proposed introduction of oral proceedings in criminal cases. Complementary administration of justice activities will be funded with ESF.

In other countries, INCLE funds are used to help governments build strong law enforcement and related institutions that can stop the threats of international drug trafficking and transnational organized crime before they reach U.S. soil. In the wake of September 11, 2001, we have refocused many anti-crime programs to emphasize and sharpen their counter-terrorism impact. For example, we are stepping up cooperation with Argentina, Brazil and Paraguay with a view toward decreasing use of the tri-border area as a hub for terrorist financing. Administration of justice programs throughout the region, including ESF-funded law enforcement development activities, generally address problems in the criminal justice system. Programs in El Salvador, Guatemala, Honduras, and Nicaragua all seek to develop good working relationships between police investigators and prosecutors, to improve the quality of criminal cases presented to judges and the possibility of conviction on the merits. Because of the serious street crime problems in Central America, including violent gangs, we are also looking for ways to enhance crime prevention efforts—through the work of enforcement agencies and community organizations. Projects in Central America, Mexico and the Caribbean address the need for better management systems and training for all participants in the judicial process. A new international organization has been established in Santiago, Chile, with a mandate from the Summit of the Americas to support judicial reform throughout the hemisphere. The ESF account is the source for U.S. financial contributions to the Justice Studies Center of the Americas.

On the military side, our Foreign Military Financing (FMF) request for FY 2005 will provide professional training and equipment to meet three distinct requirements. Most of the requested assistance will support efforts in the Andean region to establish or strengthen national authority over remote areas that shelter terrorists and illegal narcotics activity. Despite impressive improvements, Colombian security forces will still require significant U.S. assistance in the key areas of mobility, intelligence, sustainment and training. Our FMF request for FY 2005 would provide $108 million for such programs, including the provision of interdiction boats, infrastructure improvements and support. for Colombia's C-130 transportation fleet. FMF support is also critical to Colombia's neighbors to preclude spillover of narcotics and terrorism into their territories.

A second objective of the FY 2005 FMF request is to reinforce homeland security by controlling approaches to the United States. We will provide countries of the Car-

ibbean and Central America communications equipment, training, spare parts, port security enhancements and logistical support to complement U.S. interdiction efforts. Our intention is to reinforce each country's own sovereign ability to address the continuing terrorist threat, illicit drug trafficking and illegal immigration into the United States.

The third objective for FMF financing is to improve the capability of certain security forces in the region to participate in coalition and peacekeeping operations. Chile, Uruguay and Argentina are committed and well-trained to participate in international peacekeeping operations but lack support in aviation logistics, specialized individual equipment and infrastructure. Providing this support through FMF will enable their continued participation in peacekeeping efforts, reducing the possible requirement for U.S. forces in such operations. Similarly, when El Salvador, Honduras, Nicaragua and the Dominican Republic volunteered troops for stability operations in Iraq, they demonstrated the political will to support U.S. objectives. However, deficiencies in equipment and training remain, which we propose to address through FMF to allow continued participation in peacekeeping operations.

Training provided under the IMET program will expose foreign students to U.S. professional military organizations and procedures and the manner in which military organizations function under civilian control. In the Western Hemisphere, such training focuses on junior and mid-grade officers, who still have a significant military career ahead of them and whose development can be positively influenced by exposure to U.S. practices. The largest programs are in Colombia, El Salvador, Mexico, Argentina, the Dominican Republic and Honduras. Our total FY 2005 request is $14,390,000. Continuation of these programs is intended to enhance regional security by consolidating gains Latin American militaries have made in subordinating themselves to civilian control.

GAPS AND AUTHORITIES

Your letter of invitation asked specifically whether, in my opinion, there were any critical gaps in the Administration's foreign assistance request for the Western Hemisphere. Needless to say, there are always choices that must be made in putting together a budget of this kind. Our request level is sufficient to address the highest priority needs in our hemisphere. As is the custom, however, we expect to make some adjustments in individual country or program levels to meet actual requirements when FY 2005 appropriations are made available.

You also asked whether we needed any new authorities. Last year on this occasion, Acting Assistant Secretary Struble identified aspects of existing legislation that hampered programming in the region. The areas identified—the need for year-to-year extension of special authorities for Colombia and administration of justice programs, and the confusing array of exceptions to section 660 to authorize police assistance—remain issues of concern to us today. We would like to have permanent authorization language to support the unified campaign in Colombia against narcotics trafficking and activities by organizations designated as terrorist organizations. We would welcome elimination of the sunset and other revisions in FAA section 534 to bring it into line with the annual appropriations language. However, more fundamentally, we continue to believe that police assistance authorities should be reevaluated with a view toward developing new affirmative legislation to replace section 660 and its numerous exceptions. The limitations of our authority to work with law enforcement personnel under section 534 have become particularly apparent in connection with the need for general crime prevention activities in Central America. We are discussing these issues internally and look forward to sharing an Administration position with the Committee in the near future.

CONCLUSION

In conclusion, our objectives in the Western Hemisphere are clear—to strengthen democratic institutions, to improve conditions for broad-based economic growth, to provide for basic human needs in the most urgent situations, and to protect people from both internal and external threats. Our foreign assistance program and specifically our FY 2005 budget request provide an accurate overview of the many challenges still before us. While there have been many positive developments—and I would call your attention once again to the strong consensus demonstrated through successive Summits of the Americas on diverse issues of longstanding importance to the United States—there are very real problems that require our ongoing attention. The institutions of government, social services, and the free market economy we enjoy in the United States were not created overnight. We cannot expect that other countries in this hemisphere, most of which have a much shorter or inconsistent experience with democratic governance, will achieve a similar institutional-

ization of rights and freedoms in a few short years. We are engaged intensely with them across a wide spectrum of issues through bilateral and multilateral mechanisms. We must also offer them concrete assistance as they work toward our common objectives. Their success will not only benefit their own citizens but also redound to our benefit. As they become more stable partners in international endeavors and more open markets for our goods and services, we will become better friends in the broadest sense of the word. That is the overall objective we seek through our assistance program. I ask your support for full funding of the Administration's FY 2005 budget.

Thank you for your attention.

Senator COLEMAN. Thank you, Secretary Noriega. Administrator Franco.

STATEMENT OF HON. ADOLFO A. FRANCO, ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN, USAID

Mr. FRANCO. Thank you very much, Mr. Chairman. It's a pleasure to appear before the Committee on Foreign Relations to discuss USAID's Bureau for Latin America and Carribean's request for fiscal year 2005 and to share with you briefly the President's vision for the Western Hemisphere.

Before I begin, Mr. Chairman, I just wanted to say that I fully concur with your opening statement in every regard. I also want to underscore what Secretary Noriega has said, that the relationship between USAID and the State Department, and the team started with Secretary Powell and Administrator Natsios, is excellent. We work in concert together to promote the foreign policy interests of the United States, so it's very much a team effort.

In that regard, I really believe Secretary Noriega has outlined very clearly and very articulately the priorities of the President, the Secretary of State, and Administrator Natsios for our region for the coming fiscal year. Therefore, with your permission I'd like to just summarize very briefly rather than repeat the Secretary's commenst. My comments summarize them, and I ask that my statement be a part of the record.

Senator COLEMAN. It will become part of the official record.

Mr. FRANCO. Thank you, sir. Mr. Chairman, Secretary Noriega has noted that the countries of the Western Hemisphere have a shared destiny by virtue of our geography, our history, our culture, and the economics of the region. The President's vision for the hemisphere is premised on the concept of a more prosperous neighborhood anchored on free trade. He has expressed this in his national security strategy that links, "The future of our hemisphere to the strength of three commitments: democracy, security, and market-based development."

I realize that much attention, as you noted, Mr. Chairman, and rightly so, is currently focused on the crisis in Haiti. However, I believe that political stability in the region overall has increased over the last several decades, as Secretary Noriega has noted, with the growth of democracy and its continued promotion in the region.

As the current crises in Haiti and Bolivia, to which you alluded, Mr. Chairman, and the polarization in Venezuela demonstrate clearly, we still have challenges in the Western Hemisphere. To address these challenges, USAID has developed three key priorities, and they're all premised on what Secretary Noriega has said. Rule

of law is at the heart of all of our efforts, but the three key priorities are, No. 1, to improve good governance, to combat crime, and to reduce corruption. These are also enshrined in the President's Millennium Challenge Account proposal that is now the Millennium Challenge Corporation.

Second, we are also working to increase economic growth and free trade, and last to combat the counter-narcotics trafficking in the region which undermines the rule of law and democracy. In addition, as you noted, Mr. Chairman, we're working on a number of Presidential initiatives. They range from the President's Emergency Plan for HIV/AIDS to Centers for Excellence in Teacher Training that address education needs in the region, to an Initiative Against Illegal Logging in Latin America.

Mr. Chairman, I would like to give you just a few details on the priority programs I've outlined, the three priority programs. On good governance, crime prevention, and reduction of corruption, our justice sector modernization efforts remain the largest focus of USAID's governance programs in the region. We work closely with governments to draft new criminal procedure codes and anti-corruption programs that promote transparency and attack entrenched transpolitical institutions that threaten democracy and the belief in democracy, as well as poor public sector management that creates in citizens a sense that democracy is not delivering what's promised.

In the area of economic growth, USAID plays a significant role, as noted by the Secretary, in preparing countries for free trade and the benefits of free trade. We've done that with Central American countries as we've moved forward the CAFTA initiative, which is premised on opening markets and creating opportunities for the United States, as well as for our neighbors to the south.

For the Free Trade Area of the Americas process, we are requesting and we have received a Hemispheric Cooperation Appropriation Program of $10 million from the Congress that will assist us in our work with the U.S. Trade Representative and other agencies to target trade capacity-building assistance that's consistent with our hemispheric country priorities. These are efforts to make the countries of the region more competitive, but more importantly, to increase incomes and to create the climate for foreign investment and ultimately greater exports from the United States.

In the area of counter-narcotics, Mr. Chairman, despite bold efforts by Colombia, Bolivia, and Peru to combat narco-trafficking, a lack of state presence has allowed illegal narcotics production and armed terrorist organizations to flourish. You've correctly noted, Mr. Chairman, President's Uribe's bold leadership. We've made great strides in Colombia, and we continue to pursue our agenda vigorously in Peru and Bolivia.

In Bolivia and Colombia, our alternative development programs promote licit crop production, rural competitiveness, improved social, physical, and productive infrastructure, access to justice, and an increased state presence in coca-growing regions. Now, that's a mouthful, Mr. Chairman, but what we're trying to do, as President Uribe has outlined in his democratic security proposal for Colombia, is to create a state presence, security, and then bring in the necessary investments with our development programs and part-

ners to create the infrastructure and identify market linkages so people have an alternative, not a substitution, but an alternative to illegal, illicit production. And most people seek that given the opportunity. But we need the state presence, and Colombia is an example in the south where we can and have had success, which we can replicate elsewhere in the region. In fact, thousands of farm families have eradicated their coca on thousands of hectares and they've done so voluntarily when state presence has been there and when there are alternatives to coca production.

I'd like to mention two countries of special concern. The first, of course, is Haiti. We are continuing to monitor the humanitarian situation very closely, as we have prior to this most recent crisis. Based on the assessments that we are carrying out by USAID staff in Haiti currently and as well as our non-governmental partners to date, I can state for the record, there is no humanitarian crisis as we know that term in Haiti, and there are sufficient food supplies in Haiti to feed the population for the time being. In addition, Mr. Chairman, I wish for you to know that up to 20,000 metric tons of additional food is available for us to transport from Lake Charles, Louisiana in very short order should the need arises.

We continue to monitor distribution and security issues very closely now that we have U.S. and foreign military presence in the country. We believe the situation will improve dramatically in terms of the distribution and security of food.

Some food aid was looted from warehouses in recent days. It has not been, from our assessment, a large amount of USAID food that has been looted. The greatest impediment is again the security situation for our staff and for transportation. We're also monitoring the medical situation very closely. We've sent additional resources totaling $537,000 directly and through our partners to attend to low supplies in Port au Prince hospitals and throughout the rural areas.

I plan to travel to Haiti as soon as possible. I hope early next week to assess the situation personally. We are, Secretary Noriega and I and the rest of the team, obviously in daily contact with our mission in Haiti.

In Bolivia, USAID has launched a job creation initiative in volatile communities that have not been previously serviced by USAID to help the Carlos Mesa government address economic and social inequities in Bolivia. Administrator Natsios and I visited Bolivia several weeks ago. I can report to you that President Mesa is fully committed to our efforts to continue to combat counter-narcotics and to address questions of inequity. I can tell you, Mr. Chairman, it is not window dressing. Mesa is a democrat fully committed to support not only the democratic process but the participation of all of Bolivia's population.

In conclusion, Mr. Chairman, I'm pleased to report that we continue to help governments of the region that are dedicated to the promotion of democracy. I can't underscore enough what Secretary Noriega has said about, what you've mentioned, the importance of the Millennium Challenge Account. It has been an incentive for the region that investing in people, as the President stated in his speech 2 years ago at the Inter-American Development Bank, is what the United States will respond to.

So it's been an extraordinarily positive tool. Secretary Noriega mentioned its impact is already being felt, and this is something that we're looking forward at USAID to work very closely as its operations come to full speed.

I'd be pleased to answer any questions you or Senator Nelson may have.

[The prepared statement of Mr. Franco follows:]

PREPARED STATEMENT OF HON. ADOLFO A. FRANCO

Mr. Chairman, Members of the Committee, it is a pleasure to appear before the Senate Committee on Foreign Relations to discuss with you how USAID's Bureau for Latin America and the Caribbean (LAC) is promoting the President's vision for the Western Hemisphere.

The countries of the Western Hemisphere have a shared destiny by virtue of geography, history, culture, demography, and economics. As stated by Secretary Powell in September 2003, "there is no region on earth that is more important to the American people than the Western Hemisphere." A prosperous LAC region provides expanded opportunities for increased trade, and a peaceful hemisphere is paramount to our national security. USAID is fulfilling its development and humanitarian mandate in LAC countries as it continues to respond to the U.S. National Security Strategy, which, as stated by President Bush, links "the future of our Hemisphere to the strength of three commitments: democracy, security and market-based development."

On balance, political stability has greatly increased over the last several decades and governments have shifted from mainly authoritarian rule to representative and constitutional democracies. Throughout the region, official human rights abuses have diminished, civil society oversight of public institutions is increasing, and elections are held under the management and supervision of professional electoral commissions. Governments are taking steps to stamp out corruption, establish mechanisms for transparency and accountability, and attract foreign investment.

The region's economic situation is improving and LAC countries are closer to trade liberalization and integration with their neighbors than they have ever been. The World Bank and the U.N. Commission for Latin America and the Caribbean estimate that the region's gross domestic product (GDP) grew by 1.5% in 2003 (slightly more than the population growth rate of 1.3%-1.4%), compared with a 0.4%-0.8% contraction in 2002. Those LAC countries that have adopted sound fiscal policies and oriented their economies toward greater foreign investment and rules-based trade proved more resilient to the recent global economic downturn than those that did not take such outward-looking, market-based steps. The region's GDP is expected to continue to expand by 3.5% in 2004, with growth predicted across the region. However, the region's economic recovery rate is still not enough to reverse the effect of recent years of economic stagnation. Approximately 44% of the region's population lives under the poverty line of two dollars a day, and unemployment averages 10.7%, with underemployment significantly higher.

CONTINUING CHALLENGES IN LAC

Despite gains in human rights and democracy, and increased economic linkages across the region, threats to the development achievements of the last decade persist. Popular dissatisfaction with tepid economic growth, public sector inefficiencies, and failure by elected governments to perform effectively and responsibly have led to numerous setbacks—economic instability and political crisis in Venezuela, abysmal poverty and alarming levels of political instability, and violence in Haiti, and growing civil unrest in the Dominican Republic. President Bush noted that ". . . when governments fail to meet the most basic needs of their people, these failed states can become havens for terror . . . No amount of resources transferred or infrastructure built can compensate for—or survive—bad governance." (March 2002). Thus, sustained efforts by the United States to work in partnership with our neighbors are essential to promote democratic and economic integrity in the Western Hemisphere.

Great inequities remain in access to and delivery of quality health care and education. These impediments weaken economic growth, labor productivity, and the ability to compete globally. Maternal and neonatal mortality rates remain unacceptably high, and resistance to accessible medicines is on the rise. The LAC region has the second highest HIV/AIDS rate in the world, with over two million people living with HIV, including the estimated 200,000 that contracted the deadly virus in 2003.

Diseases such as dengue and malaria are posing an emerging threat as well. In education, nearly one-half of the children who enter primary school fail to make it to the fifth grade, and only about 30% graduate from secondary school. Access to education especially affects poor, rural, and indigenous children, particularly girls.

The lack of effective rule of law threatens business interests and puts citizens, including Americans, at risk. Narcotics wealth gives large trafficking organizations a practically unlimited capacity to corrupt. In economically weak countries, the drug trade's wealth makes it a great threat to democratic government. Terrorist organizations overtly seek to topple governments by force, while drug syndicates undermine them surreptitiously from within. In recognition of this threat, the U.S. government is committed to improving security overseas so that threats never arrive on our shores. This calls for targeted foreign assistance and complementary institutional reform programs in countries where organized crime exploits weak governance, especially in the justice sector.

USAID PRIORITIES IN THE LAC REGION

USAID's strategic priorities in the LAC region are to: 1) improve good governance and reduce corruption; 2) increase economic growth and free trade; and 3) reduce narcotics trafficking. These themes give paramount importance to the implementation of policies that address key constraints to development, with the overarching goal of advancing the U.S. foreign policy agenda. In addition, USAID is addressing critical transnational issues such as HIV/AIDS and other infectious diseases, a deteriorating natural resource base, and trafficking in persons.

DEMOCRACY AND GOVERNANCE

LAC will continue to expand its support for deepening democracy, concentrating on issues of anticorruption, government transparency and accountability, and human rights. Fragile and politically troubled states such as Bolivia, Haiti, and Venezuela will continue to receive special attention.

Justice sector modernization remains the largest focus of USAID governance programs in the LAC region. In addition, governance programs promote accountability and transparency in government institutions; increase the capacity of local governments to manage resources and provide services; and strengthen civil society organizations to advocate for citizens' rights.

Without a reliable and fair justice system, investor confidence and a stable trade environment are jeopardized. Likewise, impunity for crime and corruption undercuts social and economic growth. USAID efforts to advance criminal justice reform, strengthen judicial independence, expand access to justice, and improve administration of justice are underway in 12 LAC countries. New criminal procedure codes and other criminal justice system reforms, developed and enacted over the last decade with USAID support in Nicaragua, Honduras, Guatemala, El Salvador, Bolivia, Colombia, and the Dominican Republic, are introducing profound changes. USAID is helping the government of Peru to increase judicial accountability by introducing reforms to make judicial selection more transparent and improve oversight of the courts. In Colombia, USAID has established oral procedures in a reformed criminal justice system, strengthening the public defense system to guarantee due process, expanding access to community-based legal services, and promoting widespread use of alternative dispute resolution mechanisms.

New efforts in justice reform are examining commercial codes. This fiscal year, USAID helped the Nicaraguan Chamber of Commerce launch a joint initiative with the government of Nicaragua to draft an alternative dispute resolution law aimed at providing an accessible mechanism that meets international standards for resolving commercial disputes. This law will help prepare Nicaragua for CAFFA implementation by improving the environment for trade and investment.

USAID anticorruption programs in 15 countries emphasize citizen oversight and build local capacity to attack weak governance, entrenched political institutions, and poor public sector management. USAID provides assistance to citizens groups and nongovernmental organizations to devise anticorruption plans and monitor government officials and agencies. USAID supports local initiatives to establish special commissions and investigative units to expose and prosecute cases of corruption by public officials. The United States is the only country providing help to the Dominican Republic in handling the complex bank fraud cases currently under investigation and in the courts. USAID helped establish a coalition of over 50 Dominican civil society organizations which is actively engaged in ensuring that the Baninter and other bank fraud cases are investigated and prosecuted.

With direct election of local mayors and devolution of authority to municipalities, USAID is helping citizens and elected leaders devise community development plans

that respond to local needs and generate growth. In 14 countries USAID helps mayors establish transparent accounting and fiscal management procedures to create a framework for greater revenue generation for roads, schools, health centers, and job creation. In turn, citizens monitor the use of public funds and devise "social audits" to track spending in accordance with local development plans and to hold officials accountable. USAID provided assistance to national and local Colombian government entities to standardize accounting and internal financial control systems according to international standards, as well as assistance to 100 citizen oversight groups to oversee close to $1.5 billion in public funds. Colombia's ranking in the Transparency International Corruption index improved 17% between 2000 and 2003, the greatest improvement among the more than 40 medium and low-income countries surveyed.

ECONOMIC GROWTH

USAID is assisting LAC countries to enact legal, policy, and regulatory reforms that promote trade liberalization, hemispheric market integration, competitiveness, and investment, which are essential for economic growth and poverty reduction. USAID's trade capacity building programs focus on helping LAC countries to prepare for trade negotiations and implement obligations stemming from trade agreements such as sanitary/phytosanitary measures, customs reform, and intellectual property rights. In addition, USAID works with the region's smaller economies to help them join the global trading system by developing specialty markets and providing assistance for business development and rural product diversification. Increased support is envisioned to respond to increasing demands for assistance.

Although economic growth is still weak, governments increasingly understand the benefits of free trade and are willing to take steps to make it happen. The recent signing of the U.S.-Central American Free Trade Agreement (CAFTA) demonstrates the commitment by Guatemala, Honduras, Nicaragua, El Salvador, and Costa Rica to implement policy, trade, and economic growth reforms. We are currently working with the Dominican Republic so they can join this important agreement. Lessons learned from Mexico and shared with the Central American countries indicate that more open trade leads to improved policies, export diversification, political reform, stable exchange rates, increased foreign direct investment, employment generation, greater public investments in the social sector, and a more open society.

Under the Free Trade Area of the Americas (FTAA) process, the Western Hemisphere countries are working together to implement the FTAA Hemispheric Cooperation Program (HCP). Under the program the smaller economies and developing countries of Latin America and the Caribbean have prepared national trade capacity building (TCB) strategies that USAID and other resource partners are using to effectively target TCB assistance in line with country priorities. USAID worked very closely with USTR, other USG agencies, and donors to launch the first HCP donor-country coordination meeting last October in Washington. USAID has also worked closely with this group to provide support for specific FTA negotiations with the Dominican Republic, Panama, Peru, and Colombia scheduled for 2004. In order to support this important process, sustained TCB funding will be paramount.

In FY 2003, USAID provided technical assistance and training in support of CAFTA negotiations to Central American government officials, and assisted Bolivia, Peru, Guyana, and Suriname to prepare national trade capacity building strategies. USAID also assisted governments in Central America, the Caribbean, and Brazil to raise the public level of understanding about the benefits of free trade under CAFTA and the Free Trade Area of the Americas (FTAA). In coordination with the Government of Nicaragua, USAID implemented a public outreach program to disseminate information about CAFTA negotiations, as well as the opportunities and challenges associated with free trade. An opinion poll, taken a few months after the program began, showed that awareness of CAFTA among those surveyed increased from 2% to 82%. In addition, USAID support was instrumental in ensuring a highly successful round of CAFTA negotiations hosted by Nicaragua in September 2003.

The progress with CAFTA bodes well for the success of the Free Trade Area of the Americas (FTAA), which will further strengthen and expand economic partnership in the Americas, a vast market of over 800 million people producing nearly $14 trillion in goods and services every year. For example, the political and economic liberalization encouraged by the United States and successfully adopted by El Salvador has made El Salvador a model for post-conflict developing countries. The United States is El Salvador's most important trading partner, receiving 67% of its exports and providing 50% of its imports. By promoting prosperity in El Salvador through USAID programs and mechanisms such as CAFFA, the United States can help strengthen the Salvadoran economy, thereby improving the living standards of

Salvadorians and reducing the number that feel the need to escape poverty by moving to other countries, such as the United States.

USAID has played a major role in helping the U.S. Government shape and launch the FTAA Hemispheric Cooperation Program. USAID will use the NAFTA and CAFTA experience to help the hemisphere reach agreement on FTAA by the end of 2005. In the Caribbean, a sub-region with small island economies that lack diverse sources of income, USAID is conducting outreach programs that describe the benefits of free trade, providing assistance for small business development, and assisting eight Caribbean Community (CARICOM) countries to prepare national trade capacity building strategies and achieve a Caribbean Single Market and Economy by 2005. In Jamaica, USAID is helping the private sector to identify and address key regulations and legislation that constrain business operations. Two improvements made last year include a new electronic payment system introduced at the Jamaica Customs Department that allows importers and brokers to make direct payments through the bank, and an electronic manifest transmission system implemented by the Shipping Association of Jamaica to make this process more efficient. The United States is working with the Government of the Dominican Republic to have it become an active partner in CAFTA.

USAID has also developed a regional program to help Andean Community countries address rules of trade and competitiveness issues, including customs reforms, sanitary and phytosanitary measures, and competition policy. USAID has begun an aggressive program in Peru to improve the regulatory and institutional framework to facilitate trade and investment and help Peru's private sector take advantage of the Andean Trade Preferences and Drug Eradication Act, and prepare for FTAA accession. Our Mission in Peru, which is managing the regional program, is coordinating closely with the USAID missions in Bolivia, Colombia, and Ecuador to ensure that USAID regional and bilateral support for TCB effectively responds to the needs that these countries have articulated in their national strategies.

In response to the coffee crisis in Central America, consequent to the devastating drought in 2001 and the decline in coffee prices, USAID helped Central American coffee farmers apply best practices to increase sales to the high-value, niche coffee market through expanded partnerships with U.S. and European coffee traders and roasters. This project is resulting in increased rural competitiveness, incomes, and employment, all crucial to poverty reduction. USAID's programs to help farmers diversify agricultural production, increase yields, and obtain better access to markets helped Nicaraguan producers to meet local, regional, and international market demand for various products, and generated more than $17.5 million in sales during FY 2003. In Honduras, USAID support for technology transfer and training in market-led production and post-harvest handling successfully linked small-scale growers, processors, exporters, and supermarkets. This assistance has generated $31 million in new sales, and increased small farmer incomes by an average of 177%. Success is evidenced by an almost $4 million increase in exports of the main seasonal crops.

Numerous USAID programs support development of regulatory frameworks and innovative approaches to widen and deepen financial intermediation in the small and microenterprise sector. As a result, marginalized business people have greater access to borrowing capital, increasing the number of self-employed entrepreneurs, especially women, and their profitability. USAID's demonstrated successes in microfinance have made other prominent donors eager to replicate its approaches. One of several microfinance models developed through USAID support in Haiti has been internationally touted as exceptionally innovative and well-directed, and our microfinance models have been adopted by local commercial banks.

USAID is also working with governments to improve economic policies. USAID technical support to the Nicaraguan National Assembly on economic policy contributed to the passing of the Law on Tax Equity, which allowed the Government of Nicaragua to collect $366 million in taxes in 2003, which was 23% above 2002 collections.

USAID is supporting cutting-edge efforts to increase the developmental impact of remittances to the LAC region, which were estimated at $32 billion in 2003—more than all other development assistance combined. A pilot program supports the development of a remittance transfer service between Caja Popular Mexicana and credit unions in Texas and California. The program taps into one of the largest sources of private capital flowing into Mexico and should both lower transfer costs and leverage remittances as savings and productive investment. USAID's pioneering efforts have influenced other regional institutions such as the Inter-American Development Bank, which has unveiled a plan that would allow relatives of U.S. migrant workers to use remittances as collateral for real-estate loans in their home countries. The program is expected to begin later this year, on an experimental basis

in Mexico, Colombia, Ecuador, and El Salvador. On average, relatives of migrants in those countries will be eligible for loans up to $25,000 to buy a home, start a business or pay for school.

Overall, USAID is programming its development assistance in the LAC region to help our trading partners to prepare for trade negotiations, and implement trade agreements. Additionally, USAID-supported programs help to ensure that all USAID investments in areas such as small business development and rural diversification maximize the economic growth and poverty reduction benefits from their participation in free trade.

USAID is implementing the President's Initiative against Illegal Logging, which seeks to address the negative impacts of the illegal timber trade on economic, social, and political stability. In Peru, where illegal loggers have developed a symbiotic relationship with resurgent terrorist groups in remote areas, USAID is supporting national efforts to enforce laws and regulations related to protected areas, assisting communities to manage forests and certify wood products, and promoting alliances with U.S.-based mahogany retailers and Peruvian mahogany exporters. In Brazil's Amazon Basin, a largely unexplored biodiversity treasure, USAID is helping to develop management systems that maintain a balance between development and protection of natural resources. Other USAID programs have contributed to the conservation of millions of hectares of land and passage of key laws such as the Special Law for the Galapagos. USAID's sustained support helped develop sustainable timber harvest, and reduced significantly the rate of deforestation in several South American protected reserves.

INVESTING IN PEOPLE

The U.S. Government is a key player in combating the HIV/AIDS pandemic. President Bush, speaking to Congress in April of last year, said the fight against AIDS is "integral to our nation's security" and called HIV/AIDS a "threat to the stability of entire countries and regions of our world." USAID's HIV/AIDS programs work with governments, nongovernmental organizations, and the private sector in six main areas: awareness and prevention; care and treatment; epidemiological surveillance; capacity building; developing legislation that forbids discrimination against people living with HIV/AIDS; and program coordination to ensure a coordinated multi-sectored, multi-donor response.

Adult HIV/AIDS prevalence rates in the Caribbean Basin are second only to those in sub-Saharan Africa. HIV/AIDS affects the most economically productive segment of the population and the economy as a whole. For example, in Jamaica, complications from AIDS are the leading cause of death in men and women between 30 and 34 years of age. As a result of USAID assistance, affected countries are more willing to openly discuss HIV/AIDS. Haiti and Guyana, two Presidential priority countries in LAC, have initiated national programs to prevent mother to child transmission of HIV/AIDS. This year alone, USAID established 22 new voluntary counseling and testing and prevention of mother to child transmission centers across Haiti, giving rural Haitians access to services previously available only in select areas.

USAID has made significant progress in raising vaccination coverage and reducing or eliminating major childhood illnesses such as measles. While progress is being made to apply proven, cost-effective protocols for combating malaria, tuberculosis, and other infectious diseases, rates remain unacceptably high. Because diseases do not respect geographic boundaries and due to the high numbers of legal and undocumented immigrants to the United States, USAID's health-related assistance to LAC countries is critical to the security and health of the United States.

The quality and relevance of primary and secondary schooling in LAC countries continue to cause concern, as the majority of students attend weak and under funded schools and fail to acquire basic skills in mathematics, language, and science. Fewer than 30% of students in the region complete secondary school, and many of those who do finish lack the skills to compete in the workplace, let alone in an increasingly competitive global economy. USAID education and training programs are improving educational systems by developing innovative pilots and more effective service delivery models, many of which are being expanded by host governments and multilateral development banks. USAID will continue to improve the skills of teachers and administrators through the Centers of Excellence for Teacher Training, an initiative announced by President Bush in April 2001. Three sub-regional training networks established in Peru, Honduras, and Jamaica will train up to 15,000 teachers who will serve 600,000 students. USAID has been a leader in education policy reform through efforts such as the Partnership for Educational Revitalization in the Americas. In addition, USAID is supporting advancements in workforce training and helping youths prepare to enter the workforce. For example, USAID's Train-

ing, Internships, Exchanges, and Scholarships program in Mexico is enhancing the capacity of Mexican scholars and institutions to respond to the emerging U.S./Mexico Common Development Agenda.

ALTERNATIVE DEVELOPMENT

The scourge of narcotics threatens the social and economic fabric of the Andean countries and poses a threat to the United States. Despite bold efforts by Colombia, Bolivia, and Peru to combat narco-trafficking, the lack of a state presence in some areas has allowed illegal narcotics production and armed terrorist organizations to continue to flourish. Drug-related spillover crime makes Ecuador's northern border with Colombia vulnerable. Further, experience has shown that intensive eradication efforts by one country increase pressure by the narco-trafficking industry in another. Alternative development programs emphasize licit crop production; rural competitiveness; improved social, physical, and productive infrastructure; access to fair justice; and an increased state presence in coca-growing regions. USAID is working in partnership with the Andean region's leadership, who are actively pursuing policies to fight narco-terrorism and expand the reach of government and rule of law.

In Bolivia, USAID is providing viable income-earning alternatives to coca cultivation and developing sustainable infrastructure, national and export markets, and organizations to ensure sustained economic growth in coca-growing regions. Successful new strategies have increased domestic sales and exports from the Chapare. In 2003, banana exports rose by more than 30% and pineapple exports increased 250%. In the Yungas, more than 5,100 farmers improved their coffee harvest and post-harvest techniques, thereby increasing their incomes by an average of almost 40%.

Radio, press, and face-to-face communications have convinced over 15,000 families to enter agreements with the Government of Peru to voluntarily eradicate their coca and remain coca free. Between October 2002 and December 2003, Peru's newly established voluntary coca eradication program resulted in the elimination of 5,445 hectares, with 459 communities and over 19,000 families participating in the program. Voluntary eradication constituted 40% of total eradication for CY 2003, and approximately 40% of that was high density or managed productive coca, the same amount obtained previously through forced eradication.

Since some coca growing areas are not suitable for sustainable agriculture due to agronomic or security reasons, USAID works with the private sector to increase licit income opportunities, making coca production less attractive. In Colombia, the combined tactics of eradication, interdiction and alternative development resulted in a coca crop reduction of 37.5% between 2000 and 2002 and an additional 43% between 2002 and 2003, exceeding Plan Colombia goals. In addition, USAID completed 406 social infrastructure projects, including construction of roads, bridges, schools, and water treatment facilities, in 13 municipalities to provide short-term employment and access to markets necessary to sustain a licit economy.

SPECIAL EMPHASIS COUNTRIES

Haiti. The United States is the largest donor in Haiti, providing roughly one third of the total bilateral and multilateral assistance last year. USAID's assistance has been focused on humanitarian assistance, including alleviating poverty and food insecurity, increasing access to health care by the majority of underserved Haitians, fighting HIV/AIDS, generating rural competitiveness-based employment, and strengthening civil society. USAID is closely monitoring the humanitarian impact of the current political crisis that has led to the resignation of President Aristide. Haiti's Supreme Court Justice Boniface Alexandre was sworn in as the interim president as stipulated in the Haitian constitution. USAID is working closely with other agencies and implementing partners to develop a post-conflict program strategy. This strategy will ensure the provision of emergency relief, continue to provide improved basic services, and generate employment over the immediate, short and medium-term. Also, USAID is cooperating with other donors to jointly identify long-term priorities.

Colombia. USAID will continue to support President Uribe's new Democratic Security and Defense Policy aimed at guaranteeing the security, freedom and human rights of the population, consolidating state control over national territory, eradicating drug trafficking, defending democratic order and the rule of law, promoting economic prosperity and social equality, and reconstructing the social fabric.

Colombia has one of the largest internally displaced persons (IDP) populations in the world (about 2.5 million) since 1985. Most displaced families are reintegrating into urban settings from a rural environment. One of USAID's most successful activities enables IDPs to regain or obtain income-generating opportunities through training in basic business practices such as accounting, finance, and basic market

studies. The program has had particular success in involving the private sector and has established public/private partnerships. The training programs have led to the job placement of thousands of IDPs and the creation of successful micro and small businesses managed by IDPs. Job creation and skills training is one of the primary strategies in helping IDPs regain financial independence and long-term economic stability. In addition, USAID finances community infrastructure projects such as schools, health centers, water and sanitation systems, roads, and housing. USAID has provided relief to about 1.2 million IDPs since the program began in 2001.

In July 2003, the Colombian Government reached agreement with nine paramilitary groups numbering some 18,000 combatants (roughly 82 percent of the estimated paramilitary combatants in the country) to lay down their arms in exchange for Colombian Government support for their demobilization and reincorporation into Colombian society. In December 2003, two groups were demobilized, one in Medellin totaling 871 former combatants, and one in Cajibio (Cauca), totaling 155. Negotiations are ongoing with the remaining groups. The current estimated costs for complete demobilization of all illegal armed groups in Colombia (including the country's two largest groups, the Colombian Revolutionary Armed Forces or FARC and the National Liberation Army or ELN) is between $254 to $298 million. The projected shortfall that the Colombian Government will look to the international community to fill is estimated at $138-$182 million. USAID has provided planning assistance to the Office of the High Commissioner for Peace, and subject to the resolution of legal policy and funding issues, is prepared to deepen and broaden assistance to the Colombian Government in this critical area. A broad, comprehensive demobilization and reincorporation program would provide tangible benefits by eliminating a significant source of human rights violations and creates potential for the future demobilization and reincorporation of other illegal armed groups.

Bolivia. In CY 2003, USAID/Bolivia provided $10 million in FY 2003 and $8 million in FY 2004 ESF funds as cash transfers to meet Government of Bolivia obligations with International Financial Institutions. This served to relieve pressure on the government's fiscal situation and encouraged other donors to follow suit. USAID/Bolivia refocused at least $12 million in its current program to initiate a series of ultra fast activities in the conflict areas of El Alto and the altiplano, enabling temporary jobs, improved roads and schools, and expanded health services. This shows that the Government of Bolivia and the United States Government are attentive to the problems of neglected areas, and is providing political space for the Mesa administration to advance needed economic and social reforms. USAID will continue to implement quick impact, high visibility activities designed to demonstrate the responsiveness of the Mesa Government and its concern for the economic inequities in Bolivia. These will be augmented by activities and policies aimed at relieving the social and economic pressures in Bolivia and helping the Mesa Government address the needs of vulnerable citizens. Support for alternative development will remain strong.

ALLIANCES

Private investments in Latin America, including contributions from civil society and faith-based organizations, far exceed official development assistance levels. Linking United States Government investments with private investments will assure a greater impact for both, as was articulated by President Bush at the Monterrey Conference last year. The Global Development Alliance and the Development Credit Authority (DCA) are exciting business models by which USAID has given U.S. resources much greater impact by partnering with businesses, municipalities, universities, and philanthropic groups. Key alliances in LAC include working with coffee companies and small-scale producers to address the crisis in this sector, cutting-edge work on remittances, and a new alliance for the chocolate industry. Using DCA authority to provide guarantees to microfinance institutions, commercial banks, rural savings and loans, and municipalities, USAID leveraged more than $30 million in private capital in 2002.

MANAGEMENT

LAC is undertaking mission management assessments to make informed decisions on ways to work smarter, reduce the process workload, and ensure Operating Expense and staff allocations respond to Bureau priorities. Four mission management assessments were completed in 2003, resulting in measures to improve efficiency by consolidating financial management and other support services in four LAC missions to serve 16 country programs. This year we plan to conduct seven more mission management assessments, thereby fulfilling the LAC Bureau's mandate, and we will continue to follow through on recommendations from earlier assessments.

By responding to initiatives in the President's Management Agenda, including Strategic Management of Human Capital. USAID is maximizing the impact of foreign assistance. USAID Administrator Andrew Natsios recently approved staffing levels to better allocate staff in overseas missions and ensure best use of personnel. Steps will be taken to begin the process of implementing the Agency's Direct Hire staffing template while adhering to the spirit and intent of the FY 2004 Appropriations Bill. Furthermore, we will finalize the regional services platform for Central America and more thoroughly analyze the options for South America.

Senator COLEMAN. Thank you very much.

Senator Nelson, do you want to make a statement?

Senator NELSON. Well, I don't need a statement. I'll just ask some questions.

Senator COLEMAN. Why don't I begin. You talked about the AIDS initiative in Haiti. Secretary Noriega, you talked about other countries have offered to make security forces available in the very near term. What does very near term mean?

Mr. NORIEGA. Mr. Chairman, may I briefly walk through the process that's underway right now? Haiti, of course, has a new President now. The Prime Minister, Yvon Neptune, is the Prime Minister at present in Aristide's government. He continues to be the head of government. He has agreed to serve for a few days while a process in underway for appointment of the new Prime Minister.

That process is modeled on a plan that was proposed by the Caribbean community a number of weeks ago, where there will be—the international community will work with sectors of Haitian society that we hope will be represented in sectors, including some of Aristide's party and others, to form a council of 7 to 9 persons that will advise the President on the appointment of a new Prime Minister, and the Prime Minister will return once he's appointed by the President, begin to form a cabinet of neutral, independent persons who are above all technically competent to head the various ministries of the Haitian Government.

This council sort of steps in for the absence of a Parliament in Haiti and we believe it's important that there be some sort of a representative body to advise the government as it goes ahead. That process is underway and the time tables are very short. We want to move very quickly to put some people in place that can start making decisions for the new government.

The U.N. Security Council resolution is the basis of our engagement, Resolution 1529, which was approved unanimously on Sunday. The United States has forces on the ground. Others are moving very quickly to put people on the ground. The French are in there.

Senator COLEMAN. In addition to the French, anyone else?

Mr. NORIEGA. There are a couple of others that have—and I would be pleased to talk to you about them privately, but the problem is some of these countries are just proposing these deployments to their Congresses, and if our Congress finds out before theirs does, I think we might make folks upset.

Senator COLEMAN. I respect that.

Mr. NORIEGA. But they all understand this is a very short fuse and we need to start seeing some people arrive very, very quickly. Some have said that they'll participate in current deployment and others will participate in the longer term. After about 3 months, we

participated in a longer sort of traditional U.N. peacekeeping-type operation. But the numbers are anywhere from 5,000 in the current period and 7,000 offered up over the longer period.

So we're going to have a robust presence and it's very important that one of the first things they do is stand up the Haitian national police to get some of these people who abandoned their posts because they didn't want to die for Aristide and to come back with the support of the international community, start patrolling the streets, start manning their police barracks again throughout the country. This will take a period of time, but we think that this—we're confident that this process can begin and it will be effective.

Haiti is, has always been under-policed, but we think that this presence, the international presence, we can start to stand up a Haitian national police to start to maintain order. We have to do the basic things that were never done to make Haiti more attractive to investment and trade. Our aid programs need to continue in earnest and we need to look for additional sums and sources of assistance to accompany this process.

All of this is underway. We have a meeting tomorrow at Southcom to talk about the security component and USAID and State have a working group to look at the long term—longer term, medium and longer term aid program, what are the priorities, how will we, what are we—what sorts of resources we are going to bring to bear.

Something that might be of particular interest to Senator Nelson is, I think a mistake that we've made in recent years in Haiti is not involving the Haitian diaspora. So at 3 p.m. today, I'm going to have a conference call with leaders of broad, various groups of Haitian-Americans to get them more involved in the process and encourage them to do what they can do and to accompany us, inform our programs, and complement the programs that we're going to have to strengthen Haitian society across the board. And if Senator Nelson has any ideas of particular organizations, if his staff wants to pass them, we'll get them on this call today or reach out to them in the future. Thank you very much.

Senator COLEMAN. I have a lot more questions about Haiti, but we have an hour for this segment and the subcommittee will have a hearing on Haiti at the end of next week, but clearly there are a lot more questions. Just one narrow question. Are we talking about using—reprogram existing funds for our efforts or is there any funds to asking for additional funds for Haiti?

Mr. NORIEGA. My sense is that we're going to see what we can do with current resources, and if we need additional, if we can justify it, we'll have to go up through our policymakers and see if that's possible.

Senator NELSON. May I ask something of a clarification?

Senator COLEMAN. Yes.

Senator NELSON. Just on what Secretary Noriega has said. In the last 2 hours, rebel leader Philippe is claiming that he is in control of the Haitian national police. What is the opinion of the U.S. Government?

Mr. NORIEGA. He's not. He's not the head of anything and we've said——

Senator NELSON. Not the head of or in control of——

Mr. NORIEGA. Exactly. He's not in control of anything but of a ragtag band of illegally armed persons. As the international community presence has built up, we will make his role less and less central in Haitian life, and I think he will probably want to make himself scarce. But we have sent that message, Senator, too, and without talking about anything that might impact the security of our own forces on the ground, rest assured that we have sent that message to him and he obviously hasn't received it, but we'll be working with our military and the military of others who have people on the ground to make his presence in the capital less and less, has to do with use the word necessary, but certainly he will want to make himself scarce.

Senator NELSON. And that's going to come when? When are you going to have sufficient troops on the ground in order that that kind of claim rings home?

Mr. NORIEGA. Within the next few days, sir.

Senator NELSON. Would it be your pleasure to—I have a couple of questions on Haiti, or do you want to go on to other subjects and them come to me? What's your preference?

Senator COLEMAN. I'd like to—let me just get to a couple of other issues and then we'll come back to you. Again, I think it's important to touch upon some other areas, though clearly the hot topic right now is Haiti and I respect that.

Administrator, now you talk about rule of law and obviously that's absolutely critical to all of Latin America. We're not going to get investment without rule of law. How do we prioritize with all the needs that are out there? How are you prioritizing what's the critical steps here you're trying to do for—in terms of rule of law?

Mr. FRANCO. Well, in terms of rule of law, Mr. Chairman, we prioritize things very much in line with what the President outlined early on when he actually spoke about the Millennium Challenge Account, and that is those countries that are committed to an agenda to attack corruption. And our investments, if you will, in terms of our development assistance, are prioritized in those countries where we have the leadership at the top for transparency to reform governmental institutions, to insist upon a system that respects the sanctity of contracts, and that have minimum equal protections for citizens.

So our priorities are based on those countries that are showing demonstrable progress and commitment at the top. I know we are focused in on Haiti, and we should be, along with a number of other places where we have difficulties. But we have a good number of enlightened, committed leaders, I venture to say virtually all of the leaders of Central America, and President Uribe. So we have an opportunity in the region to really bring about necessary reforms, and we are expanding those programs and making those allocations based on performance and commitment, and that's how we go about making allocations.

Senator COLEMAN. Getting back, touching upon Haiti for a second, but tying it to the rule of law and the economic development question, in the present proposed budget there was no funding in Haiti for economic support, ESF funds, nothing international narcotics and law enforcement. With the change in the political envi-

ronment in Haiti, do you anticipate that those funding requests will be revisited?

Mr. NORIEGA. I would expect that we will have to revisit everything we've been doing on Haiti, because as you know, Mr. Chairman, we had reoriented our programs to deal with non-governmental organizations in all of the Haitian state. Our ability to work with the police was severely limited because of the narcotics corruption within the police and the politicization of the police. That is going to change obviously and we're going to have to find the resources to be able to work with them.

Senator COLEMAN. Let me turn to Colombia briefly. I read about another attempt on President Uribe's life just recently. Two questions, one a political question. He suffered a setback last fall in the referendum effort on the budget. An assessment of his political situation today and then a second question about our commitment to a plan in Colombia and your assessment as to whether those funds are being well-spent and should we keep proceeding in that direction.

Mr. NORIEGA. I think right after the fall of—the defeat of this referendum on some reforms, he seized the initiative, he made some changes in his government, he adopted some reforms using executive authorities. I think he adopted some very bold moves vis-a-vis the guerrilla organizations and I think he's fully recovered, quite frankly, his political footing. He did probably within a couple or 3 months of that, that setback, and it's clear that he has the support of the Colombian people. He's made some fiscal reforms that are absolutely necessary to fund the programs, security programs that he has in mind.

I think that our decision to provide the bilateral trade agreement has also been helpful to him. It gives some more hope in terms of economic development and attracting investment. So I think he has, he's fully recovered.

We've made significant strides on fighting coca cultivation. We expect significant progress to continue in making a real dent in the cultivation in the coca that's coming out of the region. He's working better with his neighbors than ever before, particular Ecuador. He's treating this transnational threat as a shared one, where the United States is not the only country that's helping him, but there's really a regional—subregional support for his efforts.

We need to keep the pressure on. He recognizes that these narcotics, the traffickers, and the terrorist groups work hand in hand. The terrorist groups are more and more directly involved in trafficking themselves, and so that by attacking that, by applying a robust military pressure on these groups, we're seeing more and more people deserting, thousands of people from, for example, these AUC terrorist groups deserting and saying they want to surrender.

And now he has to have—develop very effective, comprehensive programs for disarming and resettling, demobilizing those people, so that—I mean, that's actually a good thing that he has this new task to take on, because it shows that his policy of applying the rule of law is making a difference. So it's making a dent in the security situation, in the coca cultivation situation, in the rule of law, and in Colombia's fiscal picture.

The economy needs to continue to grow and he understands that, but I think he has a very effective strategy and we need to stick with it obviously based on what our request is.

Senator COLEMAN. I have many, many more questions, but I'm going to defer to my colleague, Senator Nelson, and if there's any time left I may come back.

Senator NELSON. It's a tough subject to cram in in less than an hour. First of all, I'm going to ask you a couple of difficult questions, and if you cannot answer them, just tell me that you can't answer them and I will respect that.

First of all, I think we would all agree that Aristide was certainly lacking in leadership and clearly in some cases had, if not himself corrupt, certainly the vestiges of corruption around him. Going forward, and I made a speech on the Senate floor in which I just poured my heart out yesterday, the United States is going to have to be involved, and you two are in a position to make a difference, and I hope that it's going to be—the last 2 years of the Clinton administration it was dropping in support for such things as economic support, military assistance, food aid, Peace Corps, dropping from $83 million to $73 million. The first year of the Bush administration, $55 million went up to $71 million down to $54 million in its present fiscal year, and next year it's estimated at $54 million. That's not going to cut it for us to establish the institutions, help them, pick them up by the bootstraps, right.

Those are not the questions. That's what we all agree. And this Senator is going to try to help you, because that's what we've got to do. What I want to ask you about is the policy, since we've been talking about rule of law, the policy of the U.S. Government of a regime change. Now, the first question I want to ask is, I want you to tell me what was the Santiago Declaration in 1991?

Mr. NORIEGA. The Santiago Declaration was Resolution 1080 of the foreign ministries meeting there of the General Assembly meeting there.

Senator NELSON. And what did it say?

Mr. NORIEGA. That said that a government that comes to power through a sudden or irregular interruption in constitutional order, that we would have a meeting of foreign ministers for the purposes of addressing this, for sudden or irregular interruption in constitutional order.

Senator NELSON. And was it followed by the Inter-American Democratic Charter in 2001?

Mr. NORIEGA. Yes, sir.

Senator NELSON. And what did that say?

Mr. NORIEGA. That defined what the essential elements of democracy were and it set up a system where the inter-American community agreed to work together to support countries in overcoming threats to these essential elements of democracy.

A key element it included was a self-help mechanism where a country could ask for support, article 17, where a country could come and say, my institutions are under threat. Interestingly enough, President Aristide never used that mechanism.

Senator NELSON. Did it not say that a democratically elected government in the Western Hemisphere, when calling upon another

democratically elected government, that one would come to the aid of the other?

Mr. NORIEGA. It did. In a general sense it said that we would support one another and it's interesting again that President Aristide never invoked article 17. I have a feeling I know why, because he felt that he would become accountable for his lack of respecting the essential elements of democracy, so they studiously resisted invoking article 17.

Senator NELSON. So all the calls that he made, whether we agree or not, which I think we know that he was a bad actor, all the calls that he made internationally calling for help, our U.S. Government interpretation of both of those documents, which would have the patina of the rule of law, was that we were not going to come to the aid of that democratically elected government.

Mr. NORIEGA. Senator, we were confronted with a very difficult situation. We knew that he was a constitutional-elected—constitutional President. The election has—it's barely an election, but I think maybe 8 percent of the people voted, but we knew—we recognized him as a constitutional President.

But we also knew a few other things about him from experience. I was working for the State Department in 1991 when it was a part of our policy to put him back in power, and since then we've watched him sow the seeds of the disaster that fell upon him. We saw him undermining basic institutions, undermining the security apparatus with drug corruption, putting his thugs in charge of the Haitian National Police, and this eventually made the HNP, the Haitian National Police fall apart.

Senator NELSON. Here's what worries me, since we're talking about the rule of law, that in our judgment we will suspend two declarations, one in 1991 and another one in 2001 at our own interpretation when another democratically elected government calls on our help. And not only that, that we don't respond, but that we respond in a way that the outcome is inevitable, which in my discussion across a witness table with Secretary Powell last week, I said the abdication was foretold, that the way we were withholding any kind of support.

And it's not the question of the purse, Secretary Noriega. It's the question of the process and the rule of law. And, Mr. Chairman, as we get into the hearing on Haiti, I want to continue with that, because what we want to protect more than anything in our country is that we not rule by men and women, but that we rule by law.

Mr. NORIEGA. Mr. Chairman, Senator, I want to point out that there is a constitutional process underway, a new President is sworn in. The last one resigned, notwithstanding what he's saying now, he resigned. It's interesting to note that 3 days ago when people were clamoring for us to go in, we would have been going in to prop up a person who is now accusing those same people of having kidnaped him. It shows in spectacular relief that he was an irresponsible, untenable leader.

We have an obligation to recognize him as a constitutional leader, but we do not have an obligation automatically to put American lives at risk to prop him up. The international community has moved in to support the constitutional succession that's underway. I described the policies of President Aristide, and I think this ques-

tion boils down to whether it is better to have the international community keeping thugs in the national palace 3 days ago, or keeping them out of the national palace today, and it boiled down to that.

Senator NELSON. Well, if we don't watch out, thugs who are taking over Port au Prince right now will be in the national palace if we don't get down there. And, Mr. Chairman, my question obviously needs to be explored, because if Haiti, why not Venezuela in a regime change as a policy of the United States Government? And that's something that shakes the very legal foundations of this country.

Senator COLEMAN. Senator Nelson, I appreciate your comments. I would note we do have a hearing scheduled on March 10. I would suggest, and I think it's quite obvious, that your decisions are going to have to be made way in advance of March 10 addressing some of the concerns that you've just raised. I anticipate that there's a lot of thought going into that right now.

This hearing is scheduled from 12 to 1, to 1 to 2. With that, I will adjourn this portion of the Foreign Relations Committee review of the President's budget and I want to thank the witnesses for your testimony. I look forward to future conversations. There were many, many, many questions and areas unexplored. I am hopeful that we'll have some other opportunity to do that.

Mr. NORIEGA. Senator, if you'd like to submit questions for the record, we'll be glad to——

Senator COLEMAN. I anticipate we will do that. This portion of the hearing is adjourned.

[Recess from 2:02 p.m. to 2:06 p.m.]

Senator ALEXANDER [presiding]. Good afternoon. The hearing of the Committee on Foreign Relations is called back to order. This is an important day for us as a continuation of our hearing on foreign aid. The next hour we're going to discuss sub-Saharan Africa.

Senator Feingold, who's very active on the subcommittee, is not here right now. Hopefully he'll be here, maybe he won't. They're in the Budget Committee this week getting things put together, so we'll certainly understand if he can't come.

I might add last night I had a chance to have dinner with President DeKlerk who was in town talking about some of his new initiatives, which was a very interesting experience for me. We talked a good deal about the world, but also of course about sub-Saharan Africa.

Our most commonly employed foreign policy tool is foreign aid, and so it makes a big difference in what we do in sub-Saharan Africa. This is an area of increasing interest to the United States because of the President's interest. A lot of us can be interested, but when the President takes an interest, the world takes more of an interest, and the President's focus along with that of the U.S. Congress on HIV/AIDS, on the development of democracies in Africa, on conservation in Africa, all those things have caused, I think, Americans to become more familiar with it and our Congress to be more interested in this tremendous continent.

Rather than my making an opening statement, I think we'll make better use of our time if I ask the witnesses to make their statements and then that'll leave me time for questions, or if Sen-

ator Feingold comes he'll have a chance to ask questions and make comments as well.

We have two administration witnesses today, Don Yamamoto, whom I first met 20 years ago when he worked for Ambassador Mansfield in the U.S. Embassy in Japan and I was traveling there every year recruiting Japanese industry for Tennessee. He's Deputy Assistant Secretary of State for African Affairs. He's filling in for the acting Assistant Secretary, Charlie Snyder, who I understand is out of the country.

Connie Newman, the USAID Assistant Administrator for Africa since 2001. We served together in the first Bush administration a few years ago where she was the Director of the Office of Personnel Management.

I want to welcome you both, and Mr. Yamamoto, why don't you go first, and then Ms. Newman. Say what you'd like to say and then we'll have a conversation about that.

STATEMENT OF DONALD Y. YAMAMOTO, DEPUTY ASSISTANT SECRETARY OF STATE, BUREAU OF AFRICAN AFFAIRS

Mr. YAMAMOTO. Thank you very much, Mr. Chairman, and members of the committee, and it's indeed a great honor to be invited here today to testify before you on the Department of State's budget priorities. I will summarize my statement and submit the rest of it for the record.

The State Department's $1.6 billion budget request for sub-Saharan Africa will contribute to meeting our national strategic interests of security and economic prosperity by addressing five core goals in Africa, and they are: enhancing the region's capacity to fight terrorism; promoting private sector-led economic growth, reducing regional conflicts and promoting regional stability; promoting good governance, democracy, human rights, and the rule of law; and finally, improving health care, education, and the environment.

We are doing this because what happens in Africa matters to the United States and significantly affects our interests. We are in partnership with many African nations to combat terrorism, a threat to U.S. national security interests as well as to African stability.

Africa provides 15 percent of our oil needs, possess abundant natural resources, and holds commercial opportunities for U.S. investors who have already invested some $340 million in the past 3 years. The HIV/AIDS crisis affects sub-Saharan Africa like no other region in today. Twelve of the 15 focus countries in the President's emergency plan for AIDS relief are in this region, and the administration has requested a total of $2.8 billion in fiscal year 2005 to combat global HIV/AIDS, tuberculosis, and malaria.

Of that request, $1.45 billion will fund activities in the focus countries to expand comprehensive and integrated prevention, care, treatment programs. It is vital to the U.S. interests and to the health and well-being of our citizens that we defeat this plague.

The fiscal year 2005 request also helps the United States support African efforts to protect its rich biological diversity and improve natural resource management with such programs as the Congo Basin Forest Partnership.

Unless we mitigate the political, social, and environmental crises that plague the African Continent, these countries will not be able to participate effectively in the global community of nations. The result will be chronic poverty and unrest that undermines stability, creates havens for criminal elements and terrorists and others would threaten the United States' interests.

We will face continued political unrest and humanitarian crises, health problems that will replicate more quickly in the United States, and irreplaceable environmental resources that can help fight some of these problems will also be lost.

Fortunately, there are reasons for optimism. Several African states are market-oriented democracies and many others are on the right road. Our assistance to sub-Saharan Africa has helped them resolve conflicts, strengthen democratic institutions, and create market economies. A robust public diplomacy program underscores our effort to strengthen ties and raises awareness of the various ideals that the African people share with the United States.

In sum, our budget proposals will send the important message to our African partners that our priorities in Africa remain consistent and that our shared commitments to security, economic development, reform, and progress remain strong. This message reinforces our political, economic, and security interests.

And, Mr. Chairman, I thank you and your committee's interest in sub-Saharan Africa, and you, Senator, for your personal support and interest. Thank you.

[The prepared statement of Mr. Yamamoto follows:]

PREPARED STATEMENT OF DONALD Y. YAMAMOTO

Mr. Chairman and members of the committee, thank you for inviting me to testify on our budget priorities for sub-Saharan Africa in FY2005. The African Continent faces today, as it has in years past, many grave challenges. Terrorists have hit targets in Africa and states that are willing to confront terrorism often lack the means to do so. Serious conflicts that, while in some cases are close to resolution, remain a threat to stability. Soaring HIV/AIDS rates, hunger, and drought are crippling Africa's nations, while corruption, regional conflict, and human rights abuses threaten to undermine the progress we have made to enable African governments to fulfill the potential that exists in their people and natural resources.

Our $1.6 billion FY2005 budget request addresses the most urgent concerns facing U.S. interests in Africa today and funds several programs that specifically seek to empower African governments' capacities to respond to emergencies and long-term problems. This request includes $101 million in Economic Support Funds (ESF), $22 million in Foreign Military Finance (FMF), $11 million in International Military Education and Training (IMET), $60 million in Peacekeeping Operations (PKO), and nearly $1 billion in Child Survival and Health (CSH) and Development Assistance (DA) monies. My colleague USAID Assistant Administrator Connie Newman will address the details of development assistance in her testimony.

We are making this request because events in Africa affect the interests of the United States. For sub-Saharan Africa, our five most important goals are to: increase African capacity to fight terrorism; promote private sector-driven economic growth; reduce regional conflicts while increasing African capacity to respond to contingencies; promote democracy, human rights, rule of law, and good governance; and improve the health and well-being of Africa's people and environment.

These priorities reflect the reality that Africa's problems are increasingly linked to our own and to those of the international community. Corruption, civil unrest, and poor governance weaken states and prevent them from addressing the most critical needs of their people. In many cases around Africa, central governments have no or little ability to govern large portions of their territories. Weak, failing, and failed states breed chronic poverty and serve as potential havens for terrorists and terrorist networks that seek to attack the United States, its interests abroad, and its allies. Yet terrorists are not the only entities that take advantage of porous borders and weak governments in Africa. Disease, drug trafficking, and the spread

of illicit arms constantly threaten to move among Africa's states and travel to other continents. Even human rights and environmental abuses on African soil have repercussions for the international community at large.

Our assistance to sub-Saharan Africa benefits U.S. security. Many sub-Saharan African nations are solid allies in the Global War on Terrorism, and our partners in the region gladly embrace U.S. counter-terrorism programs and training. The potential need for hosting forward operating sites for U.S. and coalition forces, and an existing willingness to apprehend terrorist suspects are advantages of maintaining strong ties with responsible governments in Africa. The President's FY05 request for assistance to sub-Saharan Africa simultaneously addresses terrorist threats to the United States through counter-terrorism programs, while also empowering these governments to address their own economic, social, and security needs, thereby reducing opportunities for terrorist networks to take hold. Our public diplomacy efforts in the region work to strengthen these ties and raise awareness of the values and ideals African people share with Americans, increasing understanding and support for U.S. foreign policy objectives and utilizing modern technology to reach wider audiences. The State Department request for African public diplomacy (programs and non-American salaries, but not exchange programs) in FY05 is just over $20 million. In addition, the Bureau of Educational and Cultural Affairs has indicated it expects to fund educational and cultural programs in Africa in FY05 at approximately the FY04 level, that is $35 million.

U.S. leadership is critical to Africa. To cite one example, in Liberia, the United States has played a crucial role ensuring that country's transition to democracy. Following the removal of Charles Taylor from power and the end of more than 15 years of civil unrest and violence, Liberia today has a promising chance for a better future. Congress's appropriation of $200 million in FY04 supplemental funding for Liberia reconstruction and $245 million for CIPA to support the UN Peacekeeping Mission in Liberia (UNMIL) is playing a critical role in Liberia's reconstruction. U.S. assistance to Liberia goes beyond our economic pledges—this Administration has played a leading role in the international community's overall response to the Liberian crisis, co-hosting last month's Liberia Reconstruction Conference with the UN and World Bank, and coordinating international efforts to reform Liberia's security sector.

However, Liberia's success does not depend only on efforts from outside Africa. It is the responsibility of African people to address their problems. Chairman Gyude Bryant of the National Transitional Government of Liberia said it himself at the recent reconstruction conference: Liberia's stability and security depend foremost on the actions of Liberians and their ability to effectively and transparently use the aid the international community is willing to provide. Just across Liberia's borders, its neighbors have an important role to play too. Individual neighboring states like Sierra Leone and Cote d'Ivoire must work to contain their own conflicts, while subregional organizations like the Economic Community of West African States (ECOWAS) must continue to display strong leadership through effective peacekeeping operations.

The President's budget request for the State Department, USAID, and other agencies working on assistance to sub-Saharan Africa addresses this need to build the capabilities of individual governments and African regional organizations.

The Bureau has requested a total of $84 million in bilateral ESF funding in FY 2005 for 12 focus countries. These include five countries (Djibouti, Ethiopia, Kenya, Nigeria, and South Africa) identified as strategic—due to their size, economic power, military strength, importance to counter-terrorism initiatives, or ability to have either a significant impact on their region. Our assistance to the additional seven other focus countries (Angola, Burundi, the Democratic Republic of Congo, Liberia, Sierra Leone, Sudan, and Zimbabwe) will bolster efforts to resolve serious and generally long-running conflicts or instability. In the case of Zimbabwe, ESF will of course be aimed at bringing democracy to this nation that once gave so much promise, but which has been so badly misgoverned.

Our remaining requested ESF funds ($17 million) are for three regional programs: the Africa Regional Fund, Safe Skies for Africa (SSFA), and regional organizations. The Africa Regional Fund ($11 million) strengthens the rule of law, promote trade and investment, aid judicial reform and the development of civil society, improve administration of borders, combat money laundering, and support African efforts to manage its environment and natural resources. Through the SSFA program ($5 million), we will continue to enhance airport security in order to promote U.S. investment opportunities and combat international crime and terrorism. Some $1 million in assistance will help strengthen the capabilities of regional organizations in Africa, including the African Union, the Southern Africa Development Community (SADC), and ECOWAS. ESF will finance initiatives and programs that contribute

to regional and global economic integration, especially programs to open markets and harmonize tariff structures.

Strengthening the capabilities of key African states to combat terrorism is one of our highest priorities. The President announced his $100-million East African Counter Terrorism Initiative (EACTI) last June, which funds 14 programs designed to train and engage East African governments in intelligence sharing, limiting free movement of terrorists, augmenting host nation security forces, countering extremist influence, and disrupting terrorist financing networks. These programs are up and running and build a strong foundation for continued U.S. engagement to strengthen our African allies' capacity to fight terrorism in the region. Moreover, DA and ESF funds serve our interests by promoting the well-being of African citizens and encouraging goodwill toward the United States. East Africa's proximity to the Arabian peninsula, its large Islamic population, history of terrorist attacks, and the failed state of Somalia all underscore credence to the necessity of prioritizing this sub-region in our Global War on Terrorism. Roughly half of our $22 million request for FMF funds is for EACTI countries, which will also receive significant ESF funds in the President's 2005 request.

Economic prosperity is another key U.S. goal in Africa. In FY05, the Africa Bureau will continue to encourage African governments to pursue economic reforms, establish sovereign credit ratings, and develop functioning capital markets in order to enhance growth in the private sector. As our trade and commerce with the African region expands, it is critical that economic growth on the continent continue to grow. The President's FY05 budget reflects the Administration's belief that economic growth in Africa is linked to creating opportunities for private sector activities and reinforcing successful government policies.

In three years, the African Growth and Opportunity Act (AGOA) has helped to create more than 190,000 jobs and $340 million in new investment in Africa, while also spurring broader economic reforms and building favorable political will among Africans toward the United States. AGOA sets high standards for market-based economies and progress on democratization and human rights issues. Some 37 countries in sub-Saharan Africa were AGOA-eligible for 2004, and we hope more will meet eligibility criteria in 2005. The State Department welcomes Chairman Lugar's recently introduced legislation to extend AGOA until 2020, and we look forward to working with Congress to develop the specific provisions of that legislation.

We also welcome Congress's authorization of the Millennium Challenge Account, a performance-based program administered by the newly formed Millennium Challenge Corporation (MCC). The MCA aims to reduce poverty by spurring economic growth. The MCC will provide funding to poor countries around the world that have demonstrated their commitment to governing justly, investing in their people, and encouraging economic freedom. We expect the MCC Board in May of this year to identify countries to participate in MCA, and anticipate that some African countries will qualify for support. The total FY05 MCC request is $2.5 billion.

Promoting regional stability is one of our top priorities in FY05, and this budget request will help advance our diplomatic initiatives in Liberia, Sierra Leone, Sudan and elsewhere continue moving those countries toward a more promising future. Over the years we have learned that regardless of location, in anywhere in the world chaos breeds more chaos, and that stability promotes more stability in neighboring countries. At the Liberia Reconstruction Conference last month, we heard the same message again and again from our allies, UN Secretary General Kofi Annan, and Liberia's leaders themselves: Liberia's successful transition to peace and democracy depends on stability in Guinea, Sierra Leone, and Cote d'Ivoire. Instability spills over borders, triggers fighting among African governments, their proxy forces, and rebel groups, putting their populations at risk and creating millions of refugees and internally displaced persons. Problems persist in Africa, with some long-time conflicts simmering just below the point of open hostilities, yet refusing to reach a peaceful conclusion. Ethiopia and Eritrea, to cite one example, remain on the verge of renewing their bloody border dispute, despite the best efforts of the international community and African leaders to outline a path toward peaceful resolution. We have held numerous meetings with Ethiopian and Eritirean representatives in Washington and in the region. In addition to our ambassadors pressing each side to meet their obligations under the Algiers Agreement, I have traveled personally to the region twice to deliver the same message to Ethiopian Primer Minister Meles and Eritirean President Isaias. The United States also publicly supports the efforts of United Nations Secretary General Annan to appoint a Special Envoy to help effect the demarcation of the border. Despite these efforts, the situation remains tense and the prospects of a durable peace uncertain.

But elsewhere on the continent, the pieces of stability are slowly falling into place. Our work to build peacekeeping capabilities with the African Contingency Oper-

ations Training and Assistance (ACOTA) Program continues. We have requested $15 million to support ACOTA in FY05. The nearly $11 million in IMET funds the President has requested for sub-Saharan Africa will help us train Africa's armies to handle the stewardship of African stability. These funds will help African militaries contribute to the democratic evolution of their societies by thwarting or not conducting coups and avoiding human rights violations.

In West Africa, our work with ECOWAS to increase its conflict resolution and peacekeeping capabilities has led it to become a key player in coping with African crises. ECOWAS troops have been central participants in restoring and maintaining order in Sierra Leone, Liberia, and Cote d'Ivoire. Nigeria has proven itself to be a very helpful partner who is willing to respond to help smooth instability in West Africa. A final, comprehensive peace agreement in Sudan is agonizingly close, and the instability that emerged in Cote d'Ivoire is now largely contained.

In Central Africa, we have seen significant progress toward resolving long-running conflicts in the Democratic Republic of the Congo and Burundi. In Congo, despite continuing violence in the east, former combatants have come together to establish a transitional government of national unity and elections are planned for next year. In Burundi, where elections are planned for this fall, the largest rebel group has joined the government. Only one rebel group in Burundi remains outside of the peace process.

To continue our work mitigating civil strife and violent conflict in Africa, our budget includes funding requests to promote good governance, the rule of law, respect for human rights, and increased democratization. In FY05 and beyond, the Africa Bureau will work to increase the number of states with effective legislatures, independent judiciaries, and active civil societies. In our ESF Africa Regional Fund, we have requested funding for programs to promote democracy and human rights programs in countries that are not included among the 12 focus countries, including those that currently lack a USAID presence, such as The Gambia, Togo, and Niger. These funds also include a request for $2-$3 million to increase the capacity of the Rwandan judicial system to prosecute genocide cases transferred from the International Criminal Tribunal for Rwanda and for investigation and prosecution of other crimes against humanity committed in 1994.

The HIV/AIDS crisis affects Africa like no other region in the world today. Of the estimated 40 million people infected with HIV worldwide, more than 25 million live in Africa. The President's Emergency Plan for AIDS Relief (PEPFAR) is the largest international initiative ever dedicated to combat HIV/AIDS-related health issues. The Administration released a five-year strategy to implement the Plan on Feb. 23 and set out how it intends to achieve the Plan's ambitious targets, both in the 15 focus countries, which represent at least 50 percent of HIV infections worldwide, and in more than 100 countries throughout the world. Twelve of these focus countries are in Africa. Moreover, the President has requested a total of $2.8 billion in FY 2005 to combat global HIV/AIDS, tuberculosis and malaria. Of that, the Administration has requested $1.45 billion to fund activities in the focus countries under the Plan to expand comprehensive and integrated prevention, care, and treatment programs. The bulk of those resources would be devoted to African countries. Some $1.2 billion would be used to continue and strengthen HIV/AIDS, tuberculosis and malaria in many other countries throughout Africa and $200 million is requested to continue our support to the Global Fund to Fight AIDS, Malaria and TB. CSH and DA funds account for more than half of our request for sub-Saharan Africa-related programs, with $478 million and $499 million requested in FY05, respectively.

The President's budget supports African efforts to promote improved health systems, build human capacity in the health field, and work to prevent the spread of other infectious diseases. The budget will also support efforts to enhance food security, promote broad-based economic growth, increase access to basic education, primarily for girls, and promote responsible use of natural resources. The centerpieces of the FY 2005 DA/CSH program continue to be the four initiatives launched in FY 2002—the Initiative to End Hunger in Africa (IEHA), the Trade for African Development and Enterprise (TRADE) Initiative, the Congo Basin Forest Partnership (CBFP), and the President's Africa Education Initiative.

The FY05 request will help the United States support African efforts to protect its rich biological diversity and improve natural resource management in areas such as the Congo Basin. Poor conservation practices and conflict over resources undermine stability and hamper prospects for economic growth. We will use our resources to help Africa achieve more sustainable use of natural resources, protect habitats and species, promote involvement of all stakeholders in decision-making, build local capacity, and create economic opportunities for communities that will promote and reinforce conservation efforts.

Mr. Chairman, I thank you for your and this committee's ongoing interest in Africa. I would be pleased to discuss our budget request and other issues of concern with you and members of the committee at this time.

Senator ALEXANDER. Thank you.

Ms. Newman.

STATEMENT OF HON. CONSTANCE BERRY NEWMAN, ASSISTANT ADMINISTRATOR FOR AFRICA, USAID

Ms. NEWMAN. Yes, Mr. Chairman, I am most pleased to appear here before your committee to discuss the fiscal year 2005 foreign affairs budget for Africa. Africa's future continues to look brighter. That's contra to what is often covered in the media, and this can be shown in terms of measurable progress in several indicators, economic, political, and social since the beginning of the millennium.

New avenues for growth are emerging. There's greater political stability in parts of the continent as lengthy conflicts are being resolved, and many of the countries are beginning to adjust their priorities to take advantage of expanded opportunities.

What is also worthy of note is the change in the policy environment on the continent affecting the region because leaders of the region have put forth a New Partnership for Africa's Development, NEPAD it's called, which does provide a positive framework for good governance as a guiding principle. It is a Road Map. There's a key litmus test though for NEPAD, and that will be the completion of the peer review, political and economic, and the corporate governance. Seventeen countries have agreed to take part in this, and the United States continues to affirm its endorsement of NEPAD, but we'll be watching the impact of this peer-review process.

The positive trends in my submitted testimony cover cessation of major conflicts, spreading of democratic values, promising news in the fight against HIV/AIDS, the President's initiative, the $15 billion that was mentioned earlier.

Despite these positive trends, however, sub-Saharan Africa continues to face enormous development challenges. It remains the world's poorest region, with half of its population of 690 million living on less than $1 per day. The food security situation remains precarious in many parts of the region, and as a matter of fact, if the United States had not intervened in Ethiopia and southern Africa in the last year and a half, there would have been humanitarian disasters there. Education levels, particularly for girls, are the worst in the world.

So while some of the key indicators have improved, we have to say that the HIV/AIDS pandemic has compromised the efforts to combat other diseases, reduce life expectancy, and has an impact on every sector. Major challenges remain as the region contains 45 percent global biodiversity, yet has the highest rate of deforestation in the world. And it's also true that Africa is urbanizing at the highest rate in the world, creating new environmental challenges. Finally, conflict and a difficult transition to stability in post-conflict states still exact a huge toll on politically fragile democracies.

I'm just going to take my remaining moment to highlight six ways in which USAID and this request intend to respond to the

challenges of the continent, and I will do this in the context of the joint Department of State/USAID strategic plan and the administration and congressional initiatives that complement core programs.

Initiative to End Hunger in Africa. This 5-year program launched in 2002 is designed to harness science and technology, to unleash the power of market forces, and to increase small holder productivity. It's designed at the local level to stress that better quality control, wider access to rural finance, stronger producer associations will lead to, can lead to greater food security. The request in this budget is for $44.5 million for that effort.

The trade initiative, a 4-year, $70 million initiative, is promoting U.S.-African business linkages. It's designed to inform the governments and the businesses how to alter their regulatory environment in order to encourage foreign direct investment, in order to encourage a greater trade between Africa and the rest of the world. We've established three hubs, one in each of the regions, so this request is to help us strengthen those hubs so that technical assistance can be available to the people on the continent to improve economic growth and trade.

The education initiative, a third initiative of the President, is centered on improving the quality of the teachers; providing scholarships for girls, 250,000 of them; $4.5 million for much-needed textbooks; and training for teachers, who unfortunately represent one of the professional groups hit the hardest by HIV/AIDS.

The Congo Basin Forest Partnership, the centerpiece of USAID's efforts in the environmental sector in Africa is this partnership, 3-year, $53 million effort that I know you know about because of your legislation. We are prepared to convince you that we're moving steadily into implementing the partnership agreement and that already people are beginning to feel that the communities and the countries in which the forest exist will have a turnaround in terms of protecting the environment.

The fifth is the President's Emergency Plan for AIDS Relief, his response to the pandemic, and I won't take time on this because the Ambassador has talked about it. The only thing I do want to say is that the approach being followed is one that has been successful in Uganda, so that there is a great emphasis on "ABC." There is evidence to show that prevention is key to turning the numbers around so that in every instance the programs are stressing abstinence, be faithful, and correct and consistent condom use.

There's also call for voluntary counseling and testing care for people living with AIDS, including anti-retroviral therapy, and then there are the programs begun under the prevention of mother to child transmission, so that the President's initiative, which is, as we all know, the largest in the world, is designed to follow what has been shown to have worked in the past.

Finally, we have in the budget a request for anti-conflict and anti-corruption efforts. There is no question but that conflict and corruption have a negative impact on development throughout the continent, and unless these activities are turned around, unless citizens become more aware, unless government is more transparent and the people are held accountable for the governments on the continent, all the work that we will do will be for nought. So

it is in our view that this proposal, and probably a number to come, should include plans for anti-corruption and anti-conflict activities.

So I thank you very much and look forward to your questions.

[The prepared statement of Ms. Newman follows:]

PREPARED STATEMENT OF HON. CONSTANCE B. NEWMAN

AFRICA OVERVIEW

THE DEVELOPMENT CHALLENGE

Background

Mr. Chairman and Members of the Committee, I am pleased to appear before your committee to discuss the President's FY 05 foreign affairs budget for Africa. Africa's future continues to look brighter as the region has achieved measurable progress in improving several important indicators of economic, political and social development since the beginning of the millennium. New avenues for growth are emerging as key countries in the region move toward greater political stability, as lengthy conflicts are being resolved, and as many countries continue to adjust their policies and priorities to take advantage of expanded opportunities created through globalization.

What happens in Africa is of concern to the United States and our engagement addresses U.S. interests. The overarching goals of U.S. policy in Africa are to: enhance African capacity to fight terrorism; create favorable conditions for U.S. and African trade and business opportunities while developing the foundation for sustained growth; reduce regional conflicts while increasing capacity to respond to contingencies; promote democracy, human rights and good governance; and improve the health and well being of Africa's people and environment.

A change in the policy environment affecting the region is the African Union's New Partnership for Africa's Development (NEPAD), launched in 2001, that provides a positive framework and good governance as a guiding principle for development in Africa. NEPAD is deepening its support among African government leaders and its road map for African development is gaining wider credibility. A key litmus test will be the completion of peer reviews of political, economic and corporate governance in those seventeen countries that have now agreed to undertake the process. The United States continues to affirm its endorsement of NEPAD.

Of the many positive trends in Africa during the first years of the decade, perhaps the most significant has been the cessation of major conflicts in Angola, Sierra Leone, Liberia, the Democratic Republic of the Congo (DRC), Burundi and Sudan, conflicts that had sapped the vitality of much of the continent. As these countries become more politically stable, the prospects for increased economic growth and a better standard of living for their citizens are much enhanced and their recovery will have beneficial repercussions for the entire continent.

The spread of democratic values is also a positive sign for improving the living standards of millions of Africans. The rapid growth of new communications media and expansion of a free press have empowered civil society to hold governments more accountable for their actions and made ordinary citizens increasingly aware of their basic human rights. Nigeria, Africa's most populous country, took a major step forward in 2003 with free elections and the new governments in Kenya and Zambia have taken very positive strides to address the rampant corruption that had colored the previous administrations. According to Freedom House, over the last decade, the number of free democracies in Africa has almost tripled from four to 11 and more than half of the countries in the region are in the transition process toward full and free democracy.

There is extremely promising news in the fight against HIV/AIDS. The President's Emergency Plan for AIDS Relief (PEPFAR), which proposes $15 billion over a five-year period for prevention, treatment and care, combined with an unprecedented international commitment to increasing resources, now offers real hope that serious inroads can be made against the spread of HIV/AIDS.

Several key indicators of economic growth also create room for optimism. GDP growth in Africa remained constant at 3.2% between 2001 and 2002, despite the worldwide economic slowdown, and is projected to increase to 3.8% in 2004, higher than all other developing regions except East and South Asia. Sub-Saharan Africa had the highest returns on net foreign direct investment of any region in the world in 2001.

Despite these positive trends, sub-Saharan Africa continues to face enormous development challenges. It remains the world's poorest region, with half of its population of 690 million living on less that $1 per day. Of the 32 countries with the

lowest levels of human development, 24 are in sub-Saharan Africa. While economic growth trends in many countries are positive, with an overall regional population growth of 2.4% a year, achieving the Internationally Agreed Development Goal of reducing poverty levels by 50% by 2015 will require almost a doubling of current rates, to 6% a year. This represents a formidable challenge, but it is nonetheless possible, provided encouraging trends continue in democratic governance and economic policy reform, conflicts are mitigated or resolved, natural and man-made disasters are managed effectively, economies diversify from over-dependence on agricultural production, trade continues to expand and the spread of the HIV/AIDS pandemic is slowed.

The food security situation remains precarious in many parts of the region—only a massive intervention by the international community averted a humanitarian disaster in Ethiopia last year and significant levels of food assistance were required in much of southern Africa. There are early indications that food security may continue to be problematic in the southern Africa region this year. Education levels, particularly in the rural areas and for girls, remain well below world standards and despite the rapid growth of information and communications technology (ICT), the digital divide between the region and the rest of the world remains vast. While some key indicators of health have improved, the HIV/AIDS pandemic in many countries has compromised efforts to combat other diseases and has dramatically reduced life expectancy. The shrinking labor pool caused by AIDS will slow the continent's economic growth by as much as 2% a year. Gender inequities, such as access to credit and inheritance rights, remain a serious development constraint. Finally, conflict and the difficult transition to stability in post conflict states still exact a huge toll on politically fragile democracies.

Meeting these challenges will require redoubled efforts on the part of African governments, civil society and the international community across a broad spectrum: increasing agricultural productivity; preserving the richness and diversity of Africa's natural resources; broadening the economic base; improving the competitiveness of African products; building human capacity at all levels; expanding ICT networks; improving the enabling environment for increased trade and investment; curbing the spread of HIV/AIDS, malaria, tuberculosis and other infectious diseases; increasing African capacity to deal effectively with natural disasters; and improving the transparency and accountability of government. USAID will structure its assistance programs to take advantage of its inherent strengths in addressing these challenges.

THE USAID RESPONSE

FY 2005 Program

The proposed FY 2005 USAID program for sub-Saharan Africa will support a broad range of programs which address the most pressing of the regions' development challenges. In FY 2005, the Agency proposes to invest $1.028 billion in development assistance, child survival and health, and PEPFAR funding in Africa, approximately the same as in FY 2004 ($1.020 billion). The PEPFAR funding will be programmed through the Office of the Global AIDS Coordinator at the Department of State. USAID anticipates that it will be one of the key implementing agencies for PEPFAR. USAID programs in Africa will contribute directly to the priorities outlined in the joint State/USAID Strategic Plan for FY 2004-2009, particularly those which advance sustainable development and global interests, including regional stability and counterterrorism. The centerpieces of the FY 2005 program continue to be the four Presidential Initiatives launched in FY 2002; the Initiative to End Hunger in Africa (IEHA), the Trade for African Development and Enterprise (TRADE) Initiative, the Congo Basin Forest Partnership, and the Africa Education Initiative (AEI), as well as PEPFAR, a five year initiative launched in FY 2004. Other key elements of the program include the continuation of the African Anti-Corruption Initiative, the Africa Conflict Initiative and the Leland Initiative to increase the spread of and access to information and communications technology.

Agriculture

Agriculture is the mainstay of most sub-Saharan economies, supporting over 70% of the population and contributing an average of over 30% to GDP. Increasing agricultural productivity is therefore critical to the region's efforts to achieve food security and to reduce poverty levels. Despite the adoption by many countries of policies to stimulate rural agricultural-led growth, agricultural yields in Africa remain the lowest in the world and per capita food production has actually declined to 1980 levels. The major constraints to increasing agricultural productivity include low usage of improved technologies and information, limited access to credit, inefficient land

use, market distortions which discourage production, poor rural infrastructure and the debilitating effects of the HIV/AIDS pandemic. The flagship of USAID efforts in the agriculture sector is the Initiative to End Hunger in Africa (IEHA), a five-year program, launched in August 2002, designed to harness science and technology and unleash the power of market forces to increase small holder productivity. The IEHA Initiative will expand from the current three to at least six countries in FY 2004. IEHA has made notable advances, including distributing more than twenty agricultural technologies from research systems to countries in Eastern Africa, through the Association for Strengthening Agricultural Research in Eastern and Central Africa. For example, in Uganda, more than 3,000 demonstrations of improved rice and maize technologies were established, benefiting more than 140,000 small holder farmers. In East Africa, the Regional Agricultural Trade Intelligence Network was launched, providing real-time price and trade information through radio, web and cell phone systems, which reached more than 10 million listeners. In livestock trade, nine countries are developing harmonized livestock movement permits and common procedures for diagnosis and quarantine of livestock diseases. The Regional Agricultural Trade Expansion Support Program was established in East Africa. And, the Regional Agricultural Market and Trade Information System program was established in West Africa. In addition to IEHA, bilateral programs at all USAID Missions in the region will implement programs to boost agricultural productivity and rural incomes. Programs will stress the use of improved technologies, better quality control, wider access to rural finance, stronger producer associations, small scale rural infrastructure (in conjunction with P.L. 480 Title II Programs), increased access to information and improved functioning of agricultural markets. Related efforts will be made to promote private sector-led diversification of the rural economy, such as agro-processing, and to increase agricultural exports. At the national level, policy dialogue will target changes to provide better incentives to farmers and reduce market distortions.

Economic Growth and Trade

The globalization of the world economy offers Africa genuine opportunities to attract resources for development. Through the African Growth and Opportunities Act of 2001 (AGOA), the U.S. has shown worldwide leadership in efforts to transform African economies through increased trade and investment. AGOA is demonstrating ever more encouraging results. U.S. total trade with sub-Saharan Africa rose 36% in the first half of 2003 over the same period a year earlier and AGOA imports during the same period increased by 66% to $6.6 billion. In 2003, the enactment of AGOA II further expanded trade opportunities and the President has recently proposed to extend AGOA up to seven years beyond its original expiration date of 2008.

Sub-Saharan Africa has enormous potential to become a much more significant player in the international economy, yet the region accounts for just 2% of world trade. Although a number of countries in the region have begun to take measures to increase their competitiveness, trade is still hampered by systemic constraints such as high transaction costs, capacity limitations, poor infrastructure, and market distortions. Foreign Direct Investment (FDI) decreased dramatically by almost 50% between 2001 and 2002, to $7 billion, due in large measure to the global economic downturn, and remained highly skewed toward extractive industries in just a few countries. This nonetheless represents a modest increase from 2000 and was higher than FDI flows to either the Middle East or South Asia.

USAID's primary response to the challenge of increasing trade and investment in the sub-Saharan Africa region and supporting AGOA is the Trade for African Development and Enterprise (TRADE) Initiative, launched in 2002. This four-year $70 million Initiative, which began full-scale implementation in FY 2003 is promoting U.S.-African business linkages, expanding the role of trade in poverty reduction strategies, and building African capabilities for more sophisticated trade analysis. It will also improve the provision of public services supporting trade (e.g. customs procedures), strengthen the enabling environment for African business and enable African business to take even better advantage of opportunities under AGOA. In partnership with other U.S. Government Agencies, including the Department of Commerce, the Office of the U.S. Trade Representative (USTR) and the Department of Agriculture, USAID is providing technical assistance, policy advice, economic analysis and training to African countries through three "Hubs for Global Competitiveness," which became fully operational in 2003, in east, west and southern Africa. In FY 2005, USAID proposes to invest $229 million, or 22% of its program resources in efforts to promote economic growth and to support agriculture and trade, including $44.5 million for IEHA and $25 million for the TRADE Initiative.

Education

An educated population is fundamental to sustaining democracy, improving health, increasing per capita income and conserving environmental resources. Although literacy rates have increased from 50% in 1990 to 63% in 2001, Africa continues to lag behind the rest of the world in investment in its people. Access to formal education has risen in most African countries during the past several years, yet 39% of boys and 43% of girls still are not enrolled in primary school. Drop-out rates remain high, with just 20% of all children completing primary school. Educational quality is also poor, with large class sizes, significant numbers of poorly qualified teachers, a severe shortage of textbooks and teaching aids and inadequate facilities. HIV/AIDS also continues to decimate the ranks of teachers. Systemic education reform is critical if Africa's children are to compete successfully in today's world. USAID bilateral programs focus on educational policy and systems development, decentralized decision making and greater involvement of parents and civil society, with an emphasis on basic education, particularly for girls, which has proven to yield higher returns.

USAID's commitment to education in Africa is centered on the President's $200 million Africa Education Initiative, launched in FY 2002. In FY 2004 this initiative will expand to reach students in 23 countries in sub-Saharan Africa. The initiative will provide 250,000 scholarships for girls and other vulnerable children, 4.5 million much-needed textbooks and training for 420,000 teachers over a five-year period. This program is 2 years old now. To date, AEI, has upgraded the skills of over 50,000 teachers through in-service training programs and provided initial teacher training for 11,000 new teachers, and this year will provide 650,000 textbooks and 180,000 readers to African schools in Benin, Ethiopia, Guinea, and Senegal and deliver scholarships to nearly 25,000 girls. In FY 2005, USAID will invest about 10% of its program resources available for Africa, or $105.2 million, in education programs, including $53 million for the Africa Education Initiative.

Environment

Africa has a diverse and abundant natural resource base which if prudently managed and protected can contribute to sustainable economic growth as well as to worldwide efforts to improve the global environment and maintain bio-diversity. Experience has demonstrated that community-based natural resource management programs, such as those supported by USAID in Madagascar, Guinea and Namibia, have successfully preserved valuable environmental assets while extending their economic benefits to a broader range of households. For example, in Madagascar, 29,000 hectares of natural forest were transferred to 25 community management associations, and USAID helped establish farmer associations in 882 villages where about 26,000 farmers have agreed to stop destructive slash and burn farming around critical biodiversity habitats. In Namibia, contributions made to the national economy by community-based Natural Resource Management enterprises are conservatively estimated at $5.5 million, and there has been an 81% increase in the number of hectares under conservancy management since 2002. In Guinea, the national government has devolved the management of 87,247 hectares in five classified forests to local communities, who now share the responsibilities for and the benefits of sustainable management of the forests with the Guinean Forest Service. Villagers have taken actions to protect these forests, which are important watersheds for three major West African rivers. Major challenges remain however, as the region contains 45% of global bio-diversity yet has the highest rate of deforestation in the world. Africa is also urbanizing at the highest rate in the world, creating new environmental challenges. By 2016, half of all Africans will reside in urban areas. The centerpiece of USAID's efforts in the environmental sector in Africa is the Congo Basin Forest Partnership (CBFP), a three-year $53 million effort, announced at the World Summit on Sustainable Development in 2002, to provide a six-country network of national parks and protected areas, well managed forestry concessions and assistance to communities in the world's second largest tropical forest. Proposed funding for USAID's environmental programs in Africa for FY 2005 is 75.9 million, or 7.3% of total available program funding.

Health

A healthier population is critical to Africa's efforts to reduce poverty and improve living standards. However, during the past decade health status gains have been undermined in many countries of the region by increasing poverty, civil unrest and the rapid spread of HIV/AIDS and other infectious diseases, such as tuberculosis (TB), malaria, meningitis and cholera. The disease burden in Africa is the highest in the world and life expectancy has continued to decline, to less than 50 in many of the countries most affected by HIV/AIDS. Over 90% of the world's 600 million

yearly malaria cases occur in Africa and this disease alone causes over 2.3 million deaths a year, mostly of young children. TB rates have also jumped by 95% between 1995 and 2000. While under-five mortality rates are continuing to decline, the rate of decrease has slowed over the last decade. AIDS is driving this trend, as well as that of the TB increases, and the highest HIV/AIDS prevalence countries are seeing an actual increase in their under-five mortality rates. Despite progress, immunization rates for children under one year are still below 80%, leaving significant numbers vulnerable. Malnutrition in children has also increased in many countries due largely to conflict and natural disasters, resulting in alarming numbers of stunted children in the most affected countries. Investment in health systems and basic health interventions has not kept pace with need.

USAID is implementing broad based health interventions in every bilateral country program in the sub-Saharan Africa region. USAID health programs focus on increasing the availability, effectiveness and access to quality health care. Programs address the leading causes of child mortality and morbidity, such as malaria, TB, malnutrition, respiratory diseases, diarrhea and vaccine-preventable illnesses. USAID programs increase immunization coverage, strengthen surveillance and build human capacity to provide quality care. Spectacular results from Malawi, where sales of treated bed nets to reduce the risk of malaria reached almost one million people in 2003, almost a five fold increase over 2002, provide a proven model for future programming. Successful efforts to create alternative new community based health care financing systems, such as those underway in Senegal, Rwanda and Zambia, also offer promise to hundreds of thousands of households and provide excellent models for replication. As funding levels are clearly linked to improved health outcomes, it is expected that new funding from USAID, other donors, the Global Alliance for Vaccines and Immunizations (GAVI) and the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria will result in more positive trends in the near future. USAID will invest 15.5% of its FY 05 program funding available to Africa in health and child survival programs.

HIV/AIDS

The HIV/AIDS pandemic continues to ravage the continent, although there are hopeful signs that prevention measures, treatment, and care are beginning to slow its spread. Prevalence rates remain extremely high in all of southern Africa, reaching 25% in Zimbabwe and almost 40% in Swaziland and Botswana. Of the estimated 34-46 million people infected by HIV worldwide, 25-28 million reside in sub-Saharan Africa. Over 80% are in their productive years and two thirds are female. The number of AIDS orphans is expected to rise from 11 million to 40 million by 2010. Average life expectancy will continue to decline over the next decade, falling below 35 in several high prevalence countries, significantly impacting prospects for economic growth and further straining household incomes. However, the experience of Uganda, where infection rates have decreased by 50% from 1997-2001 and promising results among certain groups in Zambia and elsewhere demonstrate that strong leadership and a comprehensive approach to prevention can be effective in stabilizing and/or reducing prevalence rates.

HIV/AIDS is the single highest health priority for USAID in Africa. USG global AIDS activity and policy is coordinated by the newly created Office of the U.S. Global AIDS Coordinator at the Department of Sate, coordinating the $15 billion, five-year, PEPFAR Initiative. In FY 2005, in addition to a substantial increase in PEPFAR funding, programmed through the Global AIDS Coordinator, $231 million of Child Survival HIV/AIDS funding will be made available for combating HIV/AIDS in Africa. USAID anticipates playing a key role in the implementation of PEPFAR. USAID Missions will maintain their focus on preventive primary health care and expand service coverage, including those for orphans and vulnerable children. Programs will build on successful efforts in Uganda, Senegal and Zambia. The key approach from Uganda being used for PEPFAR is the "ABC approach" where "A" is for abstinence, "B" for being faithful, and "C" for correct and consistent condom use. Also the approach calls for voluntary counseling and testing and care and support for persons living with AIDS, including anti-retroviral therapy. Programs begun under the Prevention of Mother to Child Transmission Initiative will also be expanded. Missions in Africa are integrating HIV/AIDS mitigation programs throughout their development portfolios.

Population

With a growth rate of 2.4% a year, the highest in the world, Africa's population of 690 million will swell to over one billion by 2025, despite the effect of the HIV/AIDS crisis. This will place its natural resources, public services and social fabric under enormous stress and compromise per capita income growth. Though the ma-

jority of women say they desire fewer children, contraceptive prevalence rates remain under 20% in all but five countries and above 50% only in South Africa and Zimbabwe. Dramatic increases in contraceptive prevalence rates in Botswana and Malawi over the past 15 years, however, offer proof that reproductive health programs, such as those supported by USAID, can indeed promote behavioral change. USAID Missions support a broad range of family planning programs, including public education, advocacy and outreach through traditional and community structures, community-based distribution and marketing of contraceptives and encouragement of sound child spacing practices.

For FY 2005, USAID is proposing $536.8 million in overall funding for all child survival and health accounts, including HIV/AIDS and population, or 51.8% of its total available program funding.

Democracy, Conflict and Humanitarian Assistance

Routine accountability in government, observance of the rule of law and respect for human rights mitigate against civil strife and violent conflict. They are also critical to equitable economic development. Good governance, coupled with improved economic well-being and better social services, also diminish the appeal of extremist ideologies and terrorist agendas. The past year has witnessed a series of extremely positive achievements in conflict resolution with the restoration of peace in Liberia, Sudan, the DRC, and with the continued progress of reconciliation in Angola and Sierra Leone after years of bitter strife. The United States has played a seminal role in international efforts to assist these processes. However, the conflict in the Cote d'Ivoire and the continuing instability in northern Uganda are reminders that peace is fragile. Through the Conflict and Peace Building Fund, begun in 2003, USAID is implementing a multi-faceted approach to strengthen African capacity to manage and mitigate conflict.

Democratic governance and improved governmental accountability have continued to expand throughout the region. A major milestone was met in Nigeria, when for the first time in its history a civilian government successfully and relatively peacefully transferred power to a succeeding civilian government. In addition, over the past five years, Ghana, Senegal, Kenya, Mauritius, South Africa, and Botswana have held free and fair elections. Since the Kenya elections in late 2002, the new government has moved aggressively to address the corruption issue and taken several concrete steps to improve the transparency and accountability of the public sector. Zimbabwe has unfortunately continued to be a problem with increasing disrespect for the rule of law and for human rights.

USAID's efforts to improve democratic governance and promote increased accountability advance the national security goal of creating the conditions for peace and improved security. In the DRC, USAID assistance for a national workshop of civil society delegates for the Inter-Congolese Dialogue resulted in the drafting of a unified position paper for civil society. This paper identified issues including power-sharing, elections, constituting a new army, police and public order matters, social and financial reconstruction issues, and peace and national reconciliation. Members of the opposition and civil society are now sharing four vice-presidential positions and other key government posts in a transitional government.

USAID programs promote representative political processes, free and fair elections, the strengthening of democratic institutions, the rule of law, the growth of a vibrant civil society, the decentralization of governmental functions, improved accountability of the public and private sectors and the respect for human rights. USAID assistance increased civil society's capacity to lobby for reforms and to monitor government, leading directly to peaceful, free and fair elections in December 2002 in Kenya. In Ghana, USAID assistance has enhanced the interaction between civil society and local government and broadened public input to decision-making. Electricity, water, telephone services, judicial corruption, and health have been discussed in Parliament and have seen widespread interest from Ghanaian citizenry. Public hearings on judicial corruption were attended by more than one thousand people.

Many USAID Missions have integrated the principles of transparency, participation and accountability throughout their development portfolios. Twelve Missions are participating in the Anti-Corruption Initiative, launched in FY 2003, which promotes public access to information, citizen awareness and advocacy, transparency and accountability of government procedures and public-private dialogue. In FY 2005, USAID will extend its efforts to manage and mitigate conflict, promote community reintegration and strengthen African networks to identify and respond to potential crises. In FY 2005, USAID will invest $89.5 million, or 8.7% of its program resources available to Africa, in efforts to strengthen democracy and governance.

USAID's humanitarian assistance programs have been vital to international efforts to mitigate the effects of several natural disasters during the past year, the most severe being in Ethiopia and parts of southern Africa. Humanitarian assistance programs have also been critical to post conflict recovery in several countries, including the DRC, Sudan, Liberia and Burundi. USAID Missions will continue to strengthen their linkages with the Office of Foreign Disaster Assistance (OFDA) and the Office of Transition Initiatives (OTI) to better prepare for the relief-to-development transition in countries under stress.

Millennium Challenge Account

The President has recently signed into law the Millennium Challenge Account Act, which provides the authorization for the MCA and $1 billion in appropriations for FY 2004. In FY 2005, the Administration has requested $2.5 billion for the MCA. The MCA will be administered by the newly formed Millennium Challenge Corporation (MCC), an independent U.S. Government Corporation and will provide development assistance for selected poor countries that demonstrate a commitment to governing justly, investing in people, and encouraging economic freedom. It is anticipated that some African countries will qualify for participation. The legislation also provides for up to 10 percent of the MCA funds is authorized to be made available to countries that demonstrate a commitment to the criteria but fail to meet the full requirements for MCA eligibility so that they may become eligible in the future (so-called "threshold" countries). Also, the MCA Act states that this assistance may be provided through USAID.

USAID's relationship to the MCA is evolving. The USAID Administrator is one of nine MCC Board Members. At a minimum, in approving MCA proposals for assistance, the MCC will consult with Congress, USAID and other donors. USAID also may play a constructive role in assisting the threshold countries to qualify for MCA in future years.

Global Development Alliance—Public-Private Alliances

Public-private alliances enable USAID to enhance the impact of its programs by mobilizing the ideas, efforts, and resources of the private sector with those of the public sector and non-governmental organizations. In FY 2003, USAID created 41 public-private alliances through 15 bilateral missions and all three regional programs in sub-Saharan Africa. USAID missions leveraged $37.5 million of their own resources to generate $135 million from its partners. Alliances were created in almost every sector of development, including health, agriculture, the environment, education, information technology and small enterprise development. A major new alliance brings together Shell Oil with USAID in a $20 million effort to spur agricultural growth in Nigeria.

Debt Issues

With the advent of real reductions in external debt resulting from the international Heavily Indebted Poor Countries (HIPC) Initiative, the overall debt picture in sub-Saharan Africa has begun to brighten appreciably. The continent's total debt service ratio (debt as a percentage of exports of goods and services) has fallen from 13.9% in 1999 to 10.7% in 2002, well below the critical 15% mark that is generally viewed as unsustainable. The debt service savings enable the 30 African countries benefiting from HIPC debt relief to free up public resources for other priority sectors, such as education and health.

Other Donors

The United States remains the largest bilateral provider of Official Development Assistance (ODA) to sub-Saharan Africa in 2002. The United Kingdom, France and Japan follow as the other major bilaterals. The largest ODA levels continue to be provided through the multilateral organizations, primarily the World Bank group, which lends almost exclusively in Africa through its concessional International Development Association (IDA) window. The European Union, the African Development Bank and the various U.N. agencies are also significant multilateral donors in the region. The United States has become an active participant in discussions to better harmonize ODA procedures and policies among the donor organizations.

PROGRAM AND MANAGEMENT CHALLENGES

Security Issues

Security remains an ever-increasing concern at most USAID missions in Africa. Five of 23 bilateral missions exist in critical or high-threat security situations. Missions continue to take steps to improve security within the limits of available fund-

ing. USAID missions are required to co-locate with new embassies as they are being built.

Staffing and Operating Expenses

Using the Agency-wide "workforce template" as a base, the Africa region has developed a plan to make the best use of its human resources. Overseas direct-hire field staff levels will be at 227 in FY 2005, including nine new HIV/AIDS professionals. The Africa Bureau will continue to look at re-deploying staff among Missions over the next two years to maximize performance. In 2003 a new Mission was established for Sudan, based in Nairobi, but may move to Sudan as conditions improve. USAID also established a presence in Djibouti last year and is in the planning stages of establishing a USAID Representative Office in Sierra Leone.

Senator ALEXANDER. Thank you very much. Now, we're in the midst of three more votes, and I'm going to ask Matt to let me know when I need to leave to go vote but I can go right up and vote and come right back. Let me go through several areas and just ask both of you, and let's start with the HIV/AIDS that you were talking about. Most of that we can talk to Ambassador Tobias about when he comes around, but Senator Frist led a group of six of us to sub-Saharan Africa last August, which was a good educational tour, in four countries, South Africa, Mozambique, Botswana, and Namibia.

One of the things that we saw was that we have a reassuring number of very talented U.S. Government people already on the ground who have been there for a while. They may be USAID or they may be from the Centers for Disease Control and Prevention but they're there and they know what they're talking about and they're able to help.

But everywhere we went the greatest need seemed to be for infrastructure, for we all focus on cost of drugs and the availability of drugs, but the greatest need seemed to be on the people who could come and fit within a structure and provide the counseling, provide the nursing, train the doctors, train the medical people.

And when I came back we talked about an AIDS Corps idea, the idea of tapping the great volunteer spirit of the United States and trying to find an effective and easy way to funnel that too toward the HIV/AIDS priority. We talked about whether to try to do it through the government, which usually is complicated, or whether just to encourage the private sector to do it, which sometimes can get it done pretty fast. We uncovered in the White House an existing program or two that sounded like it might fit into this and I talked to the Peace Corps director about it.

So my question is, can you report anything about progress toward finding a way to help Americans who want to help in sub-Saharan Africa with HIV/AIDS, an easy way for them to plug in or to volunteer and to go and be of some help?

Ms. NEWMAN. Part of the challenge in addressing HIV/AIDS, as you said, has to do with the weak, fragile, sometimes non-existent health care systems, and therefore there is dependence on expatriate organizations. But many of these organizations are recognizing it is important to build local capacity. In doing so, the existing organizations are not going to be able to do it with the limited resources that they have, so that if there were a way to plug volunteers into the system, I think it would be an excellent idea.

I was the director of VISTA at one time, and I will give one major caution, it's something that I found at the time weakened

the volunteer effort. If the organization or the people to whom the volunteers are assigned don't have a clear understanding of what they want the volunteers to do and are not able to provide the proper direction in support, you lose the ability to get the very good volunteers and for them to make a difference. I would say that if something like this were to be done, the volunteers should first be assigned to organizations or to governments for whom there is already information that they're strong enough to manage the volunteers.

Senator ALEXANDER. Well, my question really is, is that already going on? Do we have something going on in the government right now?

Ms. NEWMAN. Peace Corps is doing some work, but not to a major extent. Now there's a new volunteer program within USAID to help just generally volunteers in development activity. It could be attached to that or it could be attached to Peace Corps. And I would encourage your talking with the Peace Corps director, I would encourage that. But the health care systems are a challenge. You know, Senator Frist does a great deal and has done it for quite some time of volunteering in health care systems in Africa.

Senator ALEXANDER. We just saw lots of institutions who said they could use the volunteers and we didn't know the kinds of structures that you mentioned and it looked to me like it was a matter of identifying them and connecting them with those institutions.

Mr. Yamamoto, do you have anything to add?

Mr. YAMAMOTO. I think another aspect is really, given the spirit in the United States, is interlink between NGO groups and others in Africa working. What we have done, let's say in East Africa and some areas, for instance, in Kenya there is an AIDS orphanage operated by a Catholic organization. They come to the United States, raise awareness, and collect funding and materials. And one of the big problems that we found in Uganda, and please correct me, is the issue of financing and taking their retroviral drugs, which are very, very expensive, so the thing right now is the financing, is the major issue. And, of course, these interlinks with the United States and groups in the United States really help.

Senator ALEXANDER. We had a hearing on public diplomacy last week in this committee and there was a good deal of hand-wringing about how around the world the United States is not very well understood. Is it your sense that in Africa, sub-Saharan Africa, Africans understand what the President and the country is trying to do with HIV/AIDS and appreciate it, or is it not understood, or is it resented? How would you assess that?

Ms. NEWMAN. I spend a great deal of time on the continent and I was a part of Secretary Thompson's trip, and I think that Africans understand what the United States has done and is doing. I hear very positive things about the fact that not only has the United States stepped up to the plate, but the United States is a leader attempting to convince the rest of the world to do much more in HIV/AIDS.

The fact that Secretary Thompson is the chair now of the fund gives the United States even a greater role and a greater opportunity for others to see what it is that the United States does.

I do not note negative views of the United States on the continent of Africa. It's very interesting. I think that, you know, the people wish the United States would do more, not just in HIV/AIDS, but in other ways. But the most negative comments—I probably shouldn't say this—the most negative comments have to do with some of our trade policies and subsidies, but in terms of what we do with health and education, it's very positive feedback.

Senator ALEXANDER. Mr. Yamamoto.

Mr. YAMAMOTO. Interestingly, you know, in Africa, we have now 16 countries where Muslims are a majority, and that means 43 percent of the entire population in Africa are Muslim, and if you—considering the contents of the world, 27 percent of all Muslims live in Africa. In the issues that there is an outreach to try to find ways to—simple things from improved child education, health care. For instance, Djibouti, where we have 96 percent of the population is Muslim, is one of the most proactive supporters of the United States. It's also the base of the only U.S. military camp in Africa.

But the issue comes in—as on HIV/AIDS, there's a lot of misunderstanding, and those are issues that we need to interact with local communities to overturn a lot of prejudices, misinformation, and to work with these communities. And in all these communities there is a desire to interact with the United States and other countries to help, you know, fight not only HIV/AIDS, malaria, but others, illiteracy, poverty.

Senator ALEXANDER. One other question on HIV/AIDS. We Senators were impressed, although some knew it already, Dr. Frist, for example, that a byproduct of spending that much money on HIV/AIDS in Africa will be to create a lot more clean water in Africa for a lot more people, and I wonder if you were thinking about it that way. We were all very impressed with how relatively inexpensive it was to help people have clean water and how much it did to help relieve disease and death, not just HIV/AIDS, but malaria and other diseases.

And I wonder if you and Ambassador Tobias would be keeping track over the next 5 or 10 years of how our involvement with HIV/AIDS and our other programs might actually move us along the track to helping more Africans have clean water to use?

Ms. NEWMAN. I did note on our trip with Secretary Thompson many of the HIV/AIDS projects that were funded by the U.S. Government included clean water as part of the project, but not all HIV/AIDS projects include water or nutrition as part of the project, and they should. And this last fiscal year, began discussions with the Water Alliance for projects in Ethiopia and we're talking with them about other projects. So that the point is that, yes, to a certain extent it will happen as a result of HIV/AIDS programming. I think we're also going to have to be more aggressive and put more seed money into water projects in order to expand the opportunity of people on the continent to clean water. And we all know that really is key, one of the keys to good health.

Senator ALEXANDER. OK. We have about 6 minutes left in the first vote, so what I'm going to do is ask one more—well, I'll ask the question and then I'll recess——

Ms. NEWMAN. And then you'll leave.

Senator ALEXANDER [continuing]. The hearing. And what I'm going to do is go up and cast this vote and then stay and cast the second vote because my name starts with an "A" and I can get out of there fast, so that will give us less interruption. But what I'd like to explore next is your comments about conservation. You mentioned the Congo Basin Forest Partnership, and I know that's a priority of the Secretary and of the President, and I think of it as not just an environmental program. I think of it as a way for African nations to identify something that is special about themselves and then create institutions and structures to celebrate that and to preserve it and to be proud of it, and in doing so, find ways to work together on other things.

I think successful towns and cities and countries usually do that. You know, in Nashville it might be music and in northern California it might be wine and in Italy it might be art and in Africa it might be the great outdoors and the unusual environment, but any nation or country that rallies itself to celebrate what makes it special usually is a fairly successful place.

So I'm thinking, quite aside from all the environmental benefits, I'm thinking of it that way, and I'd be interested in your comments when I come back about how this budget advances the administration's priority on helping African countries use conservation, not just for environmental purposes but for really nation building and building stronger structures and stronger countries.

We'll recess for about 10 minutes.

[Recess from 2:35 p.m. to 2:50 p.m.]

Senator ALEXANDER [presiding]. The hearing will resume. My strategy didn't exactly work. I got one vote in but the other one will come after 3, and I believe the next segment of our hearing starts at 3, so let's take 5 minutes or so on conservation and 5 minutes on Liberia. And who wants to start on the conservation question?

Ms. NEWMAN. I think, Senator, that there are two examples of programs funded by USAID that begin to do what you are suggesting, which is going beyond protection of the environment into involving the people in the management of the resources in a way that improves their livelihood and improves the quality of their lives.

The first example is the one in the Congo Basin. Even though the partnership just started, a program has been going on there for some time. What has happened is that the people living in the area have become much more interested in managing the bush meat problem. People have become much more interested in engaging in protection of the land, understanding that they have an opportunity for more income, and that is part of that program.

Now, on the partnership of the eleven landscape effort will also include the people, although they won't be actually on the land themselves. Namibia, on the other hand, has people actually on the land, it's communal land, and that has been going for quite some time, to the point that people have been able to measure an increase in animals coming back into the area, which also increases tourism. There's greater income and training in natural resource management that is often done in cooperation with how to do this. What has happened is that the protection of the environment is, as you suggest, only part of what is attempted to be accomplished in

these projects, and actually the environment is probably not going to be that protected if the people themselves are not a part of it and don't understand the direct benefit.

That has to be an effective part of these programs.

We're wanting to extend our experiences in these two regions to other parts of the continent.

Senator ALEXANDER. Mr. Yamamoto.

Mr. YAMAMOTO. Another aspect to the environmental issue is that it establishes mechanisms and ways to avoid and to minimize conflict. One of the examples that we have is the transborder cooperation, the so-called four corners, which involve Botswana, Namibia, Zambia, and Zimbabwe, to support sustainable economic growth.

When you have power in local communities and you do so not only within one nation but within a multiple of nations, it creates mechanisms whereby you have dialog. And as you know, the Congo, one of the root causes for a lot of the conflict is their resources, and if we had, you know, the transborder dialogs, we had the local communities empowered, it could minimize and in many ways help support conflict resolution.

Senator ALEXANDER. Well, I'd like to keep a particular eye on that, and during my visit in August, and maybe in the Congo, maybe in Namibia would sound like two good places to go. I saw something of what USAID was doing in Namibia when I was there last August, I mean I heard about it but I didn't get to see it.

Let me switch to Liberia now. Liberia to me is an especially interesting example in the way we weren't going to be nation building and suddenly we are, in Afghanistan and Iraq, and in a sense Liberia, but all with very different experiences. We appropriated $200 million there and we're all delighted to see that $500 million was pledged in the donors' conference.

Are we measuring our progress? Do we have a way to benchmark our progress in Liberia? How much more money are we going to be asked for for Liberia in this next year? As I say benchmark, the New York Times had recently a benchmark for Iraq, and it was simple enough that you could read it. It might not have been everybody in the administration's favorite list of indicators, but it said, security indicators, 55 top Ba'athists at large, April, July, October, January, we went from 40 to 18 to 15 to 12.

So I think one of the issues that we have when we're in war, we have daily briefings and everybody sees the objectives and sees the progress toward the objectives. When we're winning the peace, we forget that most taxpayers and Senators and others would like to see clear indicators of what our objectives are and what our progress is toward the objectives, so how are we doing in Liberia? What are our objectives and what progress are we making toward our goals?

Mr. YAMAMOTO. We've met our first major objective, which is to get Charles Taylor out of Liberia, and given the deep, rich, and historic connections we have with Liberia, that commitment, we tried to stabilize the nation and also to develop economic development in that country is in our national interest and also for the region.

When you ask do we have benchmarks? Yes, we do. We have ways to gauge development and progress. Right now the first part

is to get Charles Taylor out. Next is international community support. The next step, of course, is to move forward on DDR, disarmament, demobilization, and reintegration. That's to begin again in mid-March we hope.

The other issue is that with the other $200 million, $114 million already has Presidential determination, and we have various CNs now up to Capitol Hill, but those will set the basis and lay the ground work for creating structures and moving forward on economic developments and progress in Liberia.

Senator ALEXANDER. Yes, but this gets it down a lot further—average daily tax on troops, accuracy of intelligence tips, number of security forces, number of troops, number of other coalition troops. Do we have objectives and benchmarks for winning the peace is what I'm trying to get at.

Ms. NEWMAN. May I just say that there have been series of meetings and involvement of all of the donors in determining which objectives are measurable. The resources will not flow to Liberia without their being able to assure the donors that they, along with the donors, are going to measure the effectiveness. I think that——

Senator ALEXANDER. Well, the effectiveness of what?

Ms. NEWMAN. The effectiveness—let's just take the different activities. Let's say one is that there will be agriculture and food for work activities. So then you decide what are the best measures for that, not just input, but impact measures, and we have a tendency to look solely at input. But——

Senator ALEXANDER. So I guess you're saying we don't have any objectives or measurements yet?

Ms. NEWMAN. We are working on them. If I took each of the activities, I could tell you, for example, the Liberian community infrastructure project, could tell you what it is that people propose to do and how you normally measure that type of infrastructure project. Each one of the initiatives now requires that we not only measure the effectiveness, but it be a transparent process that is available to the public, not just to Congress——

Senator ALEXANDER. Well, excuse me, if I may say, all I'm asking is what are those objectives and what are the benchmarks and how are we doing?

Ms. NEWMAN. The money is just now flowing.

Senator ALEXANDER. Well, it shouldn't flow before there are objectives?

Ms. NEWMAN. We will come to you with each of the sections of our proposal, and what the objectives are. We will do that because that is the only way we're going to feel satisfied that the money will be well-spent.

Senator ALEXANDER. Well, thank you.

Ms. NEWMAN. And I will add that it's not just the donors who are concerned about it. The Government of Liberia is now putting into place a monitoring and evaluation program and they are seeking technical assistance on how to go about doing that.

Senator ALEXANDER. Do you anticipate we'll be asked to incorporate more money for Liberia in the next year?

Ms. NEWMAN. I don't think beyond the $200 million, until we are all satisfied of the impact of this money, that there will be a request from USAID for additional money, because it's not just our

$200 million. As you mentioned at the outset, the world has come up with $500 million and we have to manage that properly. We have to measure it, and before more resources flow and more requests are made, I think we ought to know much more about what impact this has had.

Mr. YAMAMOTO. And, Senator, just one point to add too is, having gone to Liberia and spoken with Gyude Bryant during his inauguration is we have, not only a leader but a government which is extremely supportive of the United States, and to try to balance his needs, his desires, his goals and objectives with what we're trying to achieve as well with the international community. And so right now you have a tremendous amount of goodwill and support on both sides.

Senator ALEXANDER. I'm informed the 2005 budget does request $30 million more for Liberia, but here's what I would like to suggest on any future hearing about Liberia or any other place we want to spend money. What I'd like to know is, if we're going to spend money, or since we've already appropriated $200 million and others are spending $500 million with us in a lead position, it would help me if we could say our objectives in Liberia are 1, 2, 3, 4, 5, and here are the indicators of our progress toward those objectives. If one of the indicators of progress is the number of schools reopened April, July, October, January, I'd like to know what that is. Child immunization rate, if that has anything to do with what we're trying to do, I'd like to know what that is.

And I think most Members of Congress would and most taxpayers would, and my suggestion is, on any of these programs where the U.S. Government and taxpayers are asked to fund winning the peace in far-away places, it will build support for those objectives if, when asked about it, if our government can say, yes, we have objectives for winning the peace that are as clear as winning the war, here are the objectives, here are the indicators, and here is the progress we're making toward those goals. And it may not all be good news, but at least we'll know we have a plan.

And I would recommend whoever wrote this for the New York Times is a good adviser on how to write one. The Defense Department has been working on such a thing for the Iraq war, but it's not as good as this. I gave this to Secretary Rumsfeld as an example of what I thought could be done. This kind of thing tends to focus oil production, 0, 9, 2, 4, megawatts of electricity, 3, 3,200, 3,900, 3,600, and that's the kind of thing that would be helpful.

Ms. NEWMAN. May I make a commitment?

Senator ALEXANDER. Yes.

Ms. NEWMAN. There is a conference in Liberia to develop an action plan and the action plan is being put together with the other donors where there will be measures. And what we will do then, once that action plan is put together, ensure that copies are here, because I know you are interested in our—doing it for ourselves, but we will inform you and the staff of the type way in which we plan to measure this.

Senator ALEXANDER. Thank you very much, Ms. Newman. And I do understand that a plan is likely to be more effective for Liberia if Liberians make the plan. The Marshall Plan was a plan adopted, we named the plan, but it was a plan really developed by the re-

cipient countries, but still, I think they should be told that the people who are sending $700 million would like to have some way of measuring progress toward goals so that we can make adjustments.

I want to thank the two of you for coming today and apologize for that interruption caused by the vote. I'll look forward to our next visit and I hope if you have issues or questions along the way about Africa, you'll get in touch with me or with our staff. Thank you very much.

Ms. NEWMAN. Thank you.

[Recess from 3:05 p.m. to 3:22 p.m.]

OPENING STATEMENT OF SENATOR GEORGE ALLEN

Senator ALLEN [presiding]. I call this hearing of the European Affairs Subcommittee to order. The purpose of this afternoon's hearing is to examine the Bush administration's foreign assistance budget request for Europe and Eurasia. Thank you all for being here. You understand we're having votes, so thank goodness we have this room in the Capitol to hold this hearing.

Providing testimony for us today on the administration's foreign assistance priorities and objectives are Beth Jones, the Assistant Secretary for Europe and Eurasian Affairs at the Department of State and Kent Hill, the U.S. Agency for International Development's Assistant Administrator. Welcome to both of you, and we look forward to your testimony.

Let me make a few remarks and then we'll hear from you first, Ms. Jones. When analyzing the current concerns in Europe and the policies that are needed to implement the best interests of the United States vis-à-vis our friends in Europe and emerging democracies in Europe, I believe there should be a strong focus on the emerging democracies in the southeastern part of Europe and the countries of Eurasia.

Most of Europe is well-settled and prospering, as democracy has been there for centuries. There are others where democracy is just taking root, particularly in southeastern Europe, and there still remain challenges that we're facing and the people there are facing.

Now we have, as we all know, tight budgets. When you have tight budgets, you have to make priorities. The focus in my view ought to be foreign assistance programs where you're going to get the best bang for the buck.

Analyzing our programs in Europe I think is very sensible. It's a continent generally speaking where there's great symmetry between their sentiments, their philosophy and that of the United States in principles as well as specific tactical policies. Our friends in most of Europe enjoy relatively strong economies with stable governments that ensure the rule of law and equality of their citizenry.

With these limited resources, I think the United States ought to be focusing or should focus on those European states that appear trending away from democratic governance and market reforms. With concerns about the rates of corruption, organized crime, and political unrest high among the states in the Balkans and the former Soviet Union, I think it's in the interests of the United States to promote grassroots democratization and sound governance programs as well as economic initiatives that strengthen cap-

italism, boost trade and investment, all within the rule of law, which I think is absolutely key for the people as well as investment and stability in those countries. Rule of law is not just mindless adherence to law, but it is a fundamental framework for protecting individual rights, protecting property, having a stability and an understanding that there will be fair adjudication of disputes, thereby making it a more likely place to entice investment into those areas for the jobs and prosperity that flow therefrom.

Now, as this subcommittee learned in October of last year, transnational crime and corruption is a problem throughout Europe, but it has a significant impact on this country. It's not over there, across the Atlantic Ocean. Trade in persons, narcotics trafficking, the proliferation of weapons all compromise the security of the United States and our allies, and it also often can line the pockets of those opposing our reform efforts in Europe and around the world.

Renewing our commitment to southeastern Europe is, in my view, in the interests of the United States. And even as economic circumstances have forced us to be more frugal in our assistance, I do believe a continued diplomatic and strategic foreign assistance campaign in the troubled nations of southeastern Europe will yield positive results and will provide both short- and long-term benefits to both Europe and the United States.

Insofar as Eurasia is concerned, the states of Eurasia continue to represent an area of concern for the United States in our foreign policy, from concerns with democratic reform in Russia to political upheaval in Georgia to continued hostilities between Armenia and Azerbaijan, our government, I believe, must carefully consider the implications of our policies.

Democratic and economic reform has occurred, in fits and starts in many of these countries, and our mission must be to strongly advocate for and assist in realizing consistent credible progress. I do have a particular concern and I think it probably will be shared by most of my colleagues in how the administration's budget request would provide dramatically different amounts of foreign assistance to Armenia and Azerbaijan. Requesting $8.7 million in military assistance for Azerbaijan and only $2.7 million for Armenia sends a questionable message and could threaten to undermine progress that has been made finding peace between two countries and bringing stability to that region.

The relations between Azerbaijan and Armenia continue to be tenuous at best even with a fragile cease-fire in place. And so by placing the needs of one much higher than that of the other, the United States could be construed to be taking sides, which I know we don't want to do, in this ongoing dispute between these two countries. I don't want this perception to provide any incentive for either side to walk away from the negotiating table, which clearly is not in the interest of the Caucasus and clearly not in the interest of the United States.

So that's an issue of importance I know to myself. I'll speak for myself but I think I do speak for other members of the committee as well, and I hope our witnesses will address this concern during this hearing.

Let me just close by saying that we view the progress with Europe, the progress in the last 60 years with Europe as an example of the best of engagement. If you look at the last 60 years, it's an example that's always given for the United States to be involved. Europe is growing and freedom's growing in Europe. It's great that there are new countries from central Europe joining in.

There are some fits and starts obviously in the former Soviet Republic, in Georgia and Ukraine and Belarus, countries with different problems in different areas. However, freedom is on the march in Europe. It's spreading eastward. It's good for the people, it's good for our security, and where the roots have not taken hold is where you want to apply the fertilizer so to speak or the assistance or the proper care to weed out the corruption or any of the negative influences in those countries. I wish every continent was in as good a shape as Europe where freedom is clearly on the march, but more work has to be done and we look forward to hearing from our witnesses here today.

I may have to break for a vote, and so if you'll all bear with me, rather than wait for us to stop voting we want to move forward. So I thank both our witnesses. Thank you for your dedication, your determination, for being here, and so we'd like to hear first from Secretary Jones on your views.

STATEMENT OF HON. ELIZABETH JONES, ASSISTANT SECRETARY OF STATE, BUREAU OF EUROPE AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. JONES. Thank you. Thank you, Mr. Chairman, for inviting us here today. I couldn't agree with you more that engagement is exactly what we do the best and we accomplish a tremendous amount through that. We think that American security and development assistance is a key tool, it's an important tool. It is the way we achieve many of our foreign policy goals in Europe and Eurasia.

For fiscal year 2004, our request is $1.03 billion in Freedom Support Act money and SEED. It is $220 million for FMF and IMET and we very, very much appreciate your support, Mr. Chairman, and the support of Congress in appropriating this money for us.

We believe that in the Bureau of European and Eurasian Affairs we have a very tight link between foreign policy objectives and our assistance programs. Furthermore, we are very proud of the excellent collaborate relationship we have with USAID represented here by Dr. Kent Hill. We actually think that our region is a model for the partnership between State and USAID that Secretary Powell has been promoting.

The primary message that I bring today to this hearing is that the money we've invested in foreign assistance in Europe and Eurasia is paying big dividends very much along the lines that you have already mentioned. But we do have work to do and challenges to overcome.

To begin with, most of the countries of Central and Eastern Europe and the former Soviet Union are valued partners in the global war on terrorism. Of the 27 transition countries, all of which have received substantial assistance since the early 1990s, 24 are active supporters of Operation Enduring Freedom and OIF. Three of the central Asian countries actually provide basing for our troops.

Military assistance has also helped these countries to contribute to peacekeeping in the Balkans and has facilitated NATO enlargement. There's a tremendous success story that can be enumerated with those countries.

Overall we're contributing to the stability and prosperity of democracy in former Communist countries. Eight of the countries in north Central Europe no longer receive any of this transition assistance. Three others in the Balkans will join them in the next several years.

Probably the most dramatic example and a recent example of our assistance making a difference is in Georgia. The "revolution of roses" did not happen because of our assistance. It was a choice exercised by the Georgian people, but our assistance was key to building the capabilities of Georgians and Georgian organizations so they could make these choices for themselves. We had developed in them the habit of relying on these new institutions and the habit of relying on themselves and the choices that they were capable of making themselves.

President Saakashvili and 14 members of his new cabinet are alumni of U.S. exchange programs. That is a dramatic statistic and one that we see evidence of even in the work that they're doing right now in Georgia.

The assistance that we provided in the November balloting in Georgia, training of election monitors, funding of exit polls, made the scale of election fraud immediately clear and allowed the Georgian people to make the decisions that resulted in the election of President Saakashvili in early January.

If Georgia is a prime example of what assistance can accomplish, it's also an example of what remains to be done. The success of the rose revolution isn't assured. We believe we need to work intensively with the new government as they attack deeply entrenched problems, particularly corruption, a decrepit energy system, and lack of economic opportunity.

We are focusing on four of the most pressing assistance priorities right now, and we would enumerate them as follows. The first is cultivating partners in the global war on terrorism. Here our partnerships are just beginning, but we can help these countries become much more reliable partners through FMF, the military training, IMET, and peacekeeping assistance. The technical assistance we provide and the economic and financial aid also enhance their ability to combat terrorist financing.

The second priority on which we're focusing is supporting the democratic process, especially including civil society. We have elections coming up in 15 of the transition countries in the next year. We want to make them as free and transparent as possible. In order to do this, we must empower civil society to monitor the elections to promote accountability. We need to support independent media also. This not only enhances civil society, but it also is what we consider an anti-corruption measure.

One of the key mechanisms for supporting democracy is exchange programs. The change in this region is generational. We need to invest in the next generation. We now have more than 100,000 graduates from exchange programs in southeast Europe

and Eurasia. This was a policy that we implemented and instituted right at the beginning of the break up of the former Soviet Union.

One of the primary examples that we also have is that Islamic leaders in Central Asia have gone home from U.S. programs stunned by America's religious tolerance and ready to spread the word to their own communities on how to go about doing this.

The third priority on which we're focused is creating jobs and supporting the new middle class. Jobs we believe are a force for stability. Property ownership gives citizens a stake in their countries and their communities. We are helping cut excessive regulation, rationalizing tax policies, privatizing land, and making loans available to small business owners.

But we have to do more. When we contemplate large pools of unemployed young men, particularly in areas like Bosnia or the Fergana Valley in Central Asia, there's a risk that extremist ideologies will find fertile ground unless we have employment for all of these people.

Our fourth priority is in fighting transnational threats. This is another challenge, a scourge that does not respect national borders, that is narcotics smuggling. We have a flood of heroin from Afghanistan which transits through the former Soviet Union and Southeast Europe on its way to Western Europe, but unfortunately it doesn't just pass through, it leads a trail of crime, brings trafficking in persons, disease, and corruption in its wake.

We can only barely dent the problem with the resources that we have available now. The President's fiscal year 2005 budget request for the Freedom Support Act includes a $16 million increase in resources to fight illicit drug flow, but this is a very long-term effort that we have underway.

In summary, we think these foreign assistance investments are crucial and this committee, and in particular you, Mr. Chairman, have been stalwart supporters of this and we're very grateful for that and we look forward to discussing some of the issues you've already raised.

[The prepared statement of Ms. Jones follows:]

PREPARED STATEMENT OF HON. ELIZABETH JONES

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 U.S. 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 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 govermnent 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.

Senator ALLEN. Thank you, Secretary Jones. I appreciate your testimony.

Mr. Hill.

Mr. HILL. Thank you.

Senator ALLEN. Good to have you with us. Would you share with us your testimony.

STATEMENT OF HON. KENT R. HILL, ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE AND EURASIA, USAID

Mr. HILL. Indeed. Chairman Allen, it's a privilege to be here and to be asked to testify, I have fond memories of meeting with you before my confirmation over 2½ years ago, and so it's good to be back with you again. And it is a privilege to be here with Ambassador Jones, my colleague from the State Department. I want to mention that also in the room, though not testifying today, is Ambassador Carlos Pascual, who is the person with whom we deal at USAID several times a week, the coordinator of all assistance for Europe and Eurasia, and someone who knows this region extremely well because he spent the last 3 years as the Ambassador to Ukraine. We consider it a privilege to work with Ambassador Pascual.

Senator ALLEN. Welcome.

Mr. HILL. I couldn't help but think when you made the observation, Senator Allen, that so much has happened in this part of the world these last decades that when November the 9th comes we will celebrate the 15th anniversary of the coming down of the Berlin Wall. We couldn't have predicted that happening as quickly as it did and we've been trying to deal with that ever since, and that raises the issue of what do we have to show for what we've tried to do during this period.

I want to just say one quick word about several items that I think the Congress can be proud of that have been accomplished with U.S. taxpayer dollars. First, we know that there has been a phase-out to our assistance to eight of those countries. Indeed, tonight I'm flying off to Warsaw to meet with the representatives of eight of those countries in the northern tier of Eastern Europe to talk about what's happened since we left, since they graduated in

1996 to 2000, and they have not only done well, but they've done very well since that assistance ended.

We have returned finally to positive growth rates in the economies in Europe and Eurasia for the most part, averaging about 5 percent a year for these last 4 years. Of course, that doesn't tell the whole story because it doesn't tell you the breakdown within the countries, but still it's a positive trend.

There have been strides, as you correctly noted, in the area of democracy, and 21 of our recipient countries are marked by Freedom House as being either free or partly free at this point. The integration of our region into global organizations is very encouraging. Eight of our recipients will be joining the European Union this year and two more are anticipated to join in 2007. Seventeen have become members of the World Trade Organization and 10 will have become members of NATO by the end of this year. That's quite an accomplishment for those countries, and part of that, I think, rests on the shoulders of the assistance that was provided by this Congress.

But it would be an incomplete story not to address the question that Senator Lugar raised in his letter about these hearings when he asked about the continuing challenges. He asked, what the most pressing issues are in Europe and Eurasia in light of the reductions in FSA and SEED funding levels. So let me just suggest what the major challenges are for us.

I want to say something first about the slow pace of democracy development in much of Eurasia. You'll notice that virtually every place I've talked about to this point was not in Eurasia, but rather was in Eastern Europe. In Eurasia the progress has been much, much slower, and in fact if you graph democratically where these countries are based on indicators of civil society, elections, et cetera, you'll find that the peak moment was about 1991 about the time we began our assistance in many respects. That was a high point for Russia and many of these other countries.

Not a single year since then have the indicators of democracy or civil society actually gone up. Sometimes it's plateaued. Sometimes it's gone down in places, like Russia, where the last 2 or 3 years, the decline has been more steep.

But the answer to this as to why this is happening is because the historical pull of what I call the authoritarian past in these countries has been very, very powerful, and I think what we're really doing with our assistance is that we are planting seeds that we hope one day will grow, or at least slowed a backward trajectory, but it's been disappointing to see the struggle that we've had these last years in these countries.

And, of course, some of the countries, if you talk about Turkmenistan or Belarus, are very resistant to change. But even Russia and Ukraine and Moldova have been disappointing in what they've been doing lately. So that's the first major challenge.

The second major challenge has to do with HIV/AIDS, and despite the fact that the funding levels have been going down, the percentage of our portfolio and the actual dollars that we are spending on HIV/AIDS prevention in this part of the world have actually gone up.

What we've accomplished with that is that we have slowed the rate of increase of the infection, but we have not stopped it. And so the consequences for a place like Russia could be catastrophic demographically if it is not stopped, and it could have major impact on the stability of Russia and of course international relations could be affected as well. So that's the second major challenge that we face.

A third major challenge that we has to do with unemployment, and of course, the cold hard facts are that in the post-Communist transition period, in many of these countries the transition to democratic and free and economically free societies has been very slow, and this has been a major problem.

But this is not just a problem because of the suffering that ensues when people do not have jobs and have economic duress. This is a problem because wherever there are these kinds of problems, particularly when you are dealing with countries that border Afghanistan or Iran, you're dealing with creating a fertile soil, a fertile place for terrorist advocates to gain ground.

And they have a particular advantage in a post-Communist situation, where even though many of our countries are Islamic historically, because of the Communist years, they haven't really been given an opportunity to know the history of Islam. And when they hear Islamic radical rhetoric, they are not inoculated against knowing that that doesn't necessarily speak for, and does not speak for, a more moderate tradition within their own areas like Central Asia, and so this is of concern.

Senator ALLEN. Let me just interrupt. Could you elaborate on that? Muslim countries, they hear this radicalism, they're not prepared to know the——

Mr. HILL. During the Soviet period, religious instruction was not allowed for Christians, for Muslims, for Jews, for anybody, even people with historical tradition and religion simply were not allowed to know anything about their tradition. That means that there are millions of unemployed youth in Central Asia who know very little about Islam. They may be in historically Islamic areas but they know little about Islam.

If a person who comes from outside the area and says, let me tell you what Islam is, and their interpretation of Islam is a radical variety of that—maybe they've come from Pakistan or Afghanistan or Saudi Arabia—those people who hear that message at age 17 have nothing in their memory bank to say, wait a minute, that's not what I was told the Koran says, that's not what the tradition of the 15th and 16th century of Islam in Central Asia is.

That's why we argue, and we had a discussion recently with the Uzbek Foreign Minister and the Uzbek Ambassador to the United States this week for lunch, and I said, if you continue to have a policy that discourages religious instruction in the mosques, you are depriving your people of an opportunity to be inoculated against radical terrorist rhetoric.

So that is a particular problem to this part of the world because of the Communist past, which makes them more vulnerable when you combine it with the economic duress of this particular period.

Senator ALLEN. Is that your testimony?

Mr. HILL. Yes.

Senator ALLEN. Well, thank you for answering.

I should not have interrupted you. Thank you, Mr. Hill. But the way you were saying that I would have asked you a question, but it would have been better in the midst of it all as you've given us further concerns. Carry forward.

Mr. HILL. Well, I actually like it because it gives me an excuse to talk about what I would have otherwise had to leave out.

Senator ALLEN. You may proceed.

Mr. HILL. OK. Another problem is corruption, and it is so pervasive in this region, another legacy of the Communist era, and what it means is, because of the porous borders, the problems with narcotics and trafficking of people are very, very pervasive. And many people do not realize, but from this region come 25 percent of all of the victims of trafficking worldwide. They come from Europe and Eurasia. And so this is an area that's going to take a lot of work.

Now, you mentioned the funding declines and how it affects our work, and it is fair to note, as Ambassador Jones did, that there are declines. In fact, concerning the proposed 2005 moneys that are given to us, when they are—if they are given at the level we have asked, that would represent a 6 percent decline. But if you go back to 2001, you find that our numbers, collective numbers for SEED and FSA accounts have actually declined by 35 percent, and the USAID portion of that, which is usually between 65 and 70 percent have gone down by 31 percent.

So indeed we do have less dollars to deal with these problems, which makes absolutely central the next point I want to make. Is there a rational, systematic way to think through how we apply funding cuts to the countries? And it's at this point that I am proud to note that we have been using and are using a monitoring phase-out device with Ambassador Pascual that was developed in the Bureau for Europe and Eurasia at USAID a number of years ago, which allows us to chart economic and democratic progress in all of our countries. You can see it on the graph.[1]

We've got another chart which shows how they're doing in terms of social development, and you can tell exactly how countries are doing and we can tell at what point countries in the past phased out of assistance. And when those countries that are now receiving assistance start to approach that point, we know that we can start talking about phase-out. It's very rational, it's very systematic, it allows us to deal with changes in situations from year to year, to adjust the portfolios, or to decide who should phaseout.

Finally, I just want to thank you again for the support that the Congress and the Senate gives to our efforts in this part of the world although it's not in the headlines as much as other parts of the world right now. We all know from the 1990s and what happened in the Balkans and Kosovo that it can get difficult again quickly. And we appreciate the support. We think there's a lot of important work yet to be done, and I'm glad to be here as a part of what we are doing. We'll be pleased to answer questions and I would also ask that my full written testimony be included in the record.

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[1] The graph and chart referred to by Mr. Hill, during his testimony, can be found in his prepared statement on page 113.

[The prepared statement of Mr. Hill follows:]

PREPARED STATEMENT OF HON. KENT R. HILL

INTRODUCTION

Chairman Allen and other distinguished members of the Committee on Foreign Relations, thank you for the opportunity to testify on U.S. foreign assistance programs in the countries of Europe and Eurasia.

It has been over 14 years since this Committee authored the Support for East European Democracy (SEED) Act of 1989. Not long after the U.S. Agency for International Development (USAID) and other U.S. agencies began operating in central and eastern Europe, the Soviet Union collapsed. This Committee responded by passing the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act (FSA) of 1992. From the very beginning of the transition, USAID has been the main Federal agency managing programs to promote democracy, to introduce and institutionalize a market economy, and to alleviate the social and humanitarian problems in the former communist states of Europe and Eurasia.

I am happy to report that tremendous progress has been made since 1989, especially in central and eastern Europe. Yet great challenges remain, especially in those states that endured longer periods of communism, centuries of authoritarian rule, or recent civil wars. Peace, prosperity, and regional stability are the underlying objectives of USAID engagement in this part of the world.

The specific challenges that most concern our assistance programs in certain countries, as detailed later in this report, include declining quality of democracy and governance, increasing prevalence of HIV/AIDS and other infectious diseases, excessively high unemployment levels, continuing corruption in both public and private institutions, and trafficking in persons. Also, we appreciate Congress's support in providing the Agency with our full operating expense request and new program authorities enabling us to increase staff and capacity.

THE GEOPOLITICAL AND SECURITY CONTEXT

During the second half of the twentieth century, the main threat to the United States emanated from Central Europe and the Soviet Union. Congress understood the geopolitical and security importance of the region when it first authorized foreign assistance to the region more than a decade ago. The world has changed dramatically, but the Europe and Eurasia (E&E) region continues to be of geopolitical importance. The United States has many new allies. Czech Republic, Hungary, and Poland have joined the North Atlantic Treaty Organization (NATO). Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia expect to join NATO this year.

The 1990s were marked by the internecine warfare accompanying the collapse of the former Socialist Federal Republic of Yugoslavia. These events not only caused humanitarian catastrophes, but threatened the peaceful democratic and economic transitions in neighboring post-communist states. The United States and its NATO allies intervened with military, diplomatic, humanitarian, and technical assistance to protect human rights, establish peace, and lay the foundation for sustainable democracies and open market economies. While marked progress has been made since the Milosevic era of the 1990s, ethnic and nationalist tensions continue and the area remains an important geopolitical and security concern to the United States.

Since the September 11, 2001 attacks on the United States, the geopolitical and security importance of the post-Soviet states of Central Asia and the Caucasus has increased dramatically. Countering authoritarianism and economic stagnation, which provide the fuel for domestic unrest, religious extremism, and international terrorism, is a key to protecting U.S. interests in the region. Central Asia's tremendous oil and gas resources add to its importance to the United States. The proven oil reserves of just two states on the Caspian Sea basin, Kazakhstan and Azerbaijan, are just slightly less than those of the United States. Also, Kazakhstan's Kashgan field is one of the most important petroleum finds in 30 years.[1]

In the Southern Caucasus, the area's significant oil reserves, its unresolved ethnic and nationalist conflicts, as well as the threat of international terrorism underscore those states' geopolitical and security importance to the United States. An uneasy stalemate over Nagorno-Karabakh exists between Armenia and Azerbaijan. In Georgia, separatist movements in Ajaria, Abkhazia, and South Ossetia threaten the integrity of the state internally, while the conflict in the neighboring Russian Republic

[1] *National Energy Policy,* pp. 8-12, Report of the National Energy Policy Development Group, GPO: May 2001.

of Chechnya threatens Georgia externally. Both Azerbaijan and Georgia provide the route for the planned Baku-Thilisi-Ceyhan pipeline that will bring the region's vast oil and gas resources to world markets.

Trade with and investment in the E&E region are certain to benefit the United States increasingly, as recognized by the Committee on Foreign Relations when it wrote the FREEDOM Support Act soon after the collapse of the Soviet Union.[2] From the natural resources sector to the industrial equipment sector to the service sector and beyond, the United States is broadening its trade relationships with the region. U.S. exports to the region totaled almost $7 billion in 2002 with direct investment adding to no less than $2 billion in that same year. USAID's work to combat corruption, introduce and promote enforcement of contract and other commercial laws, help E&E countries join the World Trade Organization, and lay the foundation of a private sector have helped pave the way for American trade and investment.

Ethnic, religious, and political extremism are major sources of instability in several areas within the E&E region. The role of Islam, in particular, must be monitored, but at the same time it is vital that the leaders of the region democratize and respect human rights in order to avoid adding fuel to the fire for any kind of extremism.

Finally, America's most important geopolitical and security interest in the region is its relationship with Russia. The world's largest nation in area controls thousands of nuclear warheads and, despite its problems, fields one of the largest conventional militaries in the world. Russia is also an energy powerhouse. In 2000, it was the world's second largest exporter of oil. It also holds one-third of the world's proven natural gas reserves.[3]

STRATEGIC GUIDANCE

Our work in the E&E region is integrated with U.S. foreign policy as set forth in several key documents: the President's National Security Strategy,[4] the Joint State Department/USAID Strategic Plan[5], and USAID's discussion paper entitled "U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century."[6]

The National Security Strategy integrates defense, diplomacy, and development into one overall foreign policy strategy. The E&E Bureau is working towards five of the eight objectives identified by the President's plan. We are *championing aspirations for human dignity* by promoting human rights and democracy throughout the E&E region. Our efforts in private sector development are *helping to ignite a new era of global economic growth through free markets and free trade.* Our health care and social sector programs *expand the circle of development by opening societies and building the infrastructure of democracy.* We *work with others to defuse regional conflicts* in the Balkans, the Caucasus, Cyprus, and Northern Ireland. Finally, USAID is adopting exciting new public-private sector business models such as the Global Development Alliance to leverage new resources to meet U.S. foreign policy objectives and *transform America's national security institutions to meet the challenges and opportunities of the twenty-first century.*

We in USAID's Bureau for Europe and Eurasia (E&E) are heartened by the adoption of the Joint State Department/USAID Strategic Plan, which was created to harmonize State Department and USAID policies and actions, consistent with the National Security Strategy. Our Bureau has long had an excellent and very close working relationship with the State Department's Office of the Coordinator for Assistance to Europe and Eurasia. We are glad that the Agency and the Department have now moved towards a level of cooperation that has been the hallmark of the E&E Bureau's relationship with the Coordinator's Office ever since the Bureau and Coordinator's Office came into existence.

The Joint Strategic Plan outlines 12 strategic goals for the Department and the Agency. E&E Bureau programs promote 9 of those goals. Throughout the region, one of the E&E Bureau's key strategic assistance areas is the establishment of *democracy and human rights.* Another key strategic assistance area is the creation of *economic prosperity and security.* Our Bureau also has a major emphasis on *social and environmental issues* to safeguard and bolster gains in other sectors. We promote *regional stability* through our conflict reduction work—most of which is at the

[2] Section 101(7) of the FREEDOM Support Act (P.L. 102–511).

[3] *National Energy Policy,* pp. 8-12, Report of the National Energy Policy Development Group, GPO: May 2001.

[4] *The National Security Strategy of the United States of America,* The White House, September 2002.

[5] *Security, Democracy, Prosperity. Department of State/USAID Strategic Plan for Fiscal Years 2004 to 2009: Aligning Diplomacy and Development Assistance,* August 2003.

[6] *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century,* USAID, January 2004.

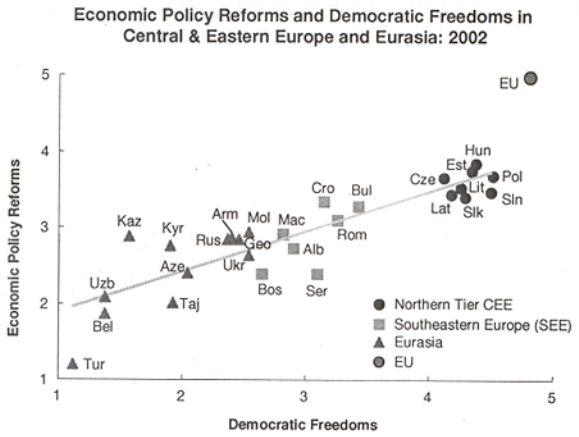
grassroots level—in the Balkans, the Caucasus, Central Asia, Cyprus, and Northern Ireland. The E&E Bureau works on *counterterrorism* by diminishing the underlying conditions linked to terrorism—such as weak institutions and neglected social systems—and by emphasizing accountable, legitimate, and democratic government. We minimize the impact of *international crime and illegal drugs* through our work to promote the rule of law, transparent financial systems that inhibit money laundering, and anticorruption regimes. In the unfortunate cases when it has been necessary, we have provided *humanitarian responses* due to crises in the Balkans, the Caucasus, and elsewhere. Through public outreach in Mission-level strategy development as well as training and exchange programs, our Agency has been involved in *public diplomacy and public affairs.* Our Bureau is strongly committed to *management and organizational excellence.* For example, it has provided the Agency with models of information technology innovation in the financial management field and continues to have one of the Agency's most efficient staff-to-program dollar ratios.

In light of the evolving nature of U.S. assistance in a rapidly changing global context, the USAID discussion paper suggests that we must increase aid effectiveness and policy coherence through greater clarity of purpose, alignment of resources with objectives, and strategic management. Our work is consistent with these ends. A fundamental element of our mission is to *promote transformational development,* consisting of sustained democratic, economic, and social change in the E&E region. With our work in the Balkans and the Caucasus, we also *strengthen failed (or recovering) states.* In response to dire conflicts, we have provided *humanitarian relief.* To achieve specific U.S. foreign policy goals, we *support strategic states* such as Cyprus, Ireland, and Turkey. The E&E Bureau also addresses *global and transnational issues* such as the spread of HIV/AIDS, multiple-drug-resistant tuberculosis, trafficking in persons, and environmental degradation.

Over the past several months, the E&E Bureau closely reviewed the larger strategic parameters set in the National Security Strategy, the Joint State/USAID Strategy, and the USAID discussion paper. We then took stock of the E&E region by measuring progress to date and assessing the remaining challenges. As a result of these reviews and analyses, the E&E Bureau drafted a new strategy that will guide our programs over the next four years, based on our mission to assist the transition of Eastern Europe and Eurasia to sustainable democracies and open market economies. For some countries, phase out of USAID assistance is on the horizon owing to their continued success. Yet other country programs are facing entrenched challenges that will be overcome only with hard work, close vigilance, and continued U.S. development assistance.

THE COUNTRY PERFORMANCE CONTEXT

Several years ago, the E&E Bureau developed a system for monitoring country progress that compiles, tracks, and analyzes independently-produced indicators from a variety of international sources. The chart that immediately follows shows a strong tendency for economic reform to accompany democratic freedom in individual countries. It also highlights the large disparities among E&E countries in progress toward economic and democratic reform as well as their standing vis-à-vis the European Union.



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2003* (2003) and cover events to December 2002. Economic policy reform ratings are from EBRD, *Transition Report 2002* (November 2002), and cover events through September 2002. Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

The E&E Bureau classifies the E&E region into six groups of countries to identify the major gaps between performance and exit targets.

The *Northern Tier Europe* countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) are the most advanced. They have achieved democratic freedoms roughly on par with some Western democracies and are working toward meeting EU economic reform standards. The Northern Tier European countries have considerably more to accomplish in second stage economic reforms, especially in competition policy. (First stage reforms entail the reduction of government intervention and ownership, while second stage reforms focus on the complex task of building market-based institutional capacity and better public governance.) All have graduated from substantial USAID bilateral assistance, but their continued progress is monitored for the lessons it provides for other countries.

The *Advanced Southern Tier Europe* countries (Bulgaria, Croatia, and Romania) have attained a level of democratic and economic reform equivalent to that attained by the Northern Tier countries when USAID was preparing to phase out its Missions in those countries. Nonetheless, unemployment rates are still very high. These high rates have been accompanied by a significant drop in real wages, still well below the levels of 1989. Macroeconomic stability is fragile, particularly in Croatia and Romania, though perhaps not much more than in many of the economies in the Northern Tier countries. Inflation continues to be high in Romania, but is falling impressively. Macroeconomic imbalances (fiscal and current account deficits) are high in Croatia, although no higher than the Northern Tier average.

In the *Western Balkans* (Albania, Bosnia-Herzegovina, Kosovo, Macedonia, and Serbia-Montenegro), unemployment rates are the highest of the transition country groups, particularly among youth, a development only partially mitigated by the large informal economies within these countries. These countries are poorly integrated into the world economy, lacking even intra-regional trade. Macroeconomic imbalances are uniformly high, amongst the highest of all the transition country groups.

The countries classed as *Resource-rich Eurasia* (Russia, Kazakhstan, and Azerbaijan) particularly lag in measures to fight corruption. All three countries have fewer democratic freedoms today than in 1991. Backsliding in democratization has continued in recent years, particularly in Kazakhstan and Russia. Their private economic sectors continue to be dominated by large firms with significant market power. The major development task for these economies is to broaden economic growth beyond what has occurred in the energy sector. This will be hampered by their poor performance in human capital development, in which the sub-region scored lowest within E&E. Life expectancies in all three countries are among the lowest of all the transition countries. Health and education expenditures remain very low by any standard, while secondary school enrollment rates have declined over the 1989-2001 period from 78 to 70 percent in Russia, 76 to 54 percent in Kazakhstan, and 63 to 33 percent in Azerbaijan.

The countries of the *Resource-poor Eurasia sub-region* (Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Ukraine) have the largest gap between progress in first stage and second stage economic reforms. Sustaining reform gains will be especially difficult unless more progress is made in structural reforms and in building institutional capacities. Export shares are the lowest of all the six country groups (7 percent of GDP in 2001). These countries have neither the strong incentives for reform that EU membership provides to central and eastern European countries, nor the natural resources to sell as do the resource-rich Eurasian countries. Per capita income in this sub-region is the lowest in Europe and Eurasia, as are secondary school enrollment rates, education expenditures, and health expenditures. Among economic reforms, non-bank financial reforms and infrastructure reforms lag the most. Public governance and administration, including anti-corruption measures, also perform very poorly.

Countries in *Non-reforming Eurasia* (Belarus, Turkmenistan, and Uzbekistan) have not yet come close to completing first stage or second stage economic reforms. Economic structural change lags considerably as illustrated by the small share of the economy controlled by the private sector, only 32 percent. Inflation is much higher in Belarus than elsewhere in E&E, serving as an indicator that structural reform is needed. Secondary school enrollments and health and education expenditures are especially low in Turkmenistan and Uzbekistan, and under-five mortality rates are very high. In contrast, Belarus' human capital indicators are more in line with east European standards.

THE ROBUST RESPONSE FROM USAID

Through FY 2004, Congress appropriated a total of $16.3 billion in SEED and FSA assistance to the region. USAID has managed about 65 percent of this total with the remainder transferred to other USG agencies for security, nuclear safety, fiscal advisory, and other assistance programs.

In coordination with the State Department's Assistance Coordinator for Europe and Eurasia (EUR/ACE), USAID has played a lead role in planning and implementing assistance programs focused into three goal areas:

- democracy and governance (rule of law, civil society, political processes, independent media, and local governance);
- economic restructuring and growth (privatization, fiscal systems, enterprise development, financial sector, and energy); and
- social transition (humanitarian assistance, health, education, and related social protection issues).

Generally, activities have concentrated on the policy and institutional requirements for reform; the development of grassroots and local organizations such as NGOs, political parties, professional organizations, small and medium private enterprises (SMEs), and municipal government; and the promotion of health reform and other targeted social interventions to mitigate the adverse impacts of change. Humanitarian assistance was provided in the early years, especially in the aftermath of major military conflicts in the Balkans.

President Bush's National Security Strategy, which embraces the development of democracy and market economies as fundamental pillars of U.S. foreign policy, is bearing fruit in Europe and Eurasia. In my testimony last year, I highlighted successes at the macro level including, amongst others, the emergence of positive economic growth in the region, the great strides made in democracy as evidenced by 21 of our recipients ranked as free or partly free by Freedom House, and the impending integration of eight of our recipients into the European Union. Even more impressive may be some of the people-level impacts that USAID programming is helping produce in the countries in which we work.

- Owing to our efforts with small and medium enterprises, that sector now employs over 4.3 million people in Ukraine.
- In Russia, a nationwide network of financial institutions that we helped strengthen has made over 114,000 loans with the amount lent doubling over the past year to reach $129 million. The loans have significantly enabled entrepreneurs to grow their businesses.
- We are helping E&E countries to penetrate markets overseas. In the case of Macedonia, we helped establish a National Entrepreneurship and Competitiveness Council, two clusters that developed action plans to spur exports, and a Quality Control laboratory for meat and dairy processors.
- Our assistance in the areas of observing elections, voter education, monitoring, and exit polling paved the way for the transparent conduct of January's key

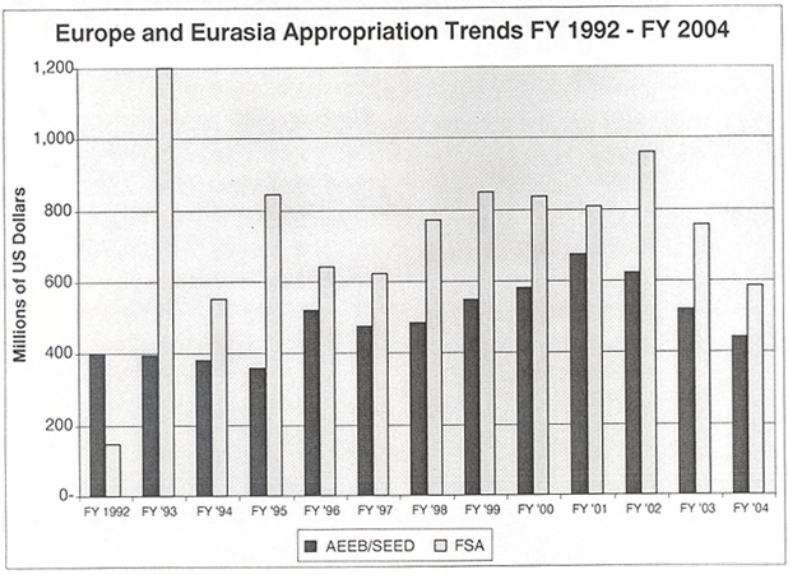
presidential election in Georgia, a first in recent memory for this strategically-placed country. Also, our assistance with parallel vote tabulation in last November's flawed parliamentary elections was instrumental in proving that the official results did not reflect the will of the people.

- Seventy-six Citizen Information and Service Centers have been established in Bulgaria, enabling local governments to better serve the needs of their constituents.
- In Kazakhstan, 5 percent of intravenous drug users nationwide have already been reached through the deliverance of affordable, high quality condoms and the training of 260 peer educators and 43 teachers. These important developments are helping arrest the spread of HIV/AIDS.
- The Roll Back Malaria program in Tajikistan has established surveillance centers in each of the country's four provinces that provide equipment and training to diagnose the disease that has reached epidemic proportions in a number of our countries.
- In Romania, our program permitted the number of orphans in institutional care to be reduced by 8,550 last year, the closure of 43 institutions providing substandard care, and the drafting of legislation to set standards for adoption.

CURRENT BUDGET PATTERNS

The FY 2004 appropriation and FY 2005 request levels continue to decline, reflecting the higher priority given to other countries in the world such as Iraq and Afghanistan, the progress that a number of our recipients have made especially on economic policy, and the deferral to the European Union for assistance to some of our SEED recipients.

The SEED appropriation for FY 2004 is $442 million, of which USAID manages $314 million (71 percent). For USAID, this constitutes a decline of a little more than 12 percent from $359 million in FY 2003. Overall SEED levels declined 34 percent from 2001 to 2004 with the portion of these funds used by USAID decreasing 2 percent. In FY 2005, the SEED request totals $410 million, of which $271 million (66 percent) is proposed for USAID programs. The overall USAID level is down almost 14 percent in FY 2005 from a year earlier, reflecting both the overall decline in SEED levels and the decline in the USAID share. SEED levels had peaked in FY 2001 at $674 million.



SEED levels for all countries or other separately budgeted regions are lower in FY 2005 than they were in FY 2003. The steepest declines will take place in Croatia, Macedonia, and Montenegro. For its part, Croatia is on a glide path toward

phase-out, with an end set for SEED assistance of 2006. On the other hand, levels fall off most modestly for Bulgaria from FY 2003 to FY 2005. Bulgaria, the other country in the region for which a phase-out date (2006) has been established, has been unwavering in its support for the war against international terrorism. In addition, while coming down, request levels remain robust in FY 2005 for Bosnia ($41 million), Kosovo ($72 million), and Serbia ($87 million). These countries continue to contend with the aftermath of ethnic upheaval and its pursuant heavy economic and social costs.

The FY 2004 appropriation for FSA is $584 million, of which USAID manages $410 million (70 percent). For USAID, this amounts to a fall of more than 12 percent from $468 million a year earlier. Overall FSA funding levels declined 18 percent from 2001 to 2004[7] while the portion of these funds used by USAID increased 14 percent. In FY 2005, the FSA request amounts to $550 million; $389 million (71 percent of the total) is proposed for USAID programs. The overall USAID level in FY 2005 is down a little more than 5 percent from the year before. More than a decade ago (1993), FSA levels were $1.2 billion, more than double the FY 2005 request level.

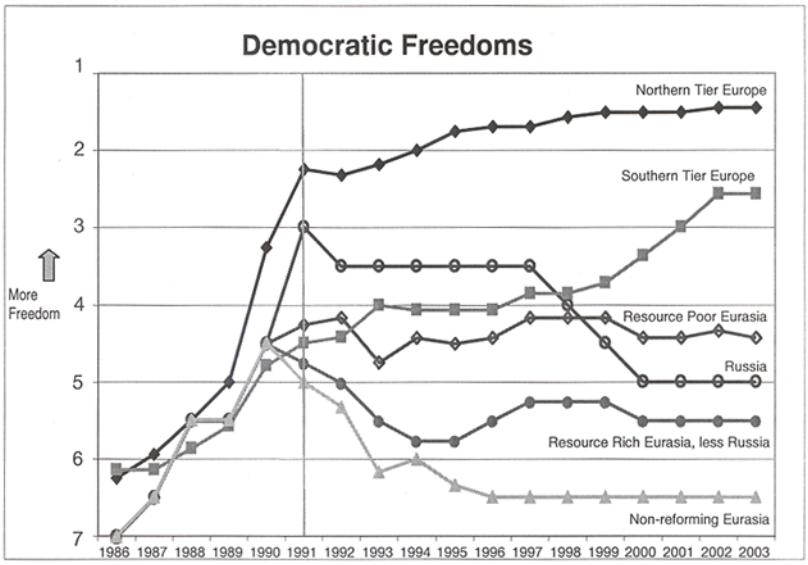
The only FSA country whose request level is substantially higher for FY 2005 than it was in FY 2004 is Georgia, an outcome of American policy to support the new reform government and the transparent manner in which the presidential election was conducted recently. With assistance levels during FY 2003-FY 2005 relatively steady at about $25 million per annum, Tajikistan is one of the United States' most cooperative development partners in the region. On the other hand, assistance declines are precipitous for Kazakhstan, Russia, and Ukraine. Over the three-year period FY 2003-FY 2005, levels will have come down for Kazakhstan (by 35 percent to $28 million), Russia (by 45 percent to $79.5 million), and Ukraine (by 43 percent also to $79.5 million). We can reduce assistance to Kazakhstan, owing to its massive oil and gas resources. In Russia, development assistance is perceived as less necessary in the economic arena, allowing Russia to be considered a candidate for phase-out in FY 2008. We continue to monitor the situation in Russia closely. Ukraine's leadership is regarded as a weak development partner whose democratic transition, characterized by vested interests, weak political accountability, corruption, unequal enforcement of the rule of law, and tightly controlled media, casts a pall on the country's development prospects. The two countries with the most repressive governments in the region (Belarus and Turkmenistan) are also experiencing reductions in support over FY 2003-2005.

CRITICAL GAPS FOR FUTURE ASSISTANCE

We, however, need more resources than less. Indicators of progress in several areas of assistance that are essential to sustainable transition of countries in the E&E region do not show adequate improvement, and a number of key issues remain to be addressed.

- While there have been improvements in democracy indicators in our Eastern and Central European recipients, most of our Eurasian countries have no more democratic freedoms today than in 1991, notwithstanding the continued development of civil society. In fact, a number of countries have less freedoms, most notably Russia.
- Combating HIV/AIDS must be given particular priority because current programs from all sources have slowed, but not halted, an impending catastrophic epidemic. If infection rates are not further slowed in places like Russia, the impact on the population, health system, budgets, employment pool, and political stability could be grave, and our investments in reforms in these countries may be swept away.
- Widespread unemployment continues to be a problem throughout the entire E&E region. It leaves large populations, particularly among youth, frustrated by their inability to share in the benefits of economic growth and freedom.

[7] This figure excludes funding for the ECA office in the State Department which was included in the FSA appropriation in 2001 but not in 2004.



Data are from Freedom House, and are an aggregation of Freedom House's political rights and civil liberties indices; Freedom House, *Freedom in the World 2004* (2004 forthcoming and previous editions).
Ratings from 1 to 7, with 1 representing greatest development of political rights/civil liberties.
Resource Poor Eurasia includes Moldova, Ukraine, Armenia, Georgia, Tajikistan, and Kyrgyzstan.
Resource Rich Eurasia, less Russia includes Azerbaijan and Kazakhstan.
Non-reforming Eurasia includes Belarus, Turkmenistan, and Uzbekistan.

- Corruption is recognized as a critical factor, limiting performance towards many E&E goals. Institutional reforms, unless they counter incentives for corruption, will not be unsustainable. Corruption affects negatively all E&E goal area work and the lives of citizens in all our countries.
- Trafficking in persons has expanded with the freedom of movement that has accompanied the collapse of strong central governments and has been exacerbated by the economic deterioration and reductions in living standards which have frequently accompanied the transition era. In addition to the extreme suffering and degradation associated with this problem, trafficking undermines the future of regions where it occurs by striking vulnerable youth.

PHASE-OUT OF USAID ASSISTANCE

The U.S. Government always has assumed that assistance to the E&E region would be temporary, lasting only long enough to ensure successful transition to a sustainable democracy and an open market economy. Today, programmatic success and declining resources result in the need to plan for phase-out of our assistance in some countries. Indeed, the E&E Bureau has already exited from eight countries, and phase-out is being planned or is under consideration in a number of others such as Bulgaria, Croatia, and Romania on the SEED side, and Russia and possibly Ukraine on the FSA side. We will monitor closely all transition indicators. If these indicators do not show progress, we are prepared to re-visit exit decisions. A case in point is our serious concern about the democratic transition in Russia. In any event, exit from an individual country need not take place at the same time across all sectors nor all regions. For instance, we may want to stay engaged in the Russian Far East longer than in European Russia.

USAID and the State Coordinator's Office are now undertaking phase-out assessments for all our country recipients in order to begin identifying exit dates and adjusting our strategies to address remaining gaps. In phasing out assistance, an overriding theme is to find ways to decrease the region's vulnerability to conflict and ensure that political and economic instability do not provide a seedbed for terrorist activity and financial networks. Failure to achieve a sustainable transition would leave both the region and its neighbors vulnerable to instability.

Systematic planning for the eventual end of assistance enables USAID to ensure the sustainability of assistance gains in a number of ways. This includes: focusing resources on the most critical vulnerabilities and gaps in a country's transition, determining areas that may need attention after USAID departs, and preparing for an orderly close-out of activities. Building on our experience with the European Northern Tier graduates, USAID is exploring appropriate post-presence initiatives as a way to consolidate assistance gains and carry support for democracy and markets into the future, even after a local USAID mission is closed. Post-presence initiatives consist of American or East-East regional partnerships established with USAID assistance, commercial relationships with the U.S. private sector, diplomatic relationships with other USG agencies, and, where well defined gaps are identified, post-presence programs funded by USAID.

THE USAID PROGRAM

The strategy adopted by USAID for the E&E region closely follows the approach to foreign assistance described in the Joint State/USAID strategy by focusing on three of its Strategic Goals: economic prosperity and security, democracy and human rights, and social and environmental issues. Progress in each broad area is monitored systematically for each country that we assist, and individual country programs are tailored to the local needs that correspond with USAID capabilities.

Economic Prosperity and Security: For the majority of E&E countries, the central focus of USAID assistance in this goal area is to assist in the economic reform process and to establish an environment that promotes growth. Most first stage economic reforms (liberalization of domestic prices and trade and foreign exchange regimes and small-scale privatization) have been accomplished, except in the three non-reforming Eurasian countries (Belarus, Turkmenistan, and Uzbekistan). Therefore, most remaining policy assistance will emphasize second stage reforms that focus on building market-based institutional capacity and better public governance. The six resource-poor Eurasian countries (Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Ukraine) have the farthest to go to reach acceptable standards in these areas, and they are most vulnerable to recidivist policy changes.

We will target SME development particularly in Eurasia since SME sectors in the central and eastern European countries are already much larger than those in Eurasia. About 45 percent of employment in central and eastern European countries comes from SMEs, compared to only 24 percent in the resource-poor Eurasian countries and 10 percent in the resource-rich Eurasian countries (Azerbaijan Kazakhstan, and Russia). While energy programs are needed throughout the E&E region, we will emphasize such work in those Eurasian countries where issues such as winter heating could prove destabilizing, e.g., Armenia.

Democracy and Human Rights: E&E supports the development of democratic institutions, processes, and values within the context of promoting a more equitable distribution of both horizontal and vertical power. Horizontally, power shared among different branches of the national government (executive, legislative, and judicial) ensures transparent and accountable government through a system of checks and balances. Vertically, the devolution of power to local governments and the empowerment of citizens through civil society and political processes keep governments responsive to the needs of people. Enhancing the rule of law, particularly in terms of protecting human rights, controlling corruption, and guaranteeing civil liberties, is an important component of this work and includes ensuring the rights of minority groups and other disadvantaged segments of the population. Progress in fostering a more equitable distribution of power is expected to be incremental and requires a long-term commitment, particularly in the more difficult cases of Eurasia.

Because democratic reforms are stalled or regressing in most Eurasian countries, most areas of assistance in democracy and human rights will be emphasized in that region, including municipal governance, elections, rule of law, independent media, and development of political parties and civil society. Especially important in the near term will be elections assistance in countries of key foreign policy interest to the United States, such as Azerbaijan, Georgia, Russia, Ukraine, and several of the Central Asian countries. The eastern European countries are relatively advanced in civil society and electoral processes, so other forms of democratic and governance assistance, including public administration, rule of law, independent media, and anti-corruption, will receive emphasis.

Trafficking in Persons (TIP) is a global problem that requires a multi-faceted response (its discussion is included here owing to its implications for human rights). The underlying factors that give rise to TIP in the E&E region include economic dislocation, a breakdown in traditional social structures, corruption, the absence or decline in personal values, the rise of international organized crime, disenfranchise-

ment of women and ethnic minorities, regional conflicts, and the demand for legally unprotected, cheap labor in the sex trade and other illegal venues. Programs in all three of the E&E Bureau's strategic assistance areas address TIP. We address the TIP problem using the framework of prevention, protection, and prosecution. Programs to prevent trafficking include economic empowerment of individuals through SME activities, public education and awareness campaigns, capacity-building of governments, NGOs, and the media to address the problem, and legal reform and implementation. Our programs also help protect victims through support of government and NGO referral services and the establishment of safe houses and counseling services. While the E&E Bureau does not directly work on criminal law prosecution, it does support reform of the overall legal system, including prosecutors and public defenders.

Social and Environmental Issues: Progress in this goal area requires investing in systems as well as addressing the most urgent problems and diseases. The areas of greatest concern include health, social protection, and human capital. Coordination with programs designed principally to meet other goal areas will be necessary to direct more resources toward reversing the decline in health and other welfare levels.

We will emphasize child survival and maternal health interventions as well as family planning and reproductive health in Eurasia. The Caucasus countries and the Central Asian Republics have the highest under-five mortality rates in the transition region.

Also, most Eurasian countries have experienced decreases in life expectancy since 1989-1990. Life expectancies now range between 65 and 69 years in Eurasian countries, and the male-female life expectancy gap in a handful of Eurasian countries is the highest worldwide. In contrast, life expectancies stand at between 72 and 74 years in the central and eastern European region. We will need to continue to address the causes of these adverse trends in Eurasia, with interventions to mitigate diseases stemming from unhealthy lifestyles.

Infectious diseases such as HIV/AIDS and tuberculosis will be targeted in those countries where they are the most virulent. For its part, the HIV/AIDS pandemic has the potential to erase much of our hard-won development gains, most notably in Russia and Ukraine.

Depending on the availability of resources, education assistance in the Eurasian resource-poor countries will be pursued. It has particularly high long-term potential, especially through further collaboration with the World Bank and other donors.

Finally, largely through programs for economic growth, we will need to focus our assistance and expertise on creative means to decrease unemployment, particularly in the southeast European countries. Unemployment rates average 20 percent in the southern tier. A very high percentage of the unemployed consists of the long-term unemployed and youth. In some countries such as Bulgaria and Macedonia, high unemployment also is accompanied with still very low real wages relative to pre-transition levels.

Cross-Cutting Issues: The E&E Bureau works on several issues that broadly fall in all three strategic assistance areas of the economic, democratic, and social transitions. A key initiative of the E&E Bureau is to work to incorporate the positive values that are necessary to sustain the development of a free society with a market economic system. We are also working to combat corruption that undermines reforms necessary for economic growth and democracy.

In Western Europe and the United States, the stock of social capital, that has made democracy and capitalism effective and that helped develop the institutions that support democracy, the rule of law, and a market economy, evolved over many centuries. The terms "values" and "social capital" refer to the prevalent mindset that results in voluntary compliance with established laws, trust, cooperative behavior, and basic codes of conduct. One of the fundamental differences between long-standing market-oriented democracies and centralized authoritarian ones is how individuals relate to the state. Communist systems fostered attitudes of dependency and fatalism. The system was sufficiently corrupt and inefficient to require nearly everyone to use bribes or other illegal means to get ahead. While the rule of Communist parties has ended in most E&E countries, the culture that it created continues to hamper efforts to build a free and socially cohesive civil society based on the rule of law with a functioning market economy. The international donor community initially underestimated the social capital that would be necessary to introduce and secure essential reforms. We have learned that both patience and programmatic attention are needed to achieve the desired reform results. The E&E Bureau will focus more consciously and effectively throughout its portfolio to nurture the culture, values, and social capital necessary to accelerate and secure reform.

Unfortunately, corruption is endemic in many countries of the E&E region in both the public and private sectors. We further believe that corruption is a development problem, not just a law enforcement problem. Corruption flourishes when transparency, accountability, prevention, enforcement, and education are weak. The E&E Bureau is working to bolster all five areas. We are promoting transparency through our work to create open, participatory governments. To promote horizontal accountability, our programs support checks and balances among government branches at the same level, inspector general functions, and clear hierarchical (not ad hoc or personal) structures within agencies. To promote vertical accountability, USAID programs support the decentralization of power to other layers of government as well as checks and balances from outside sources, such as independent media, trade associations, and political parties. Our programs also support prevention of corruption through the systemic reform of institutions and laws to decrease opportunities and incentives for corruption. USAID is working to promote enforcement through the consistent application of effective standards and prohibitions. Finally, USAID programs support education efforts that point out the adverse consequences of corruption, the tangible benefits of reform, and the concrete potential for positive change.

INNOVATIVE ASSISTANCE TOOLS

The E&E Bureau is making every effort to increase the impact of the resources appropriated by Congress. Some of the methods include building partnerships and public-private alliances within the context of on-going USAID programs and putting in place post-presence mechanisms to sustain goals and promote reform after bilateral assistance ends.

To achieve its objectives, the E&E Bureau has always depended on a wide range of partners, including host country governments, NGOs, other international donors, and the American private sector. Working with organizations that rely heavily on volunteers and sister-institution relationships has the potential for attracting major in-kind and financial resources to advance our strategic objectives. The E&E Bureau encourages *U.S.-based partnerships* to build constituencies for our objectives that will last beyond the endpoint of USAID funding. Such partnerships will become a larger part of the program in the years prior to mission close-out.

Consistent with the initiative expressed by Secretary of State Colin Powell and USAID Administrator Andrew Natsios, the *Global Development Alliance* (GDA) encourages joint funding by USAID and the private sector for activities that serve mutually recognized objectives. We are committed to attracting private business donors and foundations to accomplish common objectives. In FY 2002, the E&E Bureau utilized $33 million to leverage an additional $59 million from our partners in the private sector in support of programs in Armenia and Bosnia-Herzegovina. USAID as a whole leveraged nearly $1.5 billion in 2002. To encourage further the adoption of public-private alliances, the E&E Bureau has established a GDA-incentive fund on which our missions are bidding competitively. A series of training courses for USAID staff contributed to the success of the competition through facilitating contact with potential private sector partners.

USAID's legacy is the long-term impact that its programs have on a country after the bilateral mission is closed. Most of USAID's legacy results from programs implemented during the existence of USAID's bilateral mission, but occasionally a further sustainability of gains made during USAID presence. Such *legacy mechanisms* include partnerships with U.S. private sector institutions, scholarship funds, and other programs that do not require large amounts of recurrent funding or USAID administration.

The *Millennium Challenge Corporation* (MCC), which had its first meeting on February 2, 2004, will administer the Millennium Challenge Account (MCA) that provides for increases in assistance to developing countries of 50 percent over three years totaling $20 billion through FY 2008. The funds are earmarked for countries that have adopted appropriate policies; i.e., that demonstrate a strong commitment to:

- ruling justly (e.g., upholding the rule of law, rooting out corruption, and protecting human rights and political freedoms);
- investing in their people (e.g., investment in education and health care); and
- encouraging economic freedom (e.g., open markets, sound fiscal and monetary policies, appropriate regulatory environments, and strong support for private enterprise).

These three criteria correspond to the three goal areas in the E&E strategy. USAID assistance will be targeted on those areas where improvements are needed to qualify for MCA funding.

CYPRUS, NORTHERN IRELAND AND THE REPUBLIC OF IRELAND, AND TURKEY

The E&E Bureau also provides oversight for Economic Support Funds (ESF) allocations to Cyprus, Northern Ireland and the Republic of Ireland, and Turkey. ESF monies have been furnished to Cyprus and Northern Ireland and the Republic of Ireland to promote reconciliation and conflict resolution through local, bi-communal initiatives. The FY 2004 appropriation for Cyprus is $13.4 million and $21.9 million for Northern Ireland and the Republic of Ireland. The FY 2005 request proposes $13.5 million for Cyprus and $12 million for Northern Ireland and the Republic of Ireland. The FY 2004 and 2005 budget requests include $99.4 million and $50 million, respectively, in ESF funds to Turkey for debt servicing in support of the country's stabilization and economic recovery efforts. In the 2003 War Supplemental, Turkey received $1 billion in ESF funds administered through the U.S. Department of the Treasury.

ASSISTANCE FROM THE SENATE FOREIGN RELATIONS COMMITTEE (SFRC)

In the invitation to this hearing, the SFRC asked if there was any way that it could help us. In general, we are pleased with the authorities that you have accorded us. They provide us considerable flexibility and latitude in our programming. In particular, we have greatly appreciated the use of "notwithstanding authority" and Development Credit Authority, both of which have contributed to the impressive development results that we have achieved in such a short time. We also appreciate Congress's support in providing the Agency with its full operating expense request, as well as new program authorities that will enable us to increase our staff and strengthen our capacity to meet critical development challenges—both in the E&E region and worldwide.

Small and Medium Enterprises

Having largely succeeded in installing a solid macroeconomic environment in our recipient countries, USAID is increasingly emphasizing work with small and medium enterprises (SMEs) because they are the engine for economic growth and employment in our recipient countries. For example, our SME program in Ukraine, that combines regulatory reform, business skills, and micro lending, is producing excellent results. The sector now employs over 4.3 million people. The convening of 211 community roundtables and 143 formal hearings paved the way for progressive regulatory change, including the development of one-stop-shops that reduced business registration time from 30 to 14 days and the enactment of a national law on regulatory policy. As a consequence, the number of registered businesses spiked in 2003 to 2,660,000 from 1,793,000 in 1999. Over 11,000 women received business training; of these more than 3,000 started their own businesses. Under the EBRD's micro lending program (to which USAID is the major donor), the total loan portfolio expanded by 15 percent during the fourth quarter of 2003 to $86.1 million; the program is available in 23 regions and 42 cities in Ukraine.

Credit

Credit is an important emphasis within USAID's SME programs. In Russia, a nationwide network of non-bank financial institutions has made a cumulative total of 114,000 loans with the amount lent doubling over the past year to reach $129 million. In Bulgaria, the number of active clients under USAID's two micro-finance programs increased by September 2003 to more than 5,400, of which 71 percent were women; these programs helped create more than 2,900 new jobs and sustain close to 16,000 more. The Bosnia-Herzegovina seven-year Business Development Program provided over 600 loans worth $162 million and created over 15,000 new jobs while sustaining another 27,636 jobs in the post-war environment. The loan program offered concurrently intensive training and technical assistance in areas such as credit analysis, loan collection, and problem bank management. The program, which ended in 2003 when local banks bought the portfolio from USAID, was instrumental in developing international banking standards and practices in Bosnia. In Romania, USAID's lending programs provided over $8.1 million to the private sector in FY 2003; another $2.2 million went for mortgage lending. In addition, USAID-assisted credit unions extended services to over 10,900 individuals, mobilizing $2.5 million in savings and providing $4.2 million in loans. An important by-product of the work was the creation of Romania's first private residential mortgage company.

Election Monitoring
In Georgia, USAID's funding and support for electoral processes (observations, voter education, monitoring and exit polling) enabled the Georgians to track and prove fraud in the November 2, 2003 Parliamentary elections. This was one factor which contributed to large scale protests resulting in the resignation of the President, appointment of an interim President, and announcement of fresh Presidential elections on January 4, 2004 and Parliamentary elections in March 2004. The Presidential elections subsequently were conducted in a far more transparent fashion than the Parliamentary elections held in November 2003.

Orphans in Romania
USAID is directly confronting the orphan crisis in Romania. During the past year, USAID assistance has contributed directly to: the reduction of the number of children in institutional care by 8,550 (17 percent); the closure of 43 institutions with more than 50 children each that were providing sub-standard care; the creation of over 200 alternative community services; the drafting of legislation to govern standards for adoption; and the implementation of life skills training for youth and child welfare case management procedures to follow up on cases of child abuse and neglect. Also, mayors from all of Romania's 41 counties have been trained in child welfare services. Finally, over $3 million from businesses and other sources and another $6 million from governmental programs have been secured to address the needs of disabled children. These partnership programs are now being implemented for the first time through Romanian NGOs.

Civil Society
With USAID assistance, NGOs in Kyrgyzstan undertook a large advocacy campaign in 2003 to allow grants and humanitarian aid to become tax-exempt. They conducted 14 roundtables in all provinces of the Republic, and over 350 people from NGOs, mass media, and state institutions participated in the campaign. In March 2003, the bill amending the Tax Code was signed by the President and became effective, a major success for civil society generally and for our programs more specifically.

Health
In Russia, the encouragement by USAID of international best practices in 42 maternity hospitals in the Tver region reduced maternal deaths to zero and neo-natal mortality from respiratory distress by 64 percent. In Kazakhstan, in addition to a doubling of government expenditures on health care and the start-up of a new two-year family medicine residency program, USAID (in its targeted work in prisons) has hiked TB case notification by 53 percent and decreased TB mortality by 30 percent. In Ukraine, 483 family clinics have been started, including 200 alone in 2003. Financed locally, they are staffed by better trained family medicine providers. An end result is a decreased number of patient referrals for more costly specialized health care. In Georgia, owing to USAID help, the infant mortality rate has been decreased from 25.2/1,000 births to 11.9/1,000 births; child immunization coverage has reached 87 percent; and the country was declared a polio free zone in July 2002. In Tajikistan, local health committees have been established in 200 communities, and the Roll Back Malaria program has established surveillance centers in each of the country's four provinces and provided equipment and training to correctly diagnose the disease.

CONCLUSION

We are proud of our successes in the region. Our programs, which are integrated into the frameworks set by the National Security Strategy, the Joint State/USAID strategy, and USAID's discussion paper, have permitted us since the fall of the Iron Curtain to make tremendous strides in furthering democracy, installing market-based economic systems, and tending to the social and humanitarian needs of the former Communist states of Europe and Eurasia. We are very aware that there is much left to be done. In particular, the post-Soviet states of Eurasia appear to have a long transition path ahead of them. As new priorities emerge in other parts of the world, we urge the distinguished members of the Senate Foreign Relations Committee to provide continued support to our programs in Europe and Eurasia. The geopolitical, security, and trade and economic importance of the region remains of

vital interest to the United States, and our very close working relationships with the Coordinator's Office in the Department of State allow us to program resources in a way that will be most responsive to these interests.

Thank you, Mr. Chairman. Without the support that this Committee and Congress have given us over the years, the progress that we have made in the region would not have been possible. In closing, I want to assure you of our continued commitment to achieving the noble goals you set out in the SEED and FREEDOM Support Acts.

Senator ALLEN. Your full testimony will be made part of the record as well as your statements. Let me ask you a few questions here and there may be others that will be submitted in writing from myself and other members. I'm sure you'll be willing to answer those.

In my opening remarks I mentioned the difference in the administration's proposal about $8 million for Azerbaijan, $2 million for—I'm using rough numbers—for Armenia. Why is there this difference? What's the rationale for it?

Ms. JONES. Well, let me outline a couple of points to begin with. First of all, we're extremely careful to make sure that whatever assistance we provide to Azerbaijan or Armenia does not in any way enhance the ability of either country, but especially Azerbaijan, to conduct any military operations in connection with the Nagorno-Karabakh conflict. That's an extremely important point for us, not least because we're so heavily engaged in trying to broker a solution, immediate solution to the Minsk group between Armenia and Azerbaijan.

The primary focus of the funding that we give to Armenia is to enhance its communications capabilities to make it more able to participate in peacekeeping in the region. They're working on establishing a peacekeeping battalion. And to enhance the interoperability of Armenian forces with NATO and international forces. One of the things that Armenia is working on, for instance, is to deploy a truck unit to Iraq under OAF.

The FMF we're providing to Azerbaijan does a lot of those things, but in addition, the biggest issue we have with Azerbaijan is to enhance its ability to control the Caspian. This is particularly important not only for oil transport routes, which is on the benign side, but it's an area that can be used for narcotics trafficking, trafficking in persons, WMD trafficking, and transiting terrorists.

So a lot of our assistance is going to enhance their border patrol capabilities and sea patrol capabilities. In addition, we're upgrading, we're helping them upgrade air space management at Nasosne Air Base. That is particularly important for us because it enhances our—the safety of U.S. air overflights and flights that land there on the way to and from Afghanistan and to some degree Iraq. There's KC–135 refueling that goes on there and it's extremely important to us that the capability of this base be enhanced so that our aircraft are safe.

We're also using quite a bit of this money, this funding, to purchase equipment to maintain Azerbaijan's three peacekeeping deployments, one in Kosovo, one in Afghanistan, and one in Iraq. All three are very important to us and it's all meant to be in support of Azerbaijan's, whatever is necessary to support the global war on terrorism, offer to us.

The other aspect to all of this is that over the years we've been able to provide Armenia with a tremendous amount of economic support assistance so that it even now has the highest per capita assistance of any of the countries of Central Asia and the Caucasus.

The other thing that we're hoping for, and this will be decided by others, is that Armenia will qualify for the Millennium Challenge Account, and that will really upgrade the assistance levels that we'll be able to provide to Armenia.

Senator ALLEN. All right. There's about 7 minutes until the vote, so what I'm going to try to do is not hold you over and I'm going to hold back on some questions. I do have some questions on military assistance concerning Armenia and Azerbaijan. I'll submit them for the record.

Ms. JONES. All right.

Senator ALLEN. And I hope you'll answer these——

Ms. JONES. We will be sure to answer.

Senator ALLEN [continuing]. Questions, some which are specific, some larger. I want to try to get some thoughts from you all on two issues real quickly if possible. I am concerned, Mr. Hill, you've mentioned the flood of heroin out of Afghanistan into Central Asian countries, the Caucasus, Southeast Europe, Russia, Ukraine, and so forth. What are we doing in conjunction with anyone else trying to stop the flow of drugs particularly out of places like Afghanistan, which seems to be its only cash crop, very lucrative obviously but unfortunate, in that country. What are we trying to do in that regard and who else is helping us?

Mr. HILL. I'll just be very brief and then Ambassador Jones may want to say something. We're very much aware that those borders are so porous with Afghanistan and we also know that the flood of narcotics out is massive at this point. It ends up in Europe, it's beginning to stop off on the way, and that means it's having a terrible impact on Central Asia and Russia, et cetera.

Everything we do in our portfolio that deals with rule of law, judicial reforms, anything like that that will prevent the corruption from stopping the prosecution is a step in the right direction. USAID is not as involved in the war against smuggling as other agencies that work on border security, et cetera. But to the extent our rule of law processes and programs succeed, that can make blockage more likely.

But Ambassador Pascual and I were just in Central Asia and we were told that only a very small percentage of the border is controlled at this point, so there are massive amounts of assistance that would be required to really address that particular problem.

Senator ALLEN. You're saying as a practical matter this is——

Mr. HILL. With the amount of moneys that we have to spend——

Senator ALLEN. Rather than being oblivious and saying, gosh, we care about it and so forth, we have a hard time on our own borders. And so you're saying it's very porous.

Mr. HILL. It is. It's expensive, yes.

Ms. JONES. I might just add a couple of things. In Afghanistan itself, the U.K. is responsible, it's the lead nation for trying to manage the counter-narcotics effort. They've just announced today that they're doubling their budget.

In the meantime, we also have some very aggressive programs on border control, border security, especially with Tajikistan and Uzbekistan as the first line of resistance, if you will. Tajikistan has an impressive record of capturing heroin and other narcotics as they cross the border. It's still not enough, but it's the kind of effort that we have underway. DEA is increasing its presence in these countries. We work very closely with them to try to increase that even more, and as I mentioned in my opening remarks, we have asked for quite a bit more money this year in order to go after the narcotics problem.

In Turkmenistan, we have a joint operation again with the British where we do some of the counter-narcotics work, the British do other parts of it, especially on the border with Iran, to get at one of the porous borders.

Senator ALLEN. Thank you. Let me ask you one final question. Last year when the Senate was considering the foreign assistance measure, I was successful in adding, it turned out to $5 million to combat piracy of intellectual property. There was concern—it's not just in your portfolio, it's a problem in Asia, it's a problem all over the world where our intellectual property, our entertainment, our software is being stolen, misappropriated, and that means jobs. There's a lot of innovators, a lot of research in this country and obviously in production.

I've heard, listening to folks even in your area, it's not unique to people complaining about China and different Far East Asia or Eastern Asia areas but also in the southeastern area and Central Europe. Do you find piracy, theft of intellectual property, to be a problem and what, if anything, is being done there? What policies, what resources are in place to protect the United States' intellectual property?

Ms. JONES. It is a problem. It's one not nearly on the scale of other regions, but we have a very aggressive diplomatic effort underway with each of these countries, particularly with Ukraine, for instance, to ensure adherence to IPR requirements to—and Russia, to get them to pass much better IPR legislation, to implement——

Senator ALLEN. And enforce——

Ms. JONES [continuing]. Enforce IPR legislation, absolutely. And there are a variety of sanctions that are available to use as well if the work isn't done as well as it should be.

Senator ALLEN. Thank you. Do you have anything to add, Mr. Hill?

Mr. HILL. Well, just that our portfolio of USAID programs often tries to help these countries gain membership in the international organizations that require that they pass legislation dealing with these problems, and in quite a number of countries we have had some success in getting them to pass it. The second part of it, of course, is to get them to enforce it, but there is progress, and it's a big part of what we try to push.

Senator ALLEN. I think you both understand how much I care about this issue and I think you all do as well—to me it's a priority protecting intellectual property rights and what's happening, again, not just in your area. That is a big concern, and for countries in Western Europe, countries such as Germany. This is not unique to some of the countries and I think it's vitally important that our

leaders, the United States leaders, make sure they know how important we consider this to be, and this is not just something that we don't care about you stealing this or pirating that or breaching various copyright patents.

Ms. JONES. Mr. Chairman, one of the big engines we have is the desire of many of these countries to join the World Trade Organization, which requires very stringent IPR legislation, so that's one of the other big hooks that we have as with Ukraine or with Russia or with Kazakhstan, any of these countries, that their legislation must be in place and the implementation must be vigorous.

Senator ALLEN. Thank you both. I wish we could discuss it longer but I need to let you all go right on time. Thank you both for your testimony and you're anticipated to answer some other questions. The subcommittee hearing is adjourned.

[Whereupon, at 4 p.m., the committee adjourned, to reconvene subject to the call of the Chair.]

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

RESPONSES OF HON. ELIZABETH JONES TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR GEORGE ALLEN

Question 1. Recently, the administration released its fiscal year 2005 budget requesting $8.75 million in military assistance for Azerbaijan and only $2.75 million for Armenia. As you are aware, Congress heeded the administration's request in the aftermath of September 11 and granted the President limited and conditional authority to waive Section 907 of the Freedom Support Act.

Prior to the enactment of the waiver, the administration, as a matter of unilateral policy but not law, did not allocate military assistance to either nation citing the Section 907 restrictions placed on Azerbaijan and the need to maintain balance. As part of the 907 waiver, there was an agreement made between the administration and Congress to continue ensuring military parity between Armenia and Azerbaijan. How does this budget request not undermine that understanding and not contradict the administration's previously held position?

Answer. The administration has requested almost $5 billion in FY05 in the Foreign Military Financing (FMF) account. FMF granted to friendly countries is used to purchase U.S. military equipment and services, such as training. Changes in country requests reflect normal priority adjustments. FMF improves the capability of allies and other friendly nations to contribute to international crisis response operations and also promotes interoperability of their militaries with U.S. armed forces. Azerbaijan currently provides peacekeeping troops in Iraq, Afghanistan, and Kosovo.

Specific increases for Azerbaijan are linked to U.S. priorities in fighting terror, peacekeeping, and maritime security, particularly regarding proliferation and drug trafficking on the Caspian Sea. A large portion of our military assistance program is aimed at improving Azerbaijan's maritime capabilities to detect and interdict the illicit movement of WMD, drugs, or terrorists through this poorly controlled transit corridor.

We do not have a policy that FMF funding levels for Armenia and Azerbaijan should be identical, but we are determined to ensure that our military assistance to these two countries does not alter the military balance between them. We are confident that increased FMF funding for Azerbaijan will not alter the military capability or offensive posture of Azerbaijan, nor will it perturb the military balance between it and Armenia in the Nagorno-Karabakh conflict. Our proposed FMF funding does not signal any change in our position on Nagorno-Karabakh. Finally, I should note that the balance of overall U.S. assistance in the FY05 budget request remains strongly in Armenia's favor. The overall FY05 request includes $67 million for Armenia and $51.2 million for Azerbaijan.

Question 2. Recently, the administration released its fiscal year 2005 budget requesting $8.75 million in military assistance for Azerbaijan and only $2.75 million for Armenia. As you are aware, Congress heeded the administration's request in the

aftermath of September 11 and granted the President limited and conditional authority to waive Section 907 of the Freedom Support Act.

Furthermore, how does providing asymetrical military assistance to Azerbaijan not damage the credibility of the U.S. as an impartial and leading mediator in the ongoing sensitive peace negotiations for the Karabakh conflict?

Answer. FY05 military assistance requests for Armenia and Azerbaijan reflect the two countries' very different needs. Notably, Azerbaijan, as a Caspian littoral state, has a large unmet need for maritime security capabilities, which Armenia simply does not have.

The specific funding levels of our military assistance programs or of overall U.S. assistance programs in either country will not affect our ability to serve as an impartial mediator. In this context, it is worth noting that the overall FY05 assistance funding request for Armenia remains significantly higher ($67 million) than the request for Azerbaijan ($51.2 million).

Question 3. Recently, the administration released its fiscal Year 2005 budget requesting $8.75 million in military assistance for Azerbaijan and only $2.75 million for Armenia. As you are aware, Congress heeded the administration's request in the aftermath of September 11 and granted the President limited and conditional authority to waive Section 907 of the Freedom Support Act.

Finally, would not the administration's action only serve to legitimize Azerbaijan's ongoing blockades against Armenia and Karabakh and its periodic threats to renew military aggression, thereby subverting the short- and long-term U.S. policy goals of regional cooperation and security for the South Caucasus region?

Answer. Any military assistance that we provide to Azerbaijan is carefully considered to ensure that it will not create offensive capabilities that might upset the military balance between Azerbaijan and Armenia. The assistance that we provide to the two countries in no way legitimizes any aspect of their unresolved conflict. Regional stability is a primary concern of U.S. policy in the South Caucasus, and the administration will do nothing that would put that objective at risk. We continue to work to help resolve the Nagorno-Karabakh crisis, both through bilateral diplomacy with the two countries and through our co-chairmanship of the Minsk Group.

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