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**Assessing U.S. Foreign Policy Priorities and Needs Amidst Economic Challenges
in the Middle East**

**Before the Sub-Committee on Middle East and South Asia
Committee on Foreign Affairs
U.S. House of Representatives
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Chairman Chabot, Ranking Member Ackerman, distinguished members of the Committee:

Thank you for inviting me to testify today on the U.S. Agency for International Development (USAID) role in assessing and responding to the unique economic challenges in the Middle East. I appreciate the thoughtful guidance provided by the Subcommittee in the letter inviting me to this hearing. In my testimony today, I will address the key points you raise on how the budget request serves to advance U.S. interests in the region, as well as the future of U.S. policy in the wider region, including our strategy for helping the people of the Middle East move towards democracy and improve their economic circumstances.

In describing how the challenges facing the region impact U.S. foreign assistance programs, I will also highlight how USAID programs will continue to contribute to the achievement of U.S. foreign policy goals in the region.

Challenges

Mr. Chairman, if I may begin by providing brief background on USAID in the Middle East and North Africa: We operate seven country programs and two regional programs, with common themes to promote economic and political stability. Our longstanding relationships in each of these countries have enabled the USG to make significant progress on economic growth and development.

At the same time, the Middle East is also beset by complex problems, many of which have fed the current situation: a youth bulge - nearly 65% of the population in the Middle East is under the age of 30, a rapidly growing population, unemployment, rising food and oil prices, political marginalization, corruption, weak state institutions, and violent extremism.

These factors contributed to the historic events of recent months as the people are loudly demanding basic rights that have long been absent and expressing their deepest concerns about their circumstances. They expect - and deserve - more from their leaders. Their courage and determination have been extraordinary and inspiring.

The United States has been a strong voice for people demanding basic freedoms. For over a decade, USAID has had robust programs in the Middle East and North Africa to strengthen civil society and independent media, improve the rule of law, enhance political participation and consensus-building, and promote effective and efficient governance that delivers for citizens. People of the Middle East are now clamoring for good governance and free and fair elections and the United States supports them in these aspirations. They are also seeking employment, food to feed their families, and education for their children - the United States through USAID supports these aims, as well.

Contributions to date

USAID currently manages \$1.7 billion (FY10 budget) in U.S. assistance across the Middle East and North Africa, including Iraq. Our programs produce five outcomes. First, they generate economic opportunities through trade facilitation, infrastructure improvements, and business development. Second, they cultivate effective and transparent strong local, regional, and national institutions that will be able to provide reliable services to citizens. Third, they expand the horizons of Middle Eastern youth by making quality education available to more students. Fourth, they help to raise living standards through health programs, particularly for vulnerable groups such as women and children. And fifth, they promote more inclusive democracy and governance throughout the region.

USAID's FY 2012 request for the Middle East is nearly \$1.6 billion. This budget was prepared before the protests began in Tunisia. Given this historic situation, however, we are drawing on all the resources and expertise that we have across the U.S. Government to respond effectively and efficiently to the needs of the people of the Middle East. We are assessing priorities and will need sufficient and flexible funding so we can respond to new opportunities. This includes adapting ongoing programs to the current political, social, and economic context and mobilizing funds to immediately support civil society and the economic impact of the transition processes.

At the same time, other USAID development programs are proceeding without interruption, and we plan to intensify efforts so that progress made to date will not be lost and programs will continue to realize significant, long-term results in economic growth, democracy, education, health, water, and sanitation. We continue to need requested funding to address ongoing strategic interests.

USAID is part of the effort to transition U.S. engagement in Iraq from military to civilian leadership. Additionally, the U.S. Government has robustly supported international and non-governmental organizations to meet humanitarian needs - for instance, U.S. humanitarian assistance teams are currently in Egypt and Tunisia, working with partners to address the urgent needs of those who are fleeing as well as those remaining inside Libya. In the immediate aftermath of the protests in Tunisia that ousted President Ben Ali, USAID mobilized humanitarian assistance to meet the urgent needs of those most impacted by violence and dislocation. And for the past several years, we have provided food aid and humanitarian assistance in response to the fluid and ongoing situations in Yemen and the West Bank and Gaza.

Improving economic circumstances

At this remarkable moment in history in the Middle East, USAID recognizes that economic issues have an impact on future regional stability. Because the benefits of significant economic growth have not been shared equitably, high unemployment rates persist in the region, ranging from 20-25% for youth depending on the country. Unemployment rates are even more acute for women and for university graduates. The region has long suffered from anti-competitive policies, an education system that does not meet the demands of a modern economy, and an emerging private sector. In addition, rising fuel and food prices continue to pose serious challenges for the population.

Our FY 2012 request provides critical assistance for economic opportunity programs throughout the region. We have job creation programs; education programs focused on building the skills of youth to prepare them for employment; and programs that provide small businesses with access to finance, business development services, and trade association and cooperative support.

For instance, in Yemen, our primary goal is to support a more stable society by targeting programs to the drivers of instability in highly vulnerable areas. Right now the Yemeni economy is unable to create a sufficient number of jobs for a rapidly expanding, young workforce, resulting in soaring unemployment and a population of disenfranchised youth, particularly in restive rural areas. As part of the \$68.5 million request, our community livelihoods program will expand youth education and focus vocational training programs on skill sets needed to meet Yemeni economic development needs. We are working with the private sector to set up apprenticeships and are also providing business development services, agricultural extension support, and policy reform assistance.

In Egypt, USAID has provided \$25.9 billion in support since 1975. During the past 35 years, USAID has made significant contributions to improve the quality of life for Egyptian citizens. It's important to keep in mind that 35 years ago, Egypt was a low income country with a stagnant economy, crumbling infrastructure, and a growing, impoverished population. Per capita income was \$260 in constant 2000 USD, exports totaled only \$2 billion, Foreign Direct Investment amounted to a meager \$800 million and the economy was dominated by the public sector. Today, Egypt has one of the most improved and diversified economies in the Middle East. Per capita income has reached \$2070 in constant 2000 USD and Egypt is recognized as a lower middle income country by the World Bank. Exports have increased to \$23.9 billion and FDI inflows are now \$6.7 billion.

USAID's program in Egypt has directly and fundamentally supported the gains described above. Economic policy dialogue and technical assistance promoted reforms that liberalized the economy and opened it to foreign trade and

investment, enhanced the scope of the private sector, and made it vastly easier to do business in Egypt. USAID played a key role in modernizing and streamlining Egypt's tax system, helping the country to mobilize more of the resources needed to meet Egypt's pressing infrastructure needs and improve the delivery of health and education services. USAID worked with the government and the private sector to reduce unnecessary regulation, promote competition, and strengthen and deepen the financial sector.

To ensure that Egypt's gains continue in the future and are more broadly shared, it is vital that the Egyptian economy remains stable. With reprogrammed funds, USAID is launching a \$150 million package to assist with immediate transition needs. In addition to support for political processes, this package will also address the underlying economic and social challenges that led to the recent unrest by scaling up our efforts to improve labor skills productivity, particularly for youth who will continue to play a vital role in the transition. This may include job creation and small and medium enterprise loans, but the parameters of this support must remain flexible so that USAID can respond quickly and with agility to requests from Egyptians directly and within a rapidly changing environment. This reprogrammed amount will complement the \$250 million FY 2010 request level which aims to adapt ongoing programs to respond to new opportunities.

In the West Bank and Gaza, Jordan, Morocco, and Lebanon, USAID provides assistance that generates employment, increases the competitiveness of key enterprises, and increases growth and economic opportunities across the region. For instance, in the West Bank and Gaza, USAID has provided on-the-job and formal training on lending for small- and medium-sized enterprises to nine partner banks, facilitating over \$44 million in lending to small- and medium-sized Palestinian enterprises. We have trained more than 500 youth in information technology programs and provided more than 120 paid internship opportunities in the Youth Development Resource Centers and other local organizations. Further, over the past three years, our Emergency Jobs Program has generated more than 350,000 person-days of employment benefiting approximately 1.5 million Palestinians. USAID aims to build on programs such as these to respond to the economic issues confronting the region today, recognizing that the next evolution in our programs must be increasingly oriented to better support democratic and economic reforms that are taking place.

USAID helps to build a better future for Lebanese citizens through microfinance and education programs for youth and women. Earlier this week the U.S. Ambassador to Lebanon inaugurated a five-year program funded by USAID that will help establish hydroponic production of high-value fruit, vegetables, and flowers with the long-term goal of improving earnings and livelihoods of rural Lebanese producers. Additionally, she announced in February that in 2011, USAID will provide 52 full, 4-year undergraduate scholarships at the American University in Beirut.

Additionally throughout the Middle East, USAID is establishing a network of Water Centers of Excellence, helping fulfill a commitment made by President Obama to strengthen science and technology in Muslim-majority countries. This Network will link technical institutions across the Middle East and North Africa region with each other and with counterpart U.S., European, and other global institutions to address water challenges confronting the region. The Network will help build and exchange regional science and technology capacity to improve water planning and management, expand water supply, manage demand, and dramatically increase its efficient and productive use.

In Iraq, USAID is continuing its economic growth and agriculture programs which promote the expansion of the non-oil private sector while furthering Iraq's integration into the global economy. Diverse economic growth driven by an emerging private sector is vital to generating jobs, alleviating poverty, and promoting stability. As part of our \$325 million request, USAID will continue to support microfinance institutions which have distributed more than 211,900 loans worth \$488 million. Iraqis at the new microfinance institutions are learning financial and management skills and building the foundation for a sustainable credit industry in Iraq. USAID established and supports small business development centers that provide business and financial services and training to promote Iraqi entrepreneurship and business expansion. The centers also focus on the underserved youth population.

Moving towards democracy

Given recent events, USAID recognizes that it is necessary to reorient our assistance in order to be responsive to the current issues confronting the region. We recognize the impact of the protests on political reform and citizen participation and intend to maximize the capabilities of citizens and institutions to foster and adapt to immediate political changes, as well as to longer-term democratic reform.

The newly designed programs must be flexible enough to adapt to rapid changes in the region. Over the years, the USAID programs in the Middle East and North Africa have evolved in response both to political and development priorities and to existing socio-political environments. As democratic forces of change are sweeping the region, we are now entering a new phase. The opportunity for political reform is unprecedented, and USAID stands ready to support it.

Mr. Chairman, with all these changes, it's appropriate to ask: Where do we go from here? In February, when USAID Middle East mission directors met with Administrator Shah in Doha, we discussed how our assistance programs

could shift to reflect the significant changes in the region. There was agreement at the meeting that good governance is fundamental to all activities throughout the region.

We are currently reviewing country programs to identify short- and medium-term opportunities to support transformational change in the region. We recognize that all USG assistance needs to reflect long-term democracy and governance goals as the foundation of overall strategy and operational approach, and that political reform is necessary for our assistance programs and development goals to be sustained. USAID is planning a meeting this spring to discuss new strategies for advancing democracy, human rights, and sound governance across the region.

Building on over a decade of democracy and governance programming in the Middle East, the USG supports the people of the Middle East as they progress toward more democratic societies. USAID assistance will play a vital role as new courses are charted. We are working with our partners on the ground to assess each country's situation and to see how we can most effectively support democratic efforts in the region.

Since the beginning of the protests in the Middle East, USAID began redirecting ongoing programs and quickly put in place new programs that are responding to the rapidly unfolding situation and meeting needs as they emerge. For instance, in Egypt we have been in contact with a wide range of critical actors, including current Egyptian partners and new actors mobilized by recent events, to demonstrate USG support for a peaceful transition, listen to their assistance priorities, and redirect significant components of their activities in support of a democratic transition.

In an effort to help make the aspirations for reform into a reality, USAID will also work through public sector institutions at all levels to improve systems of governance and help governance institutions better respond to needs of citizens. If appropriate, USAID will work with relevant government-related institutions in conducting democratic elections. These initiatives demonstrate our responsiveness to the people of Egypt in their desire for free and fair elections, accountable government, and respect for universal human rights.

In Yemen, almost a quarter of our assistance is focused on democratic reforms by working to strengthen government institutions and improve the delivery of public services while encouraging more citizen participation in the political process. Additionally, USAID is poised to support the elections process in Yemen. As you know, President Saleh has stated that he will not run in the 2013 elections, and parliamentary elections will be held in 2011. Yemen has held presidential and parliamentary elections with the opposition's full participation in the past decade. It is important that we continue advocating for free, fair, and inclusive elections that the Yemeni people will view as legitimate.

In Lebanon, we will review the new government's composition, policies, and behavior to determine the extent of Hezbollah's political influence over it and its alignment with US policies and the goals of our assistance. Since the new Lebanese government has not yet been formed, it is premature to judge it and make any determinations about the future of U.S. assistance to Lebanon at this time. We will continue to work with the interagency, however, to closely monitor developments in Lebanon as they unfold. Nonetheless, it is important that we continue to plan for the requested \$100 million of ongoing assistance through FY 2012. USAID engagement is critical to fostering stability and democracy in Lebanon as we enhance economic and social opportunity to the Lebanese people living in areas at risk to extremism and strengthen the government's ability to provide quality services to its citizens.

The Iraqis moved forward from dictatorship through an arduous and difficult transition to a democratically elected government answerable to its people. For seven years, USAID efforts have supported the political, economic, and security conditions necessary for a stable and prosperous Iraq. USAID will continue to play a major role in Iraq as U.S. engagement transitions from military to civilian leadership. Our current programs work with Iraqi government institutions at all levels to improve their effectiveness in delivering essential services, while also working with the newly-elected Iraqi parliament to improve its ability to conduct institutional oversight of government operations, legislative development, and constituency representation. USAID will also continue its community development and civil society programs that work directly with the Iraqi people at the grassroots level to mobilize their own resources to solve community priorities and local development needs. Despite Iraq's status as an oil producing country, our assistance remains important to support Iraq's political and economic development, and to encourage the reforms necessary to bring Iraqi governance up to international standards.

Conclusion

As USAID Administrator Rajiv Shah has stated, "our assistance is not just from the American people. It's also for the American people. Our assistance develops the markets of the future. Our nation's economic future will be in part determined by the countries in which USAID currently has a strong presence," as developing countries represent our country's fastest-growing export markets. U.S. goods exports to the MENA countries in 2008 were \$66.8 billion, up 20 percent from 2007 and the MENA countries combined would rank as the 4th largest export market for the United States in 2008.

But also, development plays a "critical role in our nation's efforts to stabilize countries and build responsive, viable local governance." Our efforts in the Middle East are indicative of this role - even now, our staff and partners are meeting with civil society and government leaders to strengthen governance and assist with transitions throughout the region. And, as President Obama, Secretary Clinton, and Administrator Shah believe, "together, we have the power to create the world we seek if we have the courage to embrace the opportunity and the willingness to do things differently." Our emerging strategy in the Middle East takes us one step closer to that goal.

I appreciate the opportunity to share what USAID is doing to advance prosperity, democracy, and security in the Middle East and I am eager to hear your advice and counsel. I welcome any questions you may have.