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I welcome the opportunity to appear before you today to discuss the work of the U.S. Agency for International Development in Asia and the Near East.

USAID works in 28 countries in Asia and the Near East – from Morocco to the Philippines and as far north as Mongolia. The region is home to 64 percent of the world's population and two-thirds of the world's poor.

Foreign assistance is an essential component of U.S. foreign policy in the region. To meet the needs of the people of Asia and the Near East, we have missions in 19 countries. Five of those missions – Afghanistan, Pakistan, Thailand, Yemen and Iraq – opened recently. We established them to handle priorities arising from U.S. foreign policy goals and ongoing development challenges in the region. Three countries in ANE are eligible for the Millennium Challenge Account, and three have been selected as MCA threshold countries. Our FY 2006 request is consistent with U.S. foreign policy priorities and rewards countries that demonstrate commitment to democracy, good governance and economic freedom.

There are struggling democracies throughout Asia and the Near East that need help building stronger legal and governing institutions; promoting citizen participation, particularly that of women; and strengthening the basic services they provide to the public.

Corruption is a pervasive problem, making it difficult for economies and legal systems to function properly – particularly in South and East Asia. This also makes foreign investors less likely to put more money into the region.

Fundamentalism is spreading, especially in the Middle East. The insurgency in Iraq and the ongoing Israeli-Palestinian issue make the Middle East one of our greatest challenges and foreign policy priorities. Radicals are taking advantage of the sense of hopelessness caused by oppressive regimes and extreme poverty. Severe restrictions on human rights impose a sense of fear among many.

### **Threat of Instability and Terrorism**

USAID's overriding focus is countering the threat posed by instability and terrorism in Asia, the Middle East and North Africa. Conflicts permeate the region - from ongoing insurgencies in Iraq, Afghanistan and Nepal to the separatist movements in Mindanao, Philippines and Sri Lanka. Many countries harbor extremist groups that prey on disenfranchised populations left vulnerable by their government's inability or lack of commitment to meet their daily needs. As these extremist groups grow, they threaten to destabilize their own countries and often support terrorism directed at the United States. USAID is an integral player in the U.S. government's response to these threats.

All of USAID's programs, ranging from democracy and economic governance to education and health care, address the poverty, extremism and corruption that threaten the region's stability. USAID plays an indispensable role in stabilizing and rebuilding Afghanistan and Iraq; and mitigating conflict and improving conditions for peace in the Middle East and elsewhere.

In FY 06, USAID proposes shifting \$275 million in Development Assistance funds to the more flexible Transition Initiative (TI) account for Afghanistan, Ethiopia, Haiti and Sudan. TI funds provide the necessary resource flexibility

to target the sources of fragility in countries where political and economic conditions remain volatile. Afghanistan is a prime example. In its changing security and economic environment, the ability to adjust priorities and programs quickly is critical to supporting its successful transition to a democracy and rebuilding its social and economic fabric. TI funds comprise 24 percent of the total FY 2006 request for Afghanistan.

Operating large programs in high threat environments, such as Iraq and Afghanistan, where we can have only a limited footprint is demanding and has challenged the skills and creativity of our staff. Our American staff on the ground and our host country national staff remain the backbone of overseas missions, but particularly in these countries, which are some of the most dangerous places in the world. Granting USAID's Operating Expense request is vital to the Agency's ability to adequately manage its expanding portfolio and develop a workforce with the depth and skills to respond to the challenges of development in the 21st century.

Although increasing stability and minimizing terrorism are USAID's highest priority, we have other important objectives in the Asia and Near East region such as improving education and workforce training, strengthening democratic and economic institutions and improving health. A few of these are described below.

### **Burgeoning Youth Population Requires an Education for Work and Life**

Giving young people appropriate skills and hope for a better future is essential for economic, political and social development. The Asia and Near East region has experienced a drastic demographic shift and now houses the largest generation of youth ever – 368 million young people in the 19 countries where USAID has a presence. The youth population has grown disproportionately compared to the rest of the population, putting enormous pressure on governments with limited capacity and resources to provide education and employment opportunities. Developing a workforce with the right skills to be productive is a key issue across the region. USAID implements school-to-work and vocational programs to equip the youth population with skills needed in the job market.

### **A Blue Revolution**

USAID hopes to spearhead a "blue revolution" to address the life-threatening and growing constraint of scarce water resources. Some of the most important international security interests in Asia and the Middle East either derive from, or are significantly exacerbated by, trans-boundary water disputes over water sources. Water needs in Jordan exceeded supply by 78 percent in 2000, and West Bank/Gaza has water to meet only one-third of its minimum drinking needs. Projections show that much of South Asia will be facing similar shortages of potable water by 2025. A serious challenge to maintaining the quantity and quality of water is land degradation due to deforestation and settlement by growing populations.

### **Public-Private Partnerships**

USAID recognizes that the private sector is a huge factor in the places we work, either through their presence in East Asia or lack thereof in the oil and utility industries in the Middle East. Partnerships with the private sector enable USAID to leverage funds, technologies and new ideas to address the growing challenges in our region. Identifying synergies between our goals and our comparative advantages have led to a number of successful partnerships, including an education initiative in the Broader Middle East and North Africa and campaigns against illegal logging in Asia.

### **Regional Hubs**

One of our strategies for increasing surge capacity and enhancing management efficiency is the opening of regional offices in Bangkok and more recently in Cairo. These offices provide contracting, legal, and financial services to field missions and manage programs in countries with no USAID presence and programs targeting key regional issues with a regional dimension such as HIV/AIDS and trafficking in persons.

### **Tsunami Response and Reconstruction**

In December 2004, a major earthquake followed by a tsunami hit Asia and Africa, devastating many coastal areas. Over 220,000 people in eight countries perished in a few hours and many more had their homes and livelihoods swept away. The coastal areas of Indonesia and Sri Lanka, the Maldives and two Indian island chains bore the brunt of the calamity and will require significant investments in rehabilitation and reconstruction. President Bush has

pledged long-term U.S. commitment to help the tsunami victims rebuild their lives.

USAID's presence in these countries, our expertise with disaster assistance, and solid working relationships with the region's governments and our partner nongovernmental organizations meant we were able to respond immediately, providing life-saving food, water, medical care and shelter. Lessons learned from working with the Department of Defense in Afghanistan and Iraq also bore fruit in the weeks following the disaster. Close coordination between USAID and the military was a key part of the success of the U.S. response.

Now, we have moved on to rebuilding the communities devastated by the tsunami. Cash-for-work programs to give families incomes, loans and training to develop livelihoods and design of longer-term reconstruction projects of water systems and critical infrastructure are underway.

## **USAID's Work Pays Off**

Despite the growing security challenges, our work has brought substantial and measurable results.

In less than two years on the ground in Iraq, we are managing \$4.2 billion in contracts and grants. We laid the foundation for democracy and good governance. The first free elections in more than 40 years were held on January 30, 2005. We have trained 10,000 local council members, and we have rehabilitated over 2,300 schools and trained 32,000 teachers.

Despite ongoing security challenges, the progress we are seeing in Afghanistan is noteworthy. Eight million people, 40 percent of them women, voted in the country's first presidential election. USAID played a prominent role in that success, through voter education programs and distributing and counting ballots. We have built a good relationship with the new government, substantially completed the Kabul-Kandahar highway and contributed to the best wheat harvest in over two decades through seeds, fertilizer and irrigation projects. We have printed 10.3 million textbooks and provided basic health services to 4.7 million people.

In Indonesia, where corruption has been a major stumbling block, we have helped pass anti-money laundering laws. And in the Philippines, where a separatist movement threatens peace in the South, we have helped reintegrate over 21,000 combatants into society and helped equip them with jobs and other social services.

Ninety-five percent of children ages 2-8 in Egypt tune in to the Egyptian version of Sesame Street, learning to be tolerant, practice good hygiene and get a head start in school.

USAID supported the recent free trade agreement with Morocco, the second Arab country after Jordan (2001). We have also worked with Lebanon, Yemen, Vietnam, Cambodia, Nepal, Laos and Algeria on accession to the WTO. A bilateral trade agreement with Vietnam was completed in 2000. These efforts are critical because regional and international trade is an important source of growth for the region.

## **PRIORITIES IN EAST ASIA**

In East Asia, as in much of the Asia/Near East region, conflicts threaten stability. Oppressive and corrupt governments and disenfranchised populations contribute to discontent and obstruct economic growth.

USAID will continue to focus attention and resources on two conflict-affected countries, Indonesia and the Philippines, which are also two important allies in the war on terror. In both of those countries, education is a major part of our programs. Like the rest of the region, access to basic and secondary education remains unequal. Both Indonesia and the Philippines have Presidential initiatives for education of \$157 million and \$33 million respectively. Throughout the region, we are rapidly expanding our education programs.

We will work to open up corrupt and closed political and economic systems, major barriers to investment, good governance and human rights. In addition to targeted efforts in countries like Indonesia, USAID is developing a new regional governance initiative for East Asia. Where possible, we will support trade capacity building to complement the U.S.-Thailand Free Trade Agreement negotiations.

Our intensive efforts to fight the spread of HIV/AIDS in Cambodia have been a resounding success to date. However, the threat persists. We will continue our vigilance against this potential epidemic through regional and

bilateral programs.

We will also continue to combat trafficking. Over the last 10 years, the number of people trafficked has grown, and the average age has dropped. Profits from trafficking rank third only to drugs and guns, encouraging criminal syndicates to work closely with local trafficking networks. USAID will continue to work with vulnerable people in high-risk environments, but we will give added attention to children and youth, who are most at-risk.

## **Regional Development Mission in Asia**

The East Asia and Pacific region is one of the world's most important trading routes, which facilitates the spread of HIV/AIDS and other infectious diseases, as well as trafficking of persons and illicit narcotics. Many challenges remain for the region, not the least of which is recovering from the recent tsunami. Many countries in mainland Southeast Asia still have relatively centralized systems of government. Another threat is the health and economic impact of poor air quality, unclean water, and lack of safe sanitation. Countries in the region continue to suffer from the scourge of HIV/AIDS, malaria, and tuberculosis.

A secure, robust, and integrated Southeast Asia Pacific region would bode well for the economic well-being of all nations in the world. Highly unbalanced growth and political or social instability could jeopardize vital U.S. strategic interests in the region.

USAID's Regional Development Mission/Asia manages regional programs, strengthening U.S. relations with ASEAN members, and country-specific programs in mainland Southeast Asia (Burma, China, Laos, and Vietnam) as well as HIV/AIDS and environmental programs that extend east into the Pacific and west into South Asia.

### **Burma**

The State Peace and Development Council continues to maintain political and military control of the country. The Council's economic mismanagement of the country's resources has led to a deterioration of social and economic conditions.

The intensifying economic hardship in Burma over the past decade has resulted in many Burmese relocating to the Thai-Burma border region. There are over 144,000 Burmese living in refugee camps and hundreds of thousands registered and unregistered Burmese migrants.

USAID provides humanitarian assistance, including health care and efforts to control infectious diseases. Democracy programs train Burmese journalists and public information workers to improve the quality and dissemination of news and information on the situation inside Burma. Scholarships are available for Burmese refugees to study at universities around the world.

### **Cambodia**

After a year of political stalemate, the country has inaugurated a new administration and a new monarch, signaling new prospects for stability. However, corruption permeates all aspects of daily life.

More than half of Cambodia's 13 million people are under the age of 18. Ensuring that they receive an adequate education that will prepare them to be productive citizens remains a major challenge. The forests of Cambodia are one of its most valuable resources. The Government has attempted to regulate forest exploitation, with limited success.

U.S. interests in Cambodia include strengthening democracy; expanding regional cooperation and integration; promoting greater economic openness and lower trade barriers; and addressing terrorism. USAID programs address HIV/AIDS prevention and care; expand access to maternal, child, and reproductive health services; increase the participation of political parties, NGOs, and the private sector in promoting human rights and documenting evidence of Khmer Rouge atrocities; and improve the quality of basic education.

### **China**

USAID's activities in China are limited to assisting Tibetan communities, a regional HIV/AIDS program and support for American Schools and Hospitals Abroad.

The Tibetan Plateau presents a challenging implementation environment for development assistance. Those most in need of assistance live in small nomadic communities scattered across vast rural tracts, unserved by roads or other public infrastructure, and the harsh climate limits assistance to the warmer nine months of the year.

The principal goal of the program is to strengthen Tibetan communities' capacity for meeting their socio-economic needs, while conserving the environment and preserving their cultural heritage. This program is implemented through U.S. non-governmental organizations.

## **East Timor**

In 2002, after 24 years of Indonesian occupation, East Timor became the first newly independent nation of the millennium. It is one of the ten poorest countries in the world with an estimated population of 924,642. Its small domestic market, island status, extreme mountainous terrain, and poor infrastructure present formidable challenges.

Despite these challenges, East Timor has made solid progress since 1999 in establishing a democratic state and revitalizing its economy and export market for coffee. However, its bid for the Millennium Challenge Account failed in the economic growth area. Given the Government's willingness to respond, dedication of the international community, and concentration of MCA threshold resources in this area, rapid progress is possible.

The overall goal of the USAID program will continue to address the long-term development needs in accordance with key U.S. foreign policy interests in East Timor. USAID programs address Timor's most pressing concerns: accelerating economic growth and job creation; good governance; and improving basic health services.

## **Indonesia**

Besides the new challenges created by the tsunami, significant social, political, and economic barriers continue to impede Indonesia's progress toward becoming a moderate, stable, and productive nation. More than half of Indonesia's population subsists on less than two dollars per day. Governing institutions remain weak and corruption is endemic. Approximately half of Indonesian children who start primary school do not complete junior secondary school, and drop-out rates are increasing.

In 2004, Indonesians voted in a new President, Vice President and legislators in free and fair elections. By holding the largest and most complex single-day elections in history, the most populous Muslim nation demonstrated to the world the compatibility of democracy and Islam.

The GOI commitment to tackling terrorism and regional conflicts is strong, but the September 2004 terrorist bombing of the Australian Embassy and continued violence in Aceh in 2004 demonstrated that sustainable solutions to these issues remain elusive. The current ceasefire in post-tsunami Aceh offers hope for future conflict resolution.

The outcome of Indonesia's democratic transition has profound implications for U.S. strategic interests in fighting terrorism; preserving regional stability in Asia; strengthening democratic principles, the rule of law, and respect for human rights; and expanding access for U.S. exports and investment.

USAID immediately responded to the tsunami disaster with relief assistance. Additional relief and reconstruction activities will respond to the needs in Aceh. USAID focuses on economic growth and job creation; clean and good governance; and improving the education and health sectors. The Millennium Challenge Corporation has identified Indonesia as an eligible country for the Millennium Challenge Account. USAID will play an active role in helping Indonesia qualify for these new funds.

## **Mongolia**

Mongolia's harsh climate, small domestic market, land-locked status, and lack of infrastructure present formidable challenges. Yet the country provides an important example to others in East Asia, Central Asia, and elsewhere on how to manage an economic transition within a democratic political framework. Mongolia has also been a visible supporter of the United States in the continued war on terrorism.

USAID's programs directly address two of Mongolia's most pressing concerns: sustainable private sector-led economic growth and more effective and accountable governance. This includes work on growth at the policy, sector, individual firm, and "grassroots" levels. Judicial reform is the largest program within USAID's governance work, leading to fully automated courtrooms that increase public access dramatically.

## **Philippines**

The Philippines has long been a close strategic ally of the United States. However, the Philippines continues to be held back by internal conflict and violence. The sizeable Muslim population in Mindanao is marginalized economically and lacks adequate access to basic social services.

Weak leadership, powerful vested interests and ongoing conflict feed the cycle of poor economic performance by discouraging private investors and tourism and draining public coffers.

Nevertheless, the Philippines can accelerate its economic and social development as well as the ongoing peace process with the Mindanao-based Moro Islamic Liberation Front. With USAID assistance, more than 24,000 former combatants from the Front have been successfully reintegrated into the productive economy, demonstrating the tangible benefits of peace.

USAID concentrates on reducing conflict in Mindanao and other areas vulnerable to violence; fighting corruption and supporting improved performance of selected government institutions. Other programs promote the health and well-being of Filipinos through improved and decentralized service delivery, increased private sector involvement, social acceptance of family planning, and policy reform. In addition, USAID protects the Philippine's rich natural resources by strengthening their management and governance and encouraging better urban environment management and reliable and cleaner energy. In Mindanao, USAID increases access to quality education and livelihood skills in the conflict-affected areas, and in the rest of the country, USAID supports broader education sector policy reform.

## **Vietnam**

Since the late 1980s, Vietnam pursued a policy of economic openness and has transformed its centrally planned economy into a market-driven system. As a result of more market-based policies, the Vietnamese economy has achieved a relatively high GDP growth rate (7% to 8% per year) for the last several years. However, Vietnam still ranks as one of the world's 25 poorest countries.

Presently, Vietnam's strict regulatory environment, lack of rule of law, inadequate infrastructure, and lack of market competitiveness handicap the private sector. The HIV/AIDS epidemic is now widespread, not just in high-risk groups, but also among the general population.

An expanded U.S.-Vietnam relationship is important for fostering regional security, prosperity, human rights and peace in the Southeast Asia region. USAID's program focuses on two areas: accelerating Vietnam's transition to a more open, market-based economy and improving access to services for selected vulnerable groups.

## **PRIORITIES FOR SOUTH ASIA**

With a young, impoverished and rapidly growing population, governments in South Asia strain to provide basic human services and economic opportunities.

USAID will continue to rebuild Afghanistan. Working hand-in-hand with the Afghans, we have made significant progress, and the country is well on its way to self-rule through democratic processes. However, there is much more to be accomplished. We will also promote economic and political transitions in conflict-ridden countries, such as Pakistan, Nepal and Sri Lanka. These efforts will remain central to our efforts to bring prosperity to the region.

To combat the region's dire poverty, USAID will spur the rapid creation of jobs and the delivery of essential human services, especially education and health. Boosting incomes among the large numbers living in rural populations will require attention to agribusiness and other non-farm endeavors.

## **Trafficking**

USAID has been instrumental in increasing awareness and understanding of human trafficking in South Asia. In addition to educating governments and populations largely unaware of the issues, USAID has directly assisted about 27,000 people and many more indirectly. The program has spawned policy reforms in India, Nepal and Sri Lanka. In Bangladesh, the government has made significant progress with USAID's help, thereby removing the threat of Tier III sanctions.

## **Afghanistan**

Afghanistan remains at the center of U.S. strategic interests. We began our work there in 2002 to address a humanitarian crisis. Three years later, we see a future bright with hope. The most important development in the post-Taliban era occurred this past October with the completion of highly successful Presidential elections in which over 8 million people voted, with over 40% of voters being women. We are in a unique position to support this deserving population living on the front lines in the war on terror. Working closely with other U.S. Government agencies, USAID plays a key role in the development of the country.

Despite remarkable progress, much crucial work remains. Afghanistan has some of the worst social and economic indicators in the world. Curbing the alarming growth of the illicit narcotics trade, in part by providing viable alternatives for rural farmers, is essential for stability. Agriculture, which makes up over 60 percent of GDP, is hampered by lack of access to markets. Ruined infrastructure is a factor in this, as it impedes economic growth in all areas. Among all other factors, the most important constraint to USAID's work is the security situation.

Our programs support the country's transition from a failed state to a stable, productive country. To boost the economy, USAID works with the Government to strengthen economic policy and increase rural incomes, especially from licit agriculture. Other programs improve basic health care for women and children. In addition, USAID has expanded access to basic education and strengthened democratic practices through funding for elections, media, and civil society.

## **Bangladesh**

Bangladesh is a populous and important ally of the United States in the Islamic world. U.S. interests include a stable democracy, economic prosperity to stem the potential growth of extremism and improved understanding between the two countries.

Bangladesh has responded with remarkable promptness to the threat of Tier III sanctions under the Trafficking Victims Protection Act. At the same time, endemic corruption and deteriorating quality of governance are serious problems. Nearly half of Bangladeshis live below the national poverty level of \$1 per day, and natural disasters, compounded by substandard and unavailable public services, condemn millions of people to misery.

USAID's overall goal is to reduce poverty through a vibrant economy. Additional programs help reduce fertility, improve family health, strengthen small businesses, improve environmental management, strengthen the energy industry, provide food for the most vulnerable, improve disaster response, promote democracy and improve the quality of the basic education system. Measures to more directly address governance and corruption are also being built into the program. Underscoring this work are efforts to engage current and future opinion leaders on key development issues while demonstrating U.S. commitment. Some examples include engaging Islamic leaders with respect to our anti-trafficking program and acquainting journalists with USAID programs and beneficiaries.

## **India**

India is home to 1.1 billion people and has the world's 12th largest economy. India also has the world's third largest Muslim population. As the two largest democracies in the world, the U.S. and India share many values and strategic interests. India is both a key partner in the war on terrorism and an anchor for security and economic growth in strategically important South Asia.

India's strong democratic traditions and financial stability are forces of equilibrium in a volatile region. However, economic development in India is uneven and varies by region and social factors. India is also one of the most disaster-prone countries in the world. The December 2004 tsunami underlines the importance of ongoing investments in disaster management.

USAID seeks to promote economic prosperity through financial market development and expanded trade and investment, reduce incidence of infectious diseases, and enhance family welfare. In addition, USAID supports development and democracy to alleviate poverty, reduce malnutrition, and improve the status of women; and humanitarian responses to save lives and reduce suffering associated with disasters.

## **Nepal**

In the last 54 years, Nepal has made a remarkable transition from an isolated kingdom with limited basic services and infrastructure to a constitutional monarchy. Today, the most pressing problems are the Maoist insurgency and its impact on security and economic development, the stabilization of a democratic multi-party system and return to the rule of law. Nepal remains one of the poorest countries in the world, with an annual per capita income of \$276 and 38 percent of the population living below the national poverty line. Moreover, Nepal is grappling with an incipient HIV epidemic.

On the political front, there are reasons for serious concern, particularly given the King's actions on February 1 when he dismissed the government, announced a state of emergency, suspended fundamental rights and press freedoms, and arrested leading politicians, human rights activists and journalists. This is a serious setback for democracy and rule of law in Nepal and risks increasing support for the Maoists.

The United States has an interest in an economically and politically stable multiparty democracy in Nepal, serving as a geographic buffer between the world's two most populous nations in a volatile region. By addressing the underlying causes of poverty, inequality, and poor governance in Nepal, USAID makes an important contribution to fighting terrorism, promoting regional stability and freedom, and diminishing the likelihood of a humanitarian crisis.

## **Pakistan**

Pakistan is of unquestioned strategic importance to the United States. With 159 million people, it is home to the world's second largest Muslim population and has been key to U.S.-led counterterrorism efforts in South Asia. Over the past year, Pakistan has improved relations with India in the conflict over Kashmir and with Afghanistan.

However, Pakistan faces daunting challenges: poverty, low literacy, little foreign investment, sectarian strife, and terrorism. A stable, democratic, economically thriving Pakistan is vital to U.S. interests in South Asia. However, continued high fertility rates and the large number of youth mean that demand for schools, health care, water and sanitation services and jobs will strain Pakistan's fundamentally weak service delivery systems in the coming years.

In Pakistan, USAID concentrates on improving the quality of education, increasing reproductive health and health care services for women and children, building democratic institutions, and increasing rural incomes and employment. These objectives not only address Pakistan's fundamental social and economic challenges, but also exemplify the long-term commitments needed to establish the United States as a reliable partner and ally to this strategically important nation.

## **Sri Lanka**

Sri Lanka, struggling to recover from two decades of armed conflict, will now have to deal with recovery from the recent tsunami, which flooded coastal areas and wiped away communities along the south and east coasts of the island nation.

Prior to the tsunami, USAID emphasized the opportunities presented by the 2002 ceasefire agreement between the Government and the separatist Liberation Tigers of Tamil Eelam. Now, along with ongoing activities to support the peace process, foster economic growth and civil society participation, and provide physical and psychological rehabilitation for those affected by the war, USAID is undertaking a range of recovery and reconstruction activities.

The United States continues to support measures to enhance the peace process, improving democratic institutions and processes, promoting respect for human rights, and enhancing economic growth through market-oriented policy reform and financial stability. By helping resolve Sri Lanka's civil war, the United States contributes to regional stability and the global war on terrorism. Sri Lanka is also eligible for the Millennium Challenge Account and is working with the MCA to develop a concept paper that addresses its post-tsunami needs as well as the wider development context.

## **PRIORITIES IN THE MIDDLE EAST**

In the Middle East and North Africa, a region persistently lacking in political and economic opportunities, a disproportionately large youth population frays today's social fabric and threatens future stability. Like the rest of the region, economic growth is just not rapid enough to absorb all the new entrants into the workforce. As a result, high unemployment and underemployment rates are typical throughout the region.

Priorities here include rebuilding Iraq, establishing self-rule through democratic processes and the expanding education programs to give youth the skills to earn a living and be productive members of society. In a region where the youth population is exploding and unemployment remains disturbingly high, a relevant education is critical. In addition, USAID supports free trade agreements, infrastructure and business development programs to create jobs and help jumpstart a stagnant economy.

### **Reform in the Middle East and North Africa**

In his State of the Union speech, President Bush said that to "promote peace and stability in the broader Middle East, the United States will work with our friends in the region to fight the common threat of terror, while we encourage a higher standard of freedom. Hopeful reform is already taking hold in an arc from Morocco to Jordan to Bahrain." To support this growing momentum for reform and respond to the region's aspirations for democratic, economic, and social progress, President Bush led the G8 last year at the Sea Island Summit in establishing a partnership with countries of the Broader Middle East and North Africa (BMENA). The foundation of this partnership is the Forum for the Future, which brings together ministers from G8 and BMENA countries to discuss reforms and new ideas for cooperation. The first Forum meeting was held in Rabat, Morocco, in December 2005, and brought together foreign, finance, and economic ministers from 28 countries. Other efforts developed under this partnership include initiatives on literacy, democracy assistance, microfinance, development of small and medium-sized businesses, and entrepreneurship training. USAID is supporting these reform efforts. Many Arab countries have been attempting to reform their political systems for more than a decade. Although change has been slow, space has been created in several countries for increased political debate and action. In some of these countries, political reforms have been fairly continuous. In others, progress has been followed by regression. In a third category, countries have only recently embarked on reform efforts.

USAID supports reform in many sectors and through a variety of approaches. In Egypt, for example, assistance in tariff adjustments have simplified customs procedures, boosted investment and promoted trade. In Lebanon, USAID works with local governments to strengthen administration and with citizens to encourage their participation in public decisions. A manual to educate women on human rights has been distributed throughout Morocco, and programs to train judges in the West Bank and Gaza have strengthened the judicial system and promoted rule of law.

### **Middle East Partnership Initiative**

Under the Middle East Partnership Initiative (MEPI), managed by the State Department, USAID administers a variety of activities across the MEPI pillar areas of economic reform, political reform, education reform, and women's empowerment. Some USAID-administered activities in the political reform arena include the development of campaign training schools for women candidates in the region, and a regional rule-of-law program focused on judicial independence, procedure, and training for legal professionals. In the education arena, USAID helped to establish U.S.-Middle East university partnerships to strengthen programs in such areas as education, business/economics, journalism, and information and communications technology. In the economic reform area, USAID provided technical assistance and training to improve commercial banks' capacity to provide credit and other critical financial services, as well as strengthen central bank supervision and regulation.

### **Egypt**

Egypt, a strong moderating force in the Middle East, has long been an important U.S. ally. Egypt and the U.S. share strategic interests that include combating terrorism, resolving regional conflicts, advancing regional peace, ensuring domestic and regional security, and promoting economic development.

The greatest threat to domestic stability results from popular frustration with recent economic performance and a persistent lack of economic opportunity. On the other hand, favorable trends in 2004 included advances in intellectual property rights protection, new legislation promoting business competition, and accession to several important trade agreements. In all of these areas, USAID worked closely with the Government to reach these goals.

USAID focuses first on accelerating economic growth - essential to strengthening Egypt as a stable and prosperous U.S. ally. Secondly, we emphasize the creation of private sector jobs: strengthening the trade and investment environment; and increasing access to sustainable utility services. Thirdly, we have targeted the enhancement of the human resource base: providing health services; strengthening governance and participation in the political process; and improving basic education.

## **Iraq**

Misguided economic policies and three wars wrought terrible damage to Iraq's society and economy. Per capita income fell to very low levels, unemployment increased, poverty expanded, and basic services deteriorated along with social indicators in areas such as health and education. The reconstruction efforts have been undertaken in the midst of a growing violent insurgency of former regime elements, foreign fighters, and other enemies of democracy. Over past decades, Iraq has deteriorated from a nation with enormous natural resources and a relatively healthy, educated population to a failed nation.

It is in the U.S. national interest to create a stable, democratic Iraq with a free-market economy. If this can be achieved, it will have far reaching impacts on an unstable region with little experience in democracy.

In 2004, USAID carried out programs in agriculture, economic growth, infrastructure, transportation, telecommunications, seaport and airport rehabilitation/operation, local governance, health, education, electricity, water, and sanitation. Just last month with USAID support, for the first time in decades, Iraqis had the opportunity to vote, express their views publicly, debate important issues and policy alternatives, and have a part in the decision-making process.

## **Israel**

The close bilateral relationship that the United States has with Israel serves the national security interests of both countries. The Government of Israel's political and economic stability continues to be a key objective of U.S. foreign policy in the Middle East.

The fundamental USAID objective in Israel is to support the Israeli economy, a task of special importance as the Government of Israel implements a series of ambitious reforms required for financial stability and sustainable growth. Though the U.S. cash transfer is not conditioned on economic policy reform, the United States continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and liberalize its trade regime.

## **Jordan**

Jordan continues to play a vital role in the Middle East as both a key U.S. ally in the war on terror and a model of reform for the rest of the Arab world. This role is enhanced by the strong will and dynamism of King Abdullah II, who has actively promoted major reform initiatives in all sectors to create a better future for Jordanians. However, the Jordanian economic, political, and social sectors are still very vulnerable to regional developments, particularly in Israel and the Palestinian Territories and Iraq.

Serious social challenges clearly exist in Jordan. First, Jordan's growing population has now reached 5.29 million. Second, most schools do not provide students with the skills they need for work. Third, the vast majority of early childhood education services are provided by the private sector and only affordable by the upper classes. A growing population will also place a tremendous strain on Jordan's limited water resources.

USAID focuses on increasing water supplies and using existing water resources better; improving economic opportunities for all Jordanians through private sector development; fostering the democratic process; improving Jordan's educational system; and improving primary and maternal health care.

## **Lebanon**

Significant events took place in Lebanon last year, including the formation of around 180 new Municipalities reflecting a stronger trend towards decentralization. The controversial extension of the President's term for an additional three years, and the formation of an unpopular government and the current events of this week,

culminating with the resignation of Prime Minister Karami and his government, have brought Lebanon's internal politics to the forefront of the international arena. Lebanon's accumulating public debt has reached \$35 billion, which is equivalent to approximately 180 percent of GDP, one of the highest ratios in the world.

USAID contributes to U.S. policy priorities of promoting democratic principles and free economies through investing in the people. It is helping the people of Lebanon by improving their standard of living, protecting their environment and health, building their local institutions, addressing their legal rights as citizens, and addressing their humanitarian needs.

## **Morocco**

Morocco has a per capita income of \$1,200, placing it in the lower class of middle-income countries in the region. Its social indicators are among the lowest in the region. Urban poverty is a direct consequence of unemployment, which is particularly high among youth, contributing to insecurity and instability in urban areas.

Morocco is important for U.S. interests in the region as its oldest ally and as a stable, democratizing, and liberalizing Arab Muslim nation. The key challenges for the country are creating jobs for a fast growing labor force and addressing the gaps in meeting the basic needs of the population.

In Morocco, USAID helps increase productivity in agriculture and agribusiness; create of new business opportunities in other areas and improve the business environment. In addition, USAID improves education and training for employment. Lastly, USAID works with the Government to improve its response to citizen needs.

## **West Bank and Gaza**

USAID continues to play an integral role in promoting the U.S. Government's strategic foreign policy priority of advancing the Middle East peace process and creating an independent, viable, and democratic Palestinian state living side by side with Israel in peace and security. This includes improving the quality of life for Palestinians. The conflict with Israel has severely constrained development, especially since the Intifada began in September 2000.

A forceful and well-coordinated donor response during the past four years, and the successful USAID-led effort for the resumption of Israeli revenue clearances in the past two years, has meant that an outright humanitarian disaster, especially in Gaza, has been averted.

USAID's strategy has been guided recently by a more flexible plan to promote stability in the West Bank and Gaza by responding to emergency needs; promoting reform; revitalizing the private sector; and maintaining infrastructure and human capital development.

## **Yemen**

Yemen has made impressive progress with the establishment of a constitutional government, a parliamentary system with multiparty elections, and laws to strengthen non-governmental organizations. Recently, though, economic reform has slowed, and Yemen's internal stability is threatened by a combination of forces challenging the Government's movement to increased democracy. These forces include extreme poverty, Islamic extremism, internal and international terrorism, and the alienation from the central Government by relatively independent tribal leaders in remote areas.

Despite progress made over the last decade, Yemen remains one of the least developed countries. Poverty reduction remains Yemen's most compelling challenge.

USAID's overall goal in Yemen is to support the United States Government's (USG) foreign policy objectives in the war on terrorism by helping to develop a healthy and educated population with access to diverse economic opportunities. To gain support from tribal leaders for government decentralization, development, democracy, and counterterrorism objectives, USAID helps create jobs, increase income, improve health, education, and community empowerment, and strengthen democratic institutions.