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*Accelerating U.S. Assistance to Iraq*  
Written Remarks for the Record  
Senate Foreign Relations Committee  
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Mr. Chairman and members of the Committee, thank you for the opportunity to appear today to discuss the efforts the United States is taking in support of the Iraqi Interim Government to accelerate reconstruction efforts in Iraq.

Ten months ago, the Congress demonstrated the generosity of the American people by appropriating over \$18 billion in reconstruction assistance to assist the people of Iraq in rebuilding their country. While the plan for those resources that Ambassador L. Paul Bremer described identified discreet and valid requirements, much has changed on the ground in Iraq since that time.

With the downturn in the security situation and the agreed plan to hold elections in January 2005, Ambassador John Negroponte committed to undertake a strategic review of the spending plan for the \$18.4 billion in the Iraq Relief and Reconstruction Fund – or “IRRF” – immediately upon his arrival in Baghdad.

Ambassador Negroponte has now done so, with the expert assistance of many U.S. Government Agencies and in close consultation with the Iraqi Interim Government (IIG).

The result is a plan that addresses the most pressing requirements we face in Iraq today: improving security, providing jobs to improve the standard of living of the Iraqi people, and supporting the democratic transition in Iraq.

The plan is one that empowers the Iraqi people by giving them the capacity to provide for their own security.

It empowers the Iraqi people by improving the economic viability of their country through support for oil revenue generation and through increased efforts to tap into an already skilled Iraqi labor force.

It empowers the Iraqi people by giving them the tools to shape and mould their political landscape and by helping them fulfill the responsibilities of democracy and good governance.

The strategic review recommends shifting \$3.46 billion from sector allocations outlined in the July 5, 2004 Section 2207 report to Congress into six key areas:

- \$1.8 billion more for Security and Law enforcement;
- \$450 million for oil infrastructure enhancements and improved export capacity;
- \$380 million for comprehensive economic development;
- \$360 million to forgive approximately \$4 billion in bilateral debt owed to the United States Government;
- \$286 million to accelerate Iraqi employment; and
- \$180 million to support democracy and governance.

To meet these needs, an equivalent amount of funding would be shifted out of three sectors:

- \$1.94 billion from water and sewerage;
- \$1.07 billion from electricity; and
- \$450 million from oil (refined oil purchases).

## SECURITY AND LAW ENFORCEMENT

Establishing security by helping the Iraqis defeat terrorists and criminal elements that oppose a free Iraq is the key building block in promoting successful reconstruction efforts in Iraq. An uncertain security situation affects all potential economic and political development, including private investment, foreign and domestic.

As part of the strategic review, the Department of Defense (DoD) under the leadership of General George Casey and Lieutenant General Dave Petraeus conducted an extensive review of Iraqi security and law enforcement programs funded out of the current IRRF spending plan.

Based on that review, DoD concluded that a number of infrastructure and Iraqi force structure capabilities enhancements were critically needed to meet the current threat environment. The increase of \$1.8 billion includes:

- \$788.4 million for the Iraqi Police Service to train and equip an additional 45,000 police officers, including increasing training capacity at regional training sites;
- \$190 million for the Department of Border Enhancement to train and equip an additional 16,000 border officers;

- \$442 million for the Iraqi National Guard to train and equip an additional 20 battalions, including establishing regional training bases and infrastructure support for 99 border posts;
- \$221.4 million for the Civil Intervention Force, Bureau of Dignitary Protection, and Emergency Response Unit for training, equipping and refurbishment and construction of critical infrastructure;
- \$62.5 million for the Iraqi Army Special Operations Forces for training, equipping, and expansion of the Iraqi special operations base;
- \$48.7 million for the Iraqi Intervention Force to support a logistics support base and logistics support unit to improve deployment capabilities; and
- \$22.5 million for the Iraqi Army to upgrade facilities and provide equipment and life support for a transportation battalion.

#### OIL INFRASTRUCTURE AND CAPACITY

Oil is the most prominent feature of the Iraqi economy. Iraq has proven oil reserves estimated at 112 billion barrels, ranking it second in reserves behind Saudi Arabia.

During the strategic review, the Embassy worked closely with the Iraq Ministry of Oil to identify projects that could quickly increase output capacity and additional export revenues for the IIG. Based on that analysis, we recommend shifting \$450 million for oil capacity enhancements:

- \$195 million specifically targeted for oil infrastructure projects in cooperation with the Ministry of Oil;
- \$150 million to expand Kirkuk production and exports, including the Al Fatah pipeline crossing, building a new pipeline from Kirkuk to Al Fatah and refurbishing gas oil separation plants (GOSPs) wet crude facilities;
- \$100 million for Rumaylah crude oil production and exports, including water flood facilities and GOSPs; and
- \$5 million for a National Energy Strategy Study, including oil, gas, electricity and water.

Pending security conditions, these projects can be completed in six to nine months.

## ECONOMIC DEVELOPMENT

Although the oil sector dominates the economy, for the most part its capital-intensive nature yields limited employment creation potential.

To encourage diversification and to develop a competitive sector surrounding Iraq's natural endowment of oil, we recommend shifting \$380 million to help increase employment and increase productivity in the private sector.

The funding also provides support for higher education and humanitarian and resettlement assistance to vulnerable internally displaced persons (IDPs).

Major economic development activities include:

- \$100 million for economic reform to spur employment, growth and attract domestic and foreign investment. Key components include financial and managerial capacity for the Central Bank of Iraq, electricity and telecommunications regulatory capacity, and tax, fiscal, customs, monetary policy, banking, commercial law, and institutional reforms to promote investment;
- \$100 million to promote and strengthen the private sector, including restructuring and privatization of State Owned Enterprises, trade policy, market access and trade and promotion, capital market development and micro-lending and small and medium enterprise development;
- \$100 million to assist the IIG with restructuring its agriculture sector. Programs include developing policy and institutional reform options, improve crop technology and live stock, develop private sector agribusiness, and produce and process high-value products for domestic and export markets;
- \$70 million to provide emergency relief assistance to over 100,000 Arabs and 50,000 Kurds, resettlement assistance to 300,000 Kurds, and establish contingency capability to respond quickly to sudden population displacement due to violence or natural disasters; and
- \$10 million to support higher education programs to purchase computers and equipment for labs at 20 universities and 46 colleges throughout Iraq.

## DEBT RELIEF

The President and other G-8 leaders committed at the Sea Island summit to provide debt relief for Iraq. Paris Club creditors have aligned themselves with that commitment.

As a prerequisite to a Paris Club agreement with the United States and other Paris Club creditors, normalization of Iraq's relations with International Financial Institutions, and access to international lending markets, we believe that we need to move quickly to forgive the approximately \$4 billion in bilateral debt that Iraq owes the United States. The cost associated with eliminating this debt is \$360 million.

The United States has led the effort to build a consensus among creditors for significant reduction of Iraqi debt, and we will use our action to address U.S.-Iraq bilateral debt to press other nations, including non-Paris Club regional creditors, to do the same to support Iraq and its transition.

### ACCELERATING IRAQI EMPLOYMENT

To generate employment, stimulate economic activity, and provide immediate assistance in areas threatened by insurgency, we recommend shifting \$286 million to programs that have more labor-intensive, high impact effects.

Our program implementation partners estimate that this funding, combined with other programs (e.g., elections assistance), will generate approximately 800,000 Iraqi short and long-term jobs. Employment programs and activities include:

- \$200 million to USAID's Office of Transition Initiatives. With this funding USAID estimates that it can provide an additional 2,500 to 3,000 grants and employ an average of 40,000 Iraqis a month over the next year in labor-intensive projects to meet essential service needs in areas of conflict such as Baghdad, the Sunni Triangle, and South Central Iraq; and
- \$86 million to the Commander's Humanitarian Relief Reconstruction Program for small-scale economic development projects in priority areas such as Baghdad, Samara, Ramadi, North Babil, and other areas.

### DEMOCRACY AND GOVERNANCE

To support the upcoming January elections and provide assistance for elections monitoring, local and provincial government strengthening, and interim government support, we are recommending shifting \$180 million into democracy and governance activities. Democracy and governance programs include:

- \$40 million to ensure the Iraqi Electoral Commission has the technical capacity to run and certify free and fair national elections, including establishing 8,000 polling stations and 300 regional elections offices, training 150,000 election staff members to register 15 million voters, 100 political parties, and certify 25,000 elections monitors;

- \$20 million to rollout a nation-wide elections monitoring program. Civil society will help identify, train, and mobilize over 25,000 domestic monitors and execute a voter education campaign to reach eligible voters. Funding will also be used to field at least three domestic poll monitors per polling station and facilitate the limited participation of international monitors to ratify Iraq's elections as free and fair;
- \$100 million to continue strengthening local and provincial government on budgetary training, administration, and public service standards to effectively and transparently deliver services, foster local economic development, and involve citizens in decision-making. Iraqi leaders will be better informed on decentralization policy issues that balance power between the central and local governments and guard regions breaking away from a national, democratic and multi-ethnic state; and
- \$20 million to support the interim government's Presidency Council, Council of Ministers, National Council, and Interim National Assembly -- each of which is standing up much more rapidly than envisioned.

The \$3.46 billion in recommended changes to the current IRRF spending plan are urgent and they must be funded in the next few months given the reality on the ground. From improving the security situation to the upcoming elections to the need to generate employment to debt relief, all of these are critical near-term requirements that must be addressed now. The choices were not easy, but difficult decisions had to be made to realign resources from within the IRRF to support these crucial activities.

The security and law enforcement, water and sewerage, and electricity sectors comprise almost 70% of the current IRRF spending plan. Water and electricity alone account for 50% of the overall \$18.4 billion.

The only way to fund the proposed increases to the six sectors discussed above was out of the electricity and water and sewerage sectors. We did not take lightly moving almost \$3 billion out of these sectors without due consideration.

In developing our recommendations, we looked at programs that were not scheduled to begin until the 4<sup>th</sup> quarter of FY 2005. We worked closely with the IIG, including the Ministries of Oil and Electricity to identify FY 2005 and out-year activities that could be reduced.

We are working closely with the IIG to identify alternative sources of funding to offset the shifting of these funds, including from the Iraqi budget through the use of earnings from enhanced oil exports to urging international donors to provide funding in support of infrastructure projects such as electricity and water.

## LEGISLATIVE REQUIREMENTS

The IRRF appropriation allocates the \$18.4 billion in reconstruction assistance by sectors. The statute limits movement of the funding into and out of these sectors. The legislation allows movement between sectors of 10%, except that the total for the receiving sector may not be increased by more than 20%.

In order to shift the funding as described above, we would need legislative relief from the sector limitations as currently provided for in the IRRF statute.

For debt relief, we also need affirmative authority that currently is not available for Iraq in existing law. Although the House Foreign Operations and Export Financing Bill for 2005 does contain a debt relief provision for Iraq, we do not anticipate passage of this Bill soon.

To ensure that we can act quickly on these crucial changes, the Administration will include these two legislative proposals as part of an overall package of legislative recommendations for inclusion in the FY 2005 Continuing Resolution (CR).

Mr. Chairman and members of the Committee, I urge you to support inclusion of these important legislative changes in the forthcoming CR.

I will stop there and take your questions.