

Testimony for Ambassador Satterfield: Senate Committee on Homeland Security and Government Affairs 3.22.07

Mr. Chairman, Senator Collins, members of the committee, ladies and gentlemen: Thank you for the opportunity to appear before you today to discuss the progress being made in implementing the President's new strategy for Iraq, to review what we have achieved with the foreign assistance Congress has provided and to highlight the steps we have taken to improve its administration.

A YEAR OF TRANSITION

On January 10 the President outlined a new strategy for Iraq. On January 11, Secretary Rice provided further details on how specifically we will pursue the New Way Forward along four tracks: economic, political, security, and diplomatic. Our efforts along each track are interconnected; each track being an integral part of our overall effort to help Iraq move forward towards a secure and democratic future.

As part of the New Way Forward the focus of our efforts in Iraq is changing. As Iraqis increasingly take the lead in furthering progress along each of the four tracks, we have shifted our focus from large infrastructure projects to capacity development and technical assistance programs that will increase the ability of the Iraqis to better plan and execute their capital budget, particularly in the critical oil sector, increase production of essential services in vital areas such as electricity and water, and improve governance at the national and provincial levels.

At the center of our efforts is the expansion of the Provincial Reconstruction Teams (PRTs). While we will continue to work closely with the central government in Baghdad, we are extending and expanding our reach beyond the Green Zone to help local communities and leaders transition to self-sufficiency.

To lead our efforts in this area, Secretary Rice appointed Ambassador Tim Carney as the Coordinator for Economic Transition in Iraq. On the ground in Baghdad only since February, Ambassador Carney has already forged a partnership with the Iraqis that has begun to show progress. Implementation of an investment law, the approval by the Council of Ministers of a draft hydrocarbon law, and the beginning of debt negotiations with Saudi Arabia are all very positive signs that the Iraqis are serious about advancing economic reforms.

Recently questions have been raised regarding allegations of fraud, waste and abuse of Iraq Relief and Reconstruction Fund (IRRF) monies appropriated by Congress. Secretary Rice has emphasized in recent testimony her complete commitment to transparency and accountability. She meets regularly with the Special Inspector General for Iraq Reconstruction (SIGIR) Stuart Bowen, who has repeatedly stated that instances of fraud have played a very small role in the American reconstruction effort in Iraq. To date, SIGIR has not brought to our attention any instances of fraud involving the use of IRRF funds.

IMPLEMENTATION

The President has decided to reinforce our own troop levels in Baghdad and Anbar Province by approximately 28,000. The mission of this enhanced force is to support Iraqi troops and commanders, who are now in the lead, to help clear and secure neighborhoods, protect the local population, provide essential services, and create conditions necessary to spur political reconciliation and economic development. The State Department is contributing robustly to this effort by expanding our presence and closely coordinating with our military counterparts in and outside of Baghdad, as well as with the Iraqi government. We have requested additional budgetary resources for assistance programs designed to capitalize on security improvements by creating jobs and promoting economic revitalization. There must be the fullest possible civilian-military unity of effort if we are to be successful.

To that end, we are deploying greater resources alongside our military in Baghdad, Anbar Province and North Babil. The centerpiece of this effort is the expansion of our Provincial Reconstruction Teams. We are doubling the number of PRTs from 10 to 20, adding more than 300 new personnel to the existing 290 or so personnel already on the ground. The first phase of PRT expansion is soon to be complete, as the ten new interagency PRT core teams (40 personnel in total) will arrive in Iraq on or about March 31. The new PRTs – six in Baghdad, three in Anbar and one in north Babil – will be embedded in Brigade Combat Teams engaged in security operations. To demonstrate our unity of effort, on February 22 the State Department and the Defense Department signed a Memorandum of Agreement to codify this joint civilian-military effort.

The State Department has assigned ten senior-level Team Leaders for these new PRTs. Each Team Leader will be joined by a senior USAID development advisor, as well as a civil affairs officer and bilingual, bicultural advisor from the Department of Defense, to form core teams. These core teams recently completed the first specialized interagency PRT training course at the Foreign Service Institute, designed to prepare them for their new mission. Over the next month, PRT leaders will work jointly with Brigade Commanders to develop plans for the “build” phase of clear, secure, and build.

PRTs will target both civilian and military resources, including foreign assistance and the Commanders` Emergency Response Program, against a common strategic plan to sustain stability, promote economic growth, advance our counter-insurgency efforts and foster Iraqi self-sufficiency where we have made security gains. In the next two phases of our PRT expansion, we will augment both the new PRTs and our existing PRTs with specialized technical personnel. Based upon ground-up evaluations, we are recruiting (among others) city planners, rule of law experts, and agribusiness development experts to meet provincial and local needs.

PRTs will support local moderate Iraqi leaders through targeted assistance designed to develop provincial capacity to govern in an effective and sustainable way. PRTs will continue to play a leading role in coordinating U.S. programs funded by the Congress, including Iraqi Provincial Reconstruction Development Councils (PRDC) and USAID's local governance, community stabilization, and community action programs. We intend to complete all three phases of our PRT expansion by the end of the calendar year. Completion, however, will be dependent both on the level of funding appropriated in the FY 2007 supplemental as well as circumstances on the ground in Iraq.

IRAQI EFFORTS

Iraqis understand that they are in the lead and the Iraqi government is committed to doing its part to invest in its own economic development. Violence continues to play a significant role in hampering greater progress in Iraq. Although there has been a decrease in sectarian violence in the past six weeks in Baghdad, it is too early to discern trends. Additional resources will be vital in consolidating gains and building upon them.

The Government of Iraq is committed to spending \$10 billion to help create jobs, and further national reconciliation. The Government of Iraq has made serious progress on the vital hydrocarbon law. The Council of Ministers approved a draft of the law on February 26, and the law will be submitted to the Council of Representatives when the Revenue Sharing Law is approved by the Council of Ministers.

The Council of Representatives also is discussing a provincial powers law and has several drafts for de-Ba'athification reform. The Iraqi Constitutional Review Committee will present its report, including any proposed amendments, to the Council of Representatives in a few months. At a conference co-hosted by U.N. Secretary General Ban Ki-Moon, on March 16, Iraq has agreed to implement the comprehensive economic reform programs laid out in the International Compact with Iraq.

The most pressing fiscal challenge preventing Iraq from being self-reliant in economic affairs is the failure for Iraqis to execute their capital budget. Simply put, the Government of Iraq has available financial resources from oil revenues under spent from last year's higher than anticipated oil prices. They do not, however, have the capacity to execute this funding - especially when money must move rapidly, as is the case with post-military-action stabilization in Baghdad and Anbar Province. Iraq must develop the means to put its money to use, both for short-term "build" efforts and longer-term capital investment.

The Iraqis have responded by designating budget execution as a high priority in 2007, and, to this end, the GOI has formed a budget execution taskforce led by Deputy Prime Minister Barham Salih, Finance Minister Bayan Jabr and Planning Minister Ali Baban. In coordination with Ambassador Carney, the joint taskforce has already held a conference for spending ministries and provinces to introduce new budget regulations and to dispel concerns about corruption allegations that stymied Iraqi spending in 2006.

The Iraqi Ministry of Finance also has made early efforts to jumpstart spending by ordering 10 percent of capital budgets released following February's passage of the budget, and created powerful incentives for ministries to execute their capital budgets or risk losing the funds. We remain cautiously optimistic that their resolve combined with our support will result in better budget execution in 2007.

REGIONAL DIPLOMACY

Iraq also will need the help and support of its neighbors to foster a stable, prosperous, and peaceful future. On March 10, Iraq hosted a Neighbors Conference in Baghdad which was attended by high-level officials from each of Iraq's neighbors, the permanent members of the UN Security Council, the Arab League, the Organization of the Islamic Conference, and the UN. This was an important step for Iraq's engagement with its regional partners to discuss political reconciliation, regional security, and economic engagement.

We support regional efforts to stop the increase in sectarian violence and the growing negative Iranian involvement in Iraq. We believe the Iraqi government understands the importance of coalition action to address these concerns as well. Prime Minister Maliki and his government have pledged not to tolerate any act of violence from any community or group. We already have begun to see a more even-handed approach taken by the Iraqi authorities on this front. Notably, Iraqi security forces in recent months have detained more than 700 Jaysh Al Mahdi fighters and have killed hundreds of insurgents. Iraqi Security Forces (ISF) have operated in all areas together with Coalition Forces, including Sadr City. However, robust action in the weeks and months to come will be necessary to create new facts on the ground – tangible evidence of action against all those who pursue violence, regardless of sectarian affiliation.

While we are working with our partners in the region to strengthen peace, two governments – Syria and Iran – are not contributing to security and stability in Iraq. However, we hope that the participation by both Iran and Syria in the March 10 Neighbors Conference will encourage Tehran and Damascus to play a constructive role.

SUPPORTING PHYSICAL INFRASTRUCTURE AND DEMOCRACY WITH THE IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

While our focus is on the way forward, we are also determined to effectively manage the remaining funds for Iraq reconstruction. In Fiscal years 2003-4, we received \$20.9 billion in the Iraq Relief and Reconstruction Fund (IRRF). This funding was intended to kick start the Iraqi economy and focused primarily on helping to re-establish the Iraqi security forces and police; restore essential services like water, electricity and oil; and improve health and education. Despite challenges, including insurgent attacks, IRRF projects have made significant improvements in Iraq. We have added capacity to provide clean water for up to 4.2 million Iraqis and we also have added capacity to provide

sewerage for 5.1 million; installed, rehabilitated or maintained 2,700 MW of electricity; and helped Iraq maintain oil production at relatively steady levels despite deteriorating security conditions. Democracy programs also helped Iraq hold three elections and provided advisers to support the drafting of the constitution.

We have obligated 98%, or \$18 billion of IRRF II, and, as of March 15, have disbursed \$15.2 billion (82%). The remaining 2% of IRRF funds “expired” on October 1, 2006 and will be used to cover any reasonable adjustments as permitted under law. We expect to complete most ongoing IRRF II projects during the course of 2007. We have made significant improvements in essential services available to the people of Iraq, of which U.S. taxpayers and the Congress can be proud.

But we know that not every project has progressed as we would have wished. Some projects have deservedly attracted attention, including from the Congress and from (SIGIR), with whom we work very closely. In all such cases, we have taken action to get them moving back in the right direction and have moved over the past eighteen months to put in place management oversight structures to help ensure that similar problems do not occur. Despite these mistakes SIGIR notes that more than 80% of IRRF projects have been or are currently being completed on time and as planned.

I want to emphasize the State Department’s strong commitment to oversight of the funds Congress has appropriated to us for our efforts in Iraq. We have supported 14 audits by the Government Accountability Office, more than 80 audits and reports issued by the SIGIR as well as audits done by the Inspectors General of the various implementing agencies. We will continue to work closely with SIGIR, GAO, and the Inspectors General to maintain the highest standards of oversight and accountability for all of our operations in Iraq.

SUPPORTING IRAQ’S TRANSITION TO SELF-SUFFICIENCY WITH THE FY06 SUPPLEMENTAL AND FY07 BUDGET REQUEST

We carefully designed the FY 2006 Supplemental and the FY 2007 budgets as two parts of a coordinated whole. The FY06 Supplemental was designed to be integrated with the military’s counter-insurgency operations, recognizing that economic development cannot take place without a secure environment and that better economic and political prospects would undermine the recruiting efforts of the insurgency. The FY 2006 Supplemental addresses the urgent programs needed to support military counter insurgency programs, while the FY07 budget contained the programs needed to create and sustain economic, political, and rule of law improvements.

We received \$60.4 million in the FY 2006 budget, and an additional \$1.6 billion in the FY 2006 Supplemental budget at the end of FY 2006. Of total funding in FY 2006 (Base and Supplemental), we have obligated \$1.4 billion (97%) for programs in the security, economic and political tracks of the President’s strategy. Of this funding, more

than \$500 million is allocated to support programs coordinated by the Provincial Reconstruction Teams (PRTs) to build the capacity of local and provincial governments to provide services for the Iraqi people. Over \$300 million is being used for programs to enhance the rule of law; governance, civil society, and political party development; and Iraqi ministerial capacity. Other programs in the FY 2006 Supplemental are also helping Iraq improve the protection of its critical oil and electricity infrastructure.

NEED FOR FY 2007 FOREIGN ASSISTANCE

While we have applied FY 2006 funds to begin implementation of our new strategy, we will need additional funds very soon. We have requested \$2.34 billion in Emergency Supplemental funds for FY 2007 and \$1.37 billion for FY 2008. Delaying funding of these programs or applying conditions on this funding would undermine our ability to support our military counterparts and our Iraqi partners. Without funding for our PRT expansion and programs to support economic development and assistance to moderate Iraqi leaders, we risk achieving the unity of effort needed to be successful.

ACHIEVING SUCCESS

The President has made clear to Prime Minister Maliki that America's commitment is not open-ended. The Government of Iraq must, with our help, take the lead in articulating and achieving the political, security and economic goals that are essential to success.

As the Iraqis continue to make progress and increasingly assume responsibility for the stabilization and economic development of their country, our commitment to them must remain strong. The Government of Iraq must continue to foster positive relationships with its neighbors and national unity must begin to replace sectarian violence. The President's New Way Forward in Iraq will empower Iraqis to take the steps necessary, both politically and economically, to fulfill its commitments and realize our mutual goal of a stable, federal, democratic Iraq, at peace with its neighbors and an ally in the war on terror.

Thank you very much. I look forward to your questions and ideas.

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