

Hearing on U.S. Assistance Programs for Iraq

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Subcommittee

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Mr. Chairman, Members of the Committee, thank you for this opportunity to discuss how the Department of State is executing President Bush's strategy for ongoing assistance to the government of Iraq. I appreciate our consultation today, just as I appreciate the extensive consultation that members of my Department have engaged in with you and your staff in recent weeks. Given the grim news of recent bombings, attacks and murders in parts of Iraq, I also welcome this opportunity to set those very visible challenges and tragic events in the context of our concerted and committed efforts to support Iraq's reconstruction and political transition.

These are, indeed, challenging times for the people of Iraq. The coming months leading up to and following the January elections may be especially perilous as insurgents and infiltrators who want democracy to fail in Iraq step up their efforts. I urge the Members of this Subcommittee to keep in mind, however, that Iraq is a country of some 25 million people, the vast majority of whom aspire to peace and prosperity.

And so these are also hopeful times for the people of Iraq. Since taking office on June 28th, President al-Yawer, Prime Minister Allawi, and the Iraqi Interim Government (IIG) have demonstrated resolve, remarkable unity of purpose, and a clear commitment to Iraq's transition. In response to the call of ordinary Iraqis across the country for increased security and inclusive government, the IIG is holding a firm line against violence and terrorism and is inviting all Iraqis into the political process. In August, more than one thousand Iraqis attended the National Conference, which elected an interim National Council and played a key role in finding a peaceful solution to the standoff in Najaf. At the same time, members of the IIG have taken important steps to establish Iraq as a sovereign state, including extensive travel in the region to strengthen Iraq's ties with its neighbors. President al-Yawer has also visited Europe to bolster and broaden international support for Iraqi security and reconstruction. Iraq's participation in the United Nations General Assembly this week, and PM Allawi's historic address to a Joint Session of Congress on Thursday, will continue to raise the stature of the new Iraq.

I have opened my remarks by highlighting these developments for a simple reason: liberty will only take root in Iraq if the seeds are sown and nurtured by Iraqis themselves. No one can force democracy on an unwilling people. The IIG and National Council offer clear evidence, however, that Iraqis not only want to live in a democratic society. They bring extraordinary personal courage and political commitment to that cause. What Iraq needs are the resources to overcome the formidable obstacles its faces. The goal of our strategy

is to give the people of Iraq the resources they need to cultivate a new Iraq, one governed by respect for human rights and the rule of law, with a vibrant and free economy. We look forward to welcoming that new Iraq as a model of success in the region and a responsible member of the international community.

As Members of this Subcommittee are well aware, that hopeful vision depends on meeting Iraq's extensive needs. Our strategy is essentially to prioritize, understanding that success in one sector depends on success in all sectors. We have sought to identify and target key high-impact areas for immediate focus and funding -- to create the momentum and legacy of visible success, which can, in turn, support longer-term reconstruction efforts.

Since the U.S. Embassy opened in Baghdad on June 28, our officials have worked side by side with Iraqis and Coalition forces, to implement this strategic approach. In the past 12 weeks, disbursements of U.S. assistance from the Iraq Relief and Reconstruction Fund (IRRF) have reached \$1.217 billion. During this same period, Ambassador Negroponte conducted a comprehensive six-week review of spending priorities under the IRRF to ensure that our spending is directly keyed to our objectives. The Ambassador consulted with his entire Country Team, including Multinational Force-I Commander, General Casey, as well as with the Iraqi Interim Government. The adjustments that I will now outline are based on the recommendations of Ambassador Negroponte's review.

We propose shifting a total of \$3.46 billion from sector allocations outlined in the July 5, 2004 Section 2207 report into six key, high-impact areas:

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

Even though we are recommending moving these resources out of large-scale infrastructure projects, which will delay construction and repairs in some cases from 2005 to 2007, it is important to note that most of these projects were scheduled to begin in mid-2005. We believe that by shifting our resources to more urgent priorities, these projects are more likely to be successfully completed. We recognize that such projects should be funded to ensure Iraq's full recovery. Secretary Powell and I are optimistic that other donors and Iraqis themselves will ultimately be able to close this gap. I will attend the upcoming Donor's

Committee meeting that will be held in Tokyo on October 13-14 to urge countries that have pledged funds for Iraq's reconstruction to make good on their commitments so that needs such as these will be met.

Our most urgent priority right now is security. As the recent attacks have highlighted, Iraq remains caught in the grip of a brutal insurgency aimed at destroying current recovery and reconstruction efforts. Short-term stability and long-term prospects in Iraq quite simply depend on improving the security situation.

One key to improving Iraq's security situation is to augment the size and skill of the Iraqi security and law enforcement forces. To that end, the proposed reallocation of \$1.8 billion will support infrastructure improvements, and expanded training and equipping programs resulting in approximately 80,000 additional Iraqi security and law enforcement personnel. This would expand the number of Iraqi police from the current plan of 90,000 to 135,000, double the number of border security forces from 16,000 to 32,000, and increase the size of the Iraqi National Guard from 45 to 65 battalions (e.g., approximately 20,000 additional National Guard troops).

Expanding Iraq's security and law enforcement forces will also create employment opportunities for Iraqis and contribute to our efforts to bring down Iraq's high rates of unemployment and underemployment. This situation is a major source of popular frustration, and one that feeds the insurgency, which points to a larger truth: progress on security is not separable from economic and political progress. As I said above, success in one sector will depend on success in all sectors.

When it comes to economic security, however, Iraqis are understandably skeptical, given that they have lived for decades in an economy dominated by the black market, corruption, and cronyism. Our intent is to focus on economic projects that should immediately demonstrate the tangible benefits of peace and stability, and create momentum. We propose, therefore, shifting \$286 million to programs that will create employment opportunities, stimulate economic activity, and aid particularly disaffected areas. We estimate that such funding, combined with other programs such as elections assistance and reconstruction projects managed by the military, may directly generate up to 800,000 short- and long-term jobs over the next two years. The only way to create good and extensive long-term employment, however, is through the broad-based growth of a vibrant, free-market economy. Toward that end, we propose shifting \$380 million to encourage diversification and private sector development. Some of those funds will also support higher education and humanitarian assistance to internally displaced persons.

The efficacy and sustainability of these high-priority physical and economic security measures will depend on a functioning national government, and that in turn will depend on adequate revenue. In the near-term, we believe that the best way to generate revenue is to inject funds into Iraq's most productive asset, oil, and to relieve the pressure of Iraq's crushing external debt.

With proven reserves estimated to be roughly 115 billion barrels and average daily output of only 2.5 million barrels, Iraq has considerable room for improving earnings from oil. We

propose shifting \$450 million in IRRF funds to projects that should quickly increase oil output and export revenues. Embassy and Ministry officials estimate that these projects, which we can complete in six to nine months if the security situation permits, would increase output by 650,000 barrels a day. That may not sound like much, but it would mean an additional \$19.5 million in daily export revenue and roughly \$7 billion in annual revenue, even after oil prices return to a more reasonable \$30 per barrel.

Increasing revenue, however, will be a drop in the bucket without debt relief. According to International Monetary Fund estimates, Iraq's total external debt is estimated to be approximately \$120 billion. This debt burden drains critical resources that a democratic Iraq needs now to rebuild its infrastructure, schools, and hospitals, and cripples the country's ability to integrate into the international economy and attract international investors. We propose shifting \$360 million of IRRF funds to debt relief. This would be the budgetary cost of forgiving the approximately \$4 billion that Iraq owes the United States. Our debt forgiveness would provide relief to Iraq and would leverage similar steps by Iraq's other creditors – Paris Club members and non-Paris Club creditors alike. The Administration can only take this step, however, with specific Congressional authorization. And while President Bush and other G-8 leaders during the Sea Island Summit held in Georgia reiterated the G-8 commitment to providing debt relief for Iraq by the end of 2004, it will take a Paris Club Agreement on reducing Iraqi debt to ensure that we fulfill that commitment. Congress would need to provide the authorization for debt forgiveness now in order for the United States to sign a Paris Club agreement, which could come as soon as October.

Iraq's national government will be far stronger with a better revenue stream, but political stability ultimately depends on holding elections, which are scheduled to be held no later than January 31st, 2005. The Independent Electoral Commission of Iraq is working closely with the United Nations to ensure that the elections are legitimate and credible, and that all eligible Iraqi voters have the opportunity to cast a ballot. They are pulling together a voter registration system, have launched a public information campaign, and are completing elections rules and procedures, with our support and advice. The Iraqi Interim Government and Multinational Force-I are also working towards a security plan. While we are confident that the Electoral Commission and UN will succeed, we acknowledge that it will certainly be a challenge to meet such an ambitious timeframe in a daunting security environment. We propose, therefore, moving \$180 million to support elections and other pressing democracy and governance programs.

Mr. Chairman, I noted at the beginning of my statement that this is a challenging and hopeful time for Iraq. In helping Iraqis overcome the challenges and capitalize on the hopes, we are making an important investment in a better future for Iraq, for the region, and for our own security and economic stability. Furthermore, we are not alone. Twenty-nine other nations are continuing to contribute personnel, financial aid, and technical assistance to ensure Iraq's security. NATO will soon be adding its support for Iraqi security forces and we continue to work with the United Nations to increase its role in Iraq.

Ultimately, of course, it is the people of Iraq who have the most at stake. Given the resolve the Iraqi leadership is now showing, I believe there is reason to be optimistic about the future. Mr. Chairman, I believe our strategy will help Iraqis reach that brighter future and I

look forward to discussing our efforts with you and the Members of this Committee.

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