



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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TESTIMONY OF TREASURY DEPUTY ASSISTANT SECRETARY, TECHNICAL ASSISTANCE POLICY LARRY McDONALD BEFORE THE HOUSE COMMITTEE ON ARMED SERVICES SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Washington, DC— Mr. Chairman and Members of the Committee, thank you for the opportunity to testify today about Treasury Department personnel serving in Iraq and Afghanistan.

Treasury personnel serving in these two countries represent an important part of Treasury's overall international presence. In comparison to other agencies testifying today, my Department's international presence is relatively small, but the significance of the economic and financial issues that Treasury covers is large. In Iraq, Afghanistan and elsewhere, Treasury personnel pursue objectives that are central to the Department's mission "to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world."

Treasury's overseas personnel fall broadly into three categories. Treasury attachés advocate the adoption and implementation of sound policies – policies to spur economic growth and to make the international financial system more efficient, stable and resistant to abuse by criminals and terrorists. Currently, Treasury has eight overseas attachés. The second category, Treasury technical assistance providers, help developing, transition and post-conflict countries build the human and institutional capacity they need in order to implement sound policies. Currently, Treasury has 55 technical assistance advisors posted in 37 countries and another 70 advisors working on intermittent tasks in 47 countries. Finally, a number of specialized offices and Treasury bureaus have officials posted overseas -- for example the Office of Foreign Assets Control and the Internal Revenue Service. I oversee the second category, Treasury's international assistance program, but work very closely with those who manage the attachés and other overseas personnel. In a previous job, I was the head of a special task force set up to provide "back office" support to Treasury officials serving in Iraq and Afghanistan.

Let me turn to the focus of today's hearing: the recruitment, retention and care of overseas personnel in Iraq and Afghanistan. Above all, I would like to emphasize that Treasury places great importance on the careful recruitment, preparation, deployment and reintegration of all of our overseas personnel -- in particular for those serving in Iraq and Afghanistan. Over the past 5 years or so, we have learned a great

deal about the challenges of stabilization and reconstruction work. Treasury is collaborating with interagency partners and the Coordinator for Reconstruction and Stabilization at the Department of State to strengthen the U.S. Government's ability to respond quickly and effectively to future stabilization and reconstruction challenges.

Treasury personnel in Iraq and Afghanistan include both USG officials and Personal Service Contractors (PSCs). I note this distinction because it explains the occasional differences that apply in some areas, such as recruitment and compensation. Regardless of their employment status, however, we prepare and support with care all Treasury employees in their overseas assignments. Indeed, when it comes to service in Iraq and Afghanistan we salute them for their willingness to put their lives on the line in support of the U.S. mission.

Recruitment

Recruitment varies somewhat according to the type of Treasury representation in question. While the recruitment for attaché positions starts with current USG Treasury officials who respond to Treasury-wide internal postings, we have also recruited excellent talent from outside the Department – including for Iraq. Recruitment for technical assistance, in particular the medium to long-term assistance emphasized by Treasury's program, usually begins outside of the Department. Nonetheless, we do at times utilize talent from current Treasury and Federal Reserve employees, and many of our advisors are retired officials from the Treasury, the Federal Reserve and other government agencies.

Indeed, the bulk of Treasury personnel in Iraq and Afghanistan at present are either current or former USG employees who have returned to career positions. We have a few officials who are from other agencies (for example a budget specialist from Peace Corps headquarters) loaned to us through reimbursable agreements. And we have hired a number of PSCs with special skills in areas like systems development, banking, debt management, and energy sector financing. In general, we have been able to attract a high level of interest in our programs to date and have not encountered insurmountable difficulties in filling our vacancies. Our compensation packages have become more generous over time as we keep pace with State Department changes.

Benefits

In general, Treasury benefit packages are in line with State Department practices, and are identical with respect to allowances, danger pay, and in-country medical coverage. Our benefit packages have become more generous over time as we try to stay aligned with State Department practices. As noted earlier, there are occasional differences depending on employment status. For example, the compensation for a regular USG hire versus a PSC may differ slightly, in part because PSCs have no guarantee of further employment. Despite the flexibility afforded, there are only minor differences between offices -- notably on the mix of leave opportunities -- and our pay rates are fairly standard and as generous as permissible. There are a few options, again notably in leave policies, that volunteers can choose from that will allow the individual to craft a package tailored to their needs and desires. For example, Treasury technical advisors who are on one-year assignments can choose a mix of regional and home leave rest breaks. USG hires on the other hand can have home leave after 24 months of continuous service.

I would now like to summarize information that is particular to Iraq and Afghanistan.

Iraq

Treasury personnel have been present in Iraq since the first arrival of U.S. civilians in Baghdad in April 2003. Since then, over 75 Treasury personnel have served in Iraq. While relatively small in number, Treasury officials have been highly productive. Their early efforts contributed to the stabilization of Iraq's macro-economy following the fall of Saddam Hussein, the reconstitution of the Finance Ministry and Central Bank, the negotiation of a major international debt relief package, and the introduction of a new and stable Iraqi currency which is now used throughout the country. More recently, Treasury personnel have contributed to the successful negotiation of the International Compact with Iraq, strengthening Iraqi budget execution, establishment of an electronic payments system, and the interdiction of terrorist financing. Currently, Treasury has 13 full-time placements in Iraq, including an attaché, a deputy attaché, 6 technical assistance providers, and 5 terrorist financing/financial crimes experts. In addition to the full-time placements, Treasury sends a number of intermittent personnel to support the mission. Treasury has recently increased its overall effort in support of the President's "New Way Forward."

At this time, all Treasury staff are based in Baghdad. We do not have staff based in the Provincial Reconstruction Teams (PRT's), but Treasury officials travel within Iraq in support of PRT missions and we are exploring ways to strengthen our support. Treasury's Office of Intelligence and Analysis (OIA) and Internal Revenue Service Office of Criminal Investigations are represented at the Iraq Threat Finance Cell (ITFC) where OIA staff serve as the ITFC co-lead with the Department of Defense.

Afghanistan

Currently Treasury has three full-time placements based in the embassy in Kabul including a Treasury attaché focused on fiscal sustainability and financial sector development and two technical assistance advisors working on debt issues and financial crimes enforcement capacity building. Treasury and USAID are equally sharing the costs of the technical advisors, and the attaché is funded out of regular appropriations.

As in Iraq, Treasury personnel arrived in Kabul very soon after the cessation of hostilities, and have contributed to some significant successes. For example, the first Afghan budget since the fall of the Taliban was crafted on a lap-top computer by Finance Ministry officials working side-by-side with a Treasury budget advisor. Treasury's debt management experts have helped Afghanistan secure over \$10 billion international debt relief and build capacity to avoid falling back into unsustainable debt. Treasury support to Afghanistan's Financial Intelligence Unit has expanded the reach of Central Bank regulation to include previously unregistered hawalas and elements of the cash courier market, in addition to improving the reporting relationship with the country's formal banking institutions. Finally, Treasury's attachés have helped the Afghan government meet its IMF program benchmarks and facilitated its interactions with donor agencies, including the World Bank and the Asian Development Bank.

In Country Casualties and Medical Care

Treasury personnel are subject to the same risks as other civilian US personnel in Iraq and Afghanistan. To do our job effectively, we must interact with Iraqi and Afghani government officials and venture outside of the International Zone or confines of the embassies. Treasury has been fortunate that we have suffered no casualties to date. As for medical care, Treasury employees in both countries are respectively under Chief of Mission authority and are eligible to use Department of State and Defense medical system and other health resources available in country. We are grateful for access to those services. In addition, Treasury reimburses PSCs for 50% of their medical insurance and pays for 100%

of personal accident/war risk insurance. Employees are covered under the Office of Workers' Compensation (OWC) Programs for compensable illnesses, diseases, or injuries identified during and after deployment. Under the OWC Program, employees are eligible for medical care at private sector medical facilities for occupational illnesses and diseases at no cost to them.

In closing, I would like to emphasize that the Department of the Treasury is committed to recruiting and caring for expert personnel who will continue to serve our country's interests in Iraq, Afghanistan and elsewhere. I appreciate the opportunity to present information on our program to the Committee, and I look forward to any questions you may have.

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