

# IRAQ STABILIZATION AND RECONSTRUCTION

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## HEARING

BEFORE THE

### COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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FEBRUARY 8, 2006  
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# IRAQ STABILIZATION AND RECONSTRUCTION

WEDNESDAY, FEBRUARY 8, 2006

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:35 a.m., in room SH-216, Hart Senate Office Building, Hon. Richard G. Lugar (chairman of the committee) presiding.

Present: Senators Lugar, Hagel, Chafee, Voinovich, Murkowski, Martinez, Biden, and Feingold.

## OPENING STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

The CHAIRMAN. The committee will come to order.

The Committee on Foreign Relations meets today to examine ongoing efforts to achieve the reconstruction and development of Iraq. We will be considering testimony from two government oversight agencies tasked with investigating and evaluating United States programs in Iraq. We have invited officials from the State Department and USAID to provide their Agencies' perspectives on the rebuilding efforts.

We welcome Stuart Bowen, Jr., Special Inspector General for Iraq; Joseph Christoff, the Director of International Affairs and Trade at the GAO; Ambassador James Jeffrey, the Senior Adviser to the Secretary of State and Coordinator for Iraq Policy; and James Kunder, the Assistant USAID Administrator for Asia and for the Near East.

We thank our witnesses for their service to our country and for their appearance before us today.

The Foreign Relations Committee frequently has reviewed the progress of Iraq reconstruction and economic development efforts. At various intervals since the invasion of Iraq, we've expressed the urgency of moving forward with the reconstruction effort and of increasing the percentage of aid that actually benefits Iraqis. Prospects for a better economic future and the development of an open, transparent political process are intertwined. If Iraqis perceive that their daily lives are improving, they are more likely to take risks to oppose insurgents and restrain factional groups that seek to fragment their country.

Today, we will ask Mr. Bowen and Mr. Christoff to outline the findings of their investigations and to summarize the problems and challenges described in their reports. Many of their findings about reconstruction efforts during the time period immediately following the 2003 invasion have been discussed in the press. While lessons

can be learned from those early days, I have asked Mr. Bowen and Mr. Christoff to focus on the period since June 28, 2004, when the State Department became the lead executive branch agency overseeing stabilization and reconstruction in Iraq.

This committee has jurisdiction over the State Department and USAID. As we perform oversight over these Agencies, we are seeking lessons that can improve our ongoing operations. Consequently, the objective of this hearing is to look to the future. With that in mind, we should recognize that a discrepancy has existed between our reconstruction ambitions and the projects and programs that we've actually been able to deliver. What is needed is a realistic assessment of what our reconstruction mission can achieve with the money Congress has appropriated. Beyond that, we must gauge what the Iraqi Government, itself, can achieve and whether other international support will be forthcoming.

The Inspector General's report calls 2006 the year of transition for the United States reconstruction program in Iraq. We must make certain that funds are being distributed according to a clear set of priorities. We must work with the new Iraqi Government to help it stem corruption that results in funds being siphoned away from important goals, and we must work to ensure that local and regional leaders are capable of protecting water, electrical, and other infrastructure projects as we phase down our military involvement.

It has become common in discussions of Iraq to say that without security little can be achieved politically or economically. Our witnesses will share with us estimates of the tangible costs of security. We are interested in knowing if these security costs are decreasing, either because attacks are being reduced or because Iraqis are taking over a larger role of protecting reconstruction activities.

Given the current situation in Iraq, what more should we be doing to consolidate the reconstruction progress that has been made? That will be a central focus for us today. And can the Iraqi Government effectively go forward on its own with reconstruction? Do we have sufficient funds to finish the large infrastructure projects that have begun? And are we getting enough value out of these projects to justify their expense?

One key to long-term Iraqi stability is the revenue from oil exports. Is the reconstruction of Iraqi oil infrastructure adequately prioritized? Is our reconstruction schedule being sufficiently coordinated with plans to phase down our military presence?

We appreciate the study and analysis that our witnesses have given to these questions, and we look forward to their insights.

Let me mention that the distinguished ranking member of the committee is on a train and has been delayed, and he will be here shortly. And so, I'll recognize him for his opening statement, as that is appropriate in our hearing, but we'll proceed with our witnesses.

And I want to call first upon Stuart W. Bowen, Jr., Special Inspector General for Iraq Reconstruction, Office of SIGIR, Arlington, Virginia.

Mr. Bowen, would you proceed with your testimony?

**STATEMENT OF STUART W. BOWEN, JR., SPECIAL INSPECTOR  
GENERAL FOR IRAQ RECONSTRUCTION (SIGIR), OFFICE OF  
THE SIGIR, ARLINGTON, VIRGINIA**

Mr. BOWEN. Thank you, Mr. Chairman. And thank you for the opportunity to address you today on my office's oversight of Iraq reconstruction. The Special Inspector General for Iraq Reconstruction has been about this work for almost exactly 2 years now, first, as the CPA-IG and, for the last 18 months, as the SIGIR.

This hearing is particular timely, in light of the fact that, just last week, we released our eighth quarterly report to Congress. The report details 20 new audits and inspections that address the most current and compelling challenges facing the United States reconstruction effort in Iraq. SIGIR has now completed 70 audits and inspections since its inception, and together they provide an important perspective on United States progress in Iraq.

Today, I want to announce SIGIR's intent to begin an audit that addresses what we see as the most compelling and paramount issue in this year of transition, and that is infrastructure security. Specifically, we're going to look at capacity-building in infrastructure security.

It is common to hear observers of Iraq talk about the fact that current outputs are below prewar levels, but that sort of snapshot analysis doesn't tell you very much. It's fine to observe that the megawatts currently on the grid are about 3,800, whereas, they were at 4,500, prewar. But it misses the point. Last summer, they were at 5,300.

So, what has happened since last summer? And what has happened is an incessant—an insidious insurgency has repeatedly attacked the key infrastructure targets, reducing outputs. It raises the issue, Is there adequate security for the infrastructure in place? And, more specifically, are the Iraqis being empowered to protect their own infrastructure? The infrastructure is the lifeblood of the economy. The oil output is essential to the national income.

I have provided charts to the committee that show the rate of attacks on oil facilities over the last year, and how it relates to output. And you'll notice on those charts that last September there was a surge in attacks on oil facilities. The Beji facility was attacked and taken offline for a while, and we saw, immediately after that, a dramatic drop in oil output. Again, in December, heavy attacks on the oil infrastructure; and, again, a significant drop in output.

[EDITOR'S NOTE.—The charts mentioned were not reproducible in this hearing but will be maintained in the committee's permanent record.]

The key issue, I think, to ensure that the lifeblood of Iraq's economy, its infrastructure, is in place and functioning in the short and the long term, is that they have sufficient capacity to protect their infrastructure. That's a security issue, but it's a refined security issue, and it's what we see as the most important security issue for the U.S. reconstruction program right now.

For the past 2 years, SIGIR has provided aggressive oversight to prevent fraud, waste, and abuse in the dangerous operating environment that is Iraq. Our emphasis has been on realtime auditing,

where guidance is provided immediately to management upon the discovery of the need for a change. This approach provides for independent assessments while effectuating rapid improvements.

Of note, last quarter we made our first four arrests, and last week a conviction arose from the investigations we conducted regarding the corrupt practices in the south-central region of the Coalition Provisional Authority. One important lesson of these arrests is that oversight works, and it works well, when it's on the ground and aggressive. The crimes we uncovered were committed in the early days of the CPA, and it's important to note that they involved Iraqi money, not appropriated dollars. They, in fact, occurred before formal oversight was in place. In fact, most of the criminal scheme was unfolding before I arrived in Iraq, in February 2004.

But your focus today, Mr. Chairman, rightly, is on the current management of U.S.-appropriated money, and it's the focus of our current work. Our mission at SIGIR is to look at the IRRF. And we have 57 ongoing investigations, many of which involved the IRRF. But what I can tell you is that fraud and corruption has not been, and is not currently, a pervasive factor in the United States program in Iraq, certainly nothing compared to what we found in Hillah, and continue to find, as we investigate and examine what occurred during CPA almost 2 years ago.

I can also report that we have, over the past year, observed continuous improvement in the management of projects funded by the IRRF, and the many organizations engaged in Iraq reconstruction have improved their coordination, beginning to push back against the stovepiping that burdened the early days of Iraq reconstruction.

Moving forward, as you noted, we see 2006 as the Year of Transition for the United States reconstruction program in Iraq; indeed, for the United States presence in Iraq. The successful 2005—December 2005 elections launched Iraq into a new phase of its history, now has its first stable government in 3 years. We've had three governments in 2 years. Now we have one in place for 4 years. We're going to see that stability begin to bleed into, and reflected in, stability of the infrastructure as that security issue that I've mentioned gets addressed.

By the end of this fiscal year the United States expects to have fully obligated the Iraq Relief and Reconstruction Fund, and the latest forecast by the Army Corps and USAID indicate that project completion will be by August 2007.

Eighteen billion in IRRF dollars have provided a substantial downpayment on what will be a lengthy restoration process of Iraq's infrastructure, a process that even early estimates by the World Bank pegged at \$56 billion. We know that that number, in fact, will be much higher.

The progress made, thus far, with United States reconstruction funds have supplied the new Iraqi Government with a significant basis for establishing an effective infrastructure, but we cannot walk away from this huge investment without knowing that the new Iraqi Government will have the capacity to sustain what we have built.

SIGIR has announced a new audit on transition planning. This will complement our audits on security. What are the plans to



move the assets over? Is there sufficient O&M money in place to ensure that what we've built keeps running? Have the Iraqis been empowered to operate that infrastructure? And, most importantly, I now see, and as our report indicates the evidence shows, can we protect that infrastructure? Can they protect that infrastructure, more to the point?

Meanwhile, this quarter's audits tell a story of projects that will not be completed and outputs that are below prewar standards, but first let me clarify to the committee what we mean by "the reconstruction gap." It identifies projects that won't be completed in electricity and oil and water because of a shift of dollars into security. As the committee well knows, in 2004 we had to make a reassessment based on the insurgency. And \$5.8 billion was reallocated, a large portion of it into security, an appropriate reallocation, as we've all seen. We are now beginning to see the fruits of that reallocation as Iraqi battalions take the field, supplanting United States battalions.

But when you look at the outputs from each of those infrastructure sectors, you see that in the summer of 2005 we exceeded our goals, as I mentioned. But due to incessant attacks in the last 6 months, our current focus is on infrastructure security.

One other issue I want to quickly touch upon is the importance of United States support for anticorruption efforts in Iraq. I am encouraged by Ambassador Khalilzad's calling for an anticorruption summit with the Iraqis in November, which he held, and to great benefit. The Commissioner on Public Integrity was there. Judge Rhadi al Rahdi, who I meet with whenever I'm there—I'm leaving for Iraq tonight, on my 11th trip. I will be meeting with him next week, and I'll meet the Board of Supreme Audit, I'll meet with the IGs, and, again, continue to express directly to them our support for their important efforts to fight corruption. We are fighting two insurgencies, really, in Iraq. We're fighting the one in the field, the one that's hitting the infrastructure, but we're also fighting a hidden insurgency that—the corruption issue that confronts us. And the most important effort we can make to fight corruption in Iraq is to support the Iraqi entities charged with that mission—and two of them are new. The IGs are new to that culture. The Commission on Public Integrity is new. That's their FBI. They—they're still getting their "sea legs," so to speak, in fighting corruption over there, and we've got to keep pushing it, because it's an issue that has dogged the effort and continues to burden Iraq's new democracy.

Moving beyond IG's traditional role of providing audits, SIGIR has also undertaken the development of a retrospective analysis of the United States reconstruction experience in Iraq through a lessons-learned initiative. Our first report on human capital management will be out next week. We have, ongoing right now, a detailed look at contracting and procurement. How did it happen? There are several phases of the very fluid process regarding how contracting was executed there. That'll be out in May. We'll be looking at program management, which will be out in the summer. At the end of the year, we'll publish a single-volume treatise that tells that story.

But this lessons-learned initiative has a key purpose, and that's to pull out and support the new systemic shift in the government,

focused on reconstruction and stabilization. NSPD-44 points the direction, and we're going to try and help advance that effort.

I am pleased to say that the cooperation we're receiving now from those who are executing Iraq reconstruction has been engaged and effective, and that has helped my organization advance the overall success of what is going on in Iraq now. When I get back there next Sunday—I'll be there for almost a month—I'll be meeting with Ambassador Speckhard, at IRMO, and General McCoy, at the Corps of Engineers, and General Casey and Ambassador Khalilzad. And I'm pleased to say that they have been responsive and that I'm pleased with the coordination now. It's better now than it's been since we started.

So, our bottom line is, our relations with those who are managing Iraq reconstruction are positive and productive, they're providing our auditors, inspectors, engineers, and investigators with the access they need to provide the oversight and the information you need to understand exactly how are we doing in Iraq reconstruction.

I'm also gratified that Congress has recognized the impact of our office and extended our tenure. I will continue to serve Congress and the Secretaries of State and Defense by providing rigorous oversight to prevent fraud, waste, and abuse in Iraq.

I appreciate this opportunity to participate in this important hearing, and I look forward to answering any questions that the committee may have.

Thank you.

[The prepared statement of Mr. Bowen follows:]

PREPARED STATEMENT OF STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION, OFFICE OF THE SIGIR, ARLINGTON, VA

#### INTRODUCTION

Mr. Chairman, Ranking Member Biden, and members of the committee, thank you for the opportunity to address you today on important matters regarding the role of the United States in the reconstruction of Iraq and the oversight of such efforts provided by my office, the Special Inspector General for Iraq Reconstruction (SIGIR). I hope for a productive exchange of views and ideas in this hearing to illuminate issues and challenges regarding Iraq reconstruction that we are now confronting.

This hearing is particularly timely as I released, last week, the January 30, 2006, Quarterly Report to Congress and to the Secretaries of State and Defense containing seven new audit reports detailing challenges, issues, and concerns in Iraq reconstruction efforts. SIGIR has now completed a total of 70 audit reports and project inspections. These provide an important perspective on U.S. progress in Iraq.

Throughout 2005, SIGIR provided aggressive oversight to prevent waste, fraud, and abuse in the, at times, lethal operating environment in Iraq. My emphasis on real-time auditing—where guidance is provided immediately to management authorities upon the discovery of a need for change—provides for independent assessments while effecting rapid improvements.

Your letter inviting me to appear before you, today, asked me to focus primarily on the management of appropriated funds, rather than the Iraqi funds that were used primarily during the era of the Coalition Provisional Authority. You emphasized the importance of understanding how funds provided, so far, have been managed, what lessons we have learned from our mistakes, and how we can improve the way we do business so that every dollar is effectively spent.

Your charge for this hearing is "right down the middle" of our mission in our oversight of Iraq reconstruction. Today, I will focus, as requested, on the management of appropriated funds. However, I would first note that a primary lesson learned is rooted in the handling of the Iraqi money by the CPA. This lesson: Oversight delayed is oversight denied.

Last week, an individual who had been employed by the CPA to manage reconstruction funds in south-central Iraq, was convicted of bribery and fraud—the conclusion of a criminal case opened by SIGIR investigators in 2004. This individual is one of four subjects currently identified in connection with criminal activities involving Iraqi money that was intended for the benefit of the Iraqi people.

Court documents released last week contained a number of electronic messages between these individuals as they coordinated their criminal activities. Many of these e-mails were transmitted in January 2004—a period when their activities, which had gone on for months, were in full swing.

Coincidentally, in January 2004, January 20 to be precise, I was appointed as the Coalition Provisional Authority Inspector General. This appointment was the first substantive measure to provide oversight of Iraq reconstruction programs and operations. Unfortunately, the establishment of an inspector general came months too late to deter these criminal activities.

However, while we were not in place to keep these crimes from occurring, the trails of those who committed crimes in Iraq are still warm enough for us to follow. In partnership with the Department of Homeland Security Bureau of Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation, and the Department of State Inspector General, we have created an interagency Special Investigative Task Force for Iraq Reconstruction, or SPITFIRE. With our SPITFIRE partners, and with the strong cooperation of the Department of Justice, we will continue to identify, arrest, and prosecute those relative few who dishonored our Nation's efforts in the reconstruction of Iraq.

Thus, the lesson is that oversight works, and it works well when it works hard. But, it works more efficiently the earlier it is put in place. Provisions for formal oversight of Iraq reconstruction should have been established at the very beginning of the endeavor.

While there has been much attention given to our work involving the Iraqi funds that were used by CPA for Iraq reconstruction, our current work chiefly involves the funds appropriated in the Iraq Relief and Reconstruction Fund (IRRF). I believe it is important to address apparent confusion in reports about the funds that were lost from the criminal activities we are investigating. We have found limited evidence of crimes involving appropriated funds provided by the American taxpaying public. Corruption is not a pervasive problem on the U.S. side of the reconstruction program. While we have found and reported inefficiencies and waste in the management of reconstruction contracts, projects, and finances, the problems and lack of controls in spending appropriated funds were far less serious than those that we found, and investigated, in the management of Iraqi funds used in reconstruction.

Even under the difficult conditions of Iraq, we have observed continuous improvement. The multiple organizations engaged in Iraq reconstruction have improved their coordination. The recent reorganization to integrate the Project and Contracting Office (PCO) with the Gulf Regional Division of the Army Corps of Engineers has contributed to these improvements.

Today, to focus on the management of appropriated funds applied to the relief and reconstruction of Iraq, I will discuss the findings from our audits of programs and inspections, and our continuing interactions with reconstruction management.

In addition to providing these typical products of inspector general oversight, SIGIR has also undertaken development of a retrospective analysis of the U.S. reconstruction experience in Iraq. This lessons-learned initiative is unfolding in three parts: Human capital management, contracting and procurement, and program and project management.

Our lessons-learned process is rigorous. In addition to the significant data we have collected in our normal oversight activities, we have gathered information from a broad range of sources, especially from those who had boots-on-the-ground Iraq reconstruction experience. As well, we have been successful in attracting the participation of experts, in and out of government, to help us to understand clearly, what our Nation must learn from the Iraq reconstruction experience. I will discuss the progress of this effort during this hearing.

Let me first review and highlight some of our findings from the most recent SIGIR Quarterly and Semiannual Report to the U.S. Congress, which we delivered last week.

#### TRANSITION

2006 is a year of transition for the U.S. reconstruction program in Iraq. The successful December 2005 elections launched Iraq into a new phase of its history. The first government elected under Iraq's new Constitution is now forming and will soon assume responsibility for managing Iraq's economy and infrastructure.

By the end of this fiscal year, the United States expects to have fully obligated the Iraq Relief and Reconstruction Fund (IRRF). IRRF dollars represent only a portion of the amount estimated by the World Bank and United Nations (U.N.) to be necessary to restore Iraq's infrastructure. The IRRF has provided a substantial downpayment on what will be a lengthy restoration process. The progress made thus far with U.S. reconstruction funds has supplied the new Iraqi Government with a significant start toward establishing an effective infrastructure and eventual prosperity.

As more and more IRRF-funded projects are completed, the U.S. agencies and elements that currently manage and implement the overall U.S. reconstruction effort, including the Iraq Reconstruction Management Office (IRMO), U.S. Agency for International Development (USAID), and the U.S. Army Corps of Engineers Gulf Region Division Project and Contracting Office (GRD-PCO), will implement transition strategies to ensure that completed projects and related assets are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them.

As the transition process gains momentum, the U.S. reconstruction presence in Iraq should begin to shift toward foreign assistance programs managed by the Department of State (DOS) and the U.S. Agency for International Development (USAID).

Regarding the reconstruction transition, SIGIR has several concerns:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided, infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another 3 or 4 years to complete?

There are significant signs that transition planning is being implemented—the Iraq Reconstruction and Management Office, Department of State, and Department of Defense are reviewing critical issues of funding and transition. The importance of this issue compels SIGIR to announce a new audit to review all reconstruction transition planning.

#### RECONSTRUCTION GAP

SIGIR introduced the concept of the Reconstruction Gap with our October 30 report to Congress. We define the Reconstruction Gap as the difference between what was originally planned for reconstruction in the various sectors and what will actually be delivered.

To be clear, this is not an alarm bell, but merely an observation of a current reality: Changing conditions in Iraq, including deteriorating security conditions and evolving political and economic priorities, required IRRF reprogramming that altered sector funding levels and projected outcomes.

During the last quarter, we conducted an audit to examine the Reconstruction Gap further. We found that the U.S. Government will not complete the number of projects anticipated by the IRRF program allocations in the November 2003 legislation. Our audit found these shortfalls:

- Of the 136 projects originally planned in the water sector, only 49 (36%) will be completed. Most of the projects planned in sewerage, irrigation and drainage, major irrigation, and dams have been cancelled.
- Of the 425 projects originally planned by CPA in the electricity sector, only 300 (70.5%) will be completed. Of the 3,400 additional megawatts planned for the generation subsector, 2,200 megawatts will be delivered.

These shortfalls are substantially attributable to the autumn 2004 IRRF reprogramming, which increased the funding available for security by reducing the allocations to the water sector from \$4.3 billion to \$2.1 billion (down 51.2%). The electricity sector dropped from \$5.560 billion to \$4.309 billion (down 22.5%). Allocations to certain other sectors in addition to security increased: The Private Sector Development sector grew from a very low by 420 percent, and the Justice, Public Safety, Infrastructure, and Civil Society sector rose by 70 percent.

A number of factors combined to make these program changes necessary, the most significant being the rise of the insurgency. A new strategy that was more responsive to the new security and political situation in Iraq resulted in the reallocation of a total of \$5.6 billion in IRRF funding since August 2004. Additionally, adminis-

trative costs of the U.S. agencies implementing IRRF programs caused another \$425 million in program cuts. Another \$350 million is now budgeted for new sustainment activities that were not included in original planning. Finally, the following factors have also contributed to the reconstruction gap:

- Inadequate or nonexistent cost estimates for many projects in the original November 2003 plan;
- Increased costs of materials, particularly in the oil and gas sector, aggravated by smuggling of subsidized construction materials across Iraq's borders;
- High costs of contractor security;
- High costs of project delays caused by intimidation and violence;
- Evolving reconstruction priorities to fit the Multi-National Force–Iraq campaign plan and political requirements; and
- Lack of oversight of reconstruction projects as they developed.

I believe that more resources must be allocated to sustainability—the ability of a program to deliver its intended benefits for an extended period of time after major financial, managerial, and technical assistance from an external donor is terminated.

But the story of the Reconstruction Gap is fundamentally about security needs driven by a lethal and persistent insurgency. In addition to the reallocation by DOS of \$1.8 billion to training and equipping Iraqi security forces, the costs for the security of contractors have risen on average to more than 25 percent.

While this security spending reduces the funds available for actual reconstruction, it is vital. This is demonstrated most clearly by the number of contractors killed, kidnapped, or wounded. Intimidation of workers continues to delay projects, and the insecure environment has driven away critically needed foreign technicians in the essential service sectors.

It is difficult to overstate the impact of violence on the reconstruction program. Often, those commenting on Iraq reconstruction begin by stating that electrical capacity is lower than prewar levels. They are correct. However, not many realize that electrical capacity grew above prewar levels in mid-2004 and peaked in July 2005. Since then, however, the insurgents have targeted the electrical infrastructure, sabotaging the towers that carry high-voltage lines to Baghdad from generating facilities in the south. As well, increasing demand for electricity, provided to consumers at no cost, the influx of new appliances and new customers, and the creation of new industries, businesses, factories, and jobs also contribute to nationwide shortages.

#### SUSTAINABILITY

SIGIR audit report published October 24, 2005, noted: “There is a growing recognition that the Iraqi Government is not yet prepared to take over the near- or long-term management and funding of infrastructure developed through the IRRF projects.” Key recommendations from the October quarterly report—including the creation of a sustainment coordinator—have been implemented, but the coordinative function should continue to be a high priority for reconstruction managers in Iraq.

SIGIR audits conducted this quarter made these key sustainability recommendations:

- Create a single database of IRRF-related assets and provide it to the Iraqi Government to support planning and budgeting.
- Coordinate plans and funding for the sustainment of Commander's Emergency Response Program (CERP) construction projects with DOS, IRMO, GRD-PCO, and USAID.

Through our project inspections, which are conducted by teams of SIGIR auditors and engineers, we also gain insight into the sustainability of reconstruction projects.

#### COST-TO-COMPLETE

The cost-to-complete a project is defined as the total estimated cost of the project, less the actual cost of work performed to date. Nearly a year ago, SIGIR reported that the U.S. reconstruction program did not have reliable cost-to-complete estimates for its projects. The failure to compile and report cost-to-complete information, as required by Public Law 108–106, has made it difficult for implementing agencies to exercise effective fiscal management of IRRF dollars. Without current and accurate cost-to-complete data, management cannot determine whether sufficient funds will be available to complete ongoing work, nor can it project the availability of funds for any new programs or projects. This has also deprived SIGIR of the financial visibility I need to execute my oversight responsibility.

For the past year, SIGIR auditors have continually pressed for accurate cost-to-complete data. DOS confronted the issue last spring: In March 2005, a DOS team

went to Baghdad to press for cost-to-complete data from agencies implementing the IRRF. This effort has produced limited success.

#### ANTICORRUPTION EFFORTS

Success in the reconstruction could be eroded in the long term unless Iraq is successful in developing and implementing substantial anticorruption measures. SIGIR is committed to intensifying U.S. efforts to promote an effective anticorruption system within the Iraqi Government and commends the U.S. mission's efforts thus far to support anticorruption institutions in Iraq. In the October 2005 Quarterly Report, we urged the Ambassador to hold an anticorruption summit, which he did in November 2005. The summit resulted in a proposal for a joint United States-Iraqi Anticorruption Working Group and initial agreement on the need for more training for officials from the Board of Supreme Audit, the Commission on Public Integrity, and the inspectors general of the Iraqi Ministries. The Embassy Anticorruption Working Group previously identified several major priorities, including:

- Promoting market reforms and reducing subsidies;
- Helping to reinforce the weak law enforcement structure; and
- Creating a public education campaign on the corruption issue.

SIGIR continues to support the Iraqi inspectors general system since its inception in 2004. The Iraqi IGs are charged with auditing, investigating, and reviewing the accountability and integrity of the Ministries, and with preventing, deterring, and detecting waste, fraud, and abuse. Although this is a new system in Iraq, and in the region, and will take time to function effectively, the continued development and progress is encouraging.

In addition, the Board of Supreme Audit (BSA), though a holdover from the prior regime, is well respected by senior Iraqi officials and provides effective audit work across all Ministries. Despite the hazardous environment in which we all find ourselves working, the BSA has expressed interest in using SIGIR's audit work in its own efforts.

As the anticorruption efforts continue, SIGIR will audit to evaluate progress.

#### THE HUMAN TOLL

The lethal environment in Iraq continues to pose extraordinary challenges to reconstruction contractors. Since reconstruction began in March 2003, 467 death claims for contractors of all nationalities have been submitted under the Defense Base Act, according to the U.S. Department of Labor. The daily situation reports of the Gulf Region Division of the U.S. Army Corps of Engineers present the full range of dangers facing those who work on reconstruction projects in Iraq. The reports routinely list kidnappings, murders, attacks, bombings, armed vandalism, and threats. The January 13, 2006, report, for example, listed a car bombing, a gunshot through a car window, armed vandalism, a threat delivered by five armed and masked men on a jobsite, and six attacks on contractors.

#### INFORMATION SYSTEMS MANAGEMENT

Throughout 2005, SIGIR advised IRMO of the need for a single database for reconstruction projects in Iraq. Last quarter, IRMO mandated the creation of a consolidated database by December 2005, but this system has yet to become operational. As a result, it is difficult for me to assess the current progress of the overall project portfolio or to identify potential problems with individual projects. The reconstruction effort is too large and too important to be managed without access to accurate and complete data about the projects involved. IRMO and the implementing agencies in Baghdad are trying to develop a common policy and process to facilitate the legal, financial, and logistical transfer of assets to the Iraqi Government. Two interagency working groups in Baghdad are addressing the problem. We continue to develop the SIGIR Iraq Reconstruction Information System (SIRIS), but the difficulties in extracting data from U.S. Government agencies in Iraq hinder our responsiveness.

#### LESSONS LEARNED

Recognizing an exceptional opportunity to fulfill an important need, SIGIR has undertaken the task to derive the lessons that should be learned and retained from our Nation's experience in the rebuilding of Iraq. While this goes beyond the normal functions of an inspector general, we feel we have a responsibility to provide valuable advice as the United States develops new approaches to stabilization and reconstruction operations.

Through a process as rigorous as is to be expected from an inspector general, we are identifying and cataloging the most significant challenges the U.S. Government has faced, and making recommendations to guide efforts both to develop national capabilities, and planning for contingencies. This process involves substantial research; we have drawn on the expertise and experiences of those who served in Iraq and those who participated or observed from the outside. Perspectives gathered through interviews and inputs of individuals are then incorporated into white papers, which provide the foundation for discussions by panels of senior executives and experts from government, industry, and academia. From these discussions emerge more substantial white papers and specific recommendations, which are then refined through a review and comment process by the participants. Once we achieve consensus, the final, and authoritative, report is published.

Begun in September 2004, the SIGIR Lessons Learned Initiative focuses on three substantive areas that have affected the success of Iraq reconstruction programs and operations:

- Human Capital Management;
- Contracting; and
- Program and Project Management.

The first lessons-learned forum, held on September 20, 2005, focused on human capital management and the range of personnel issues that emerged. The resulting report, "Iraq Reconstruction Lessons Learned: Human Capital Management," will be released shortly, but several conclusions can be clearly drawn:

- There was no template for recruiting personnel to staff a temporary surge relief and reconstruction effort.
- There was no contingency organization to lead the reconstruction and relief process.

The efforts in Iraq would have been greatly enhanced if a reserve civilian corps existed to deploy in such a situation, and contracting out the many responsibilities led to a lack of coordination. But it is important to remember that the Iraq reconstruction experience was affected by special circumstances that inhibited the ability to execute workforce planning. These circumstances included the temporary nature of the Coalition Provisional Authority, the deteriorating security environment, and inaccurate prewar intelligence on the existing Iraqi bureaucracy.

SIGIR began research on Iraq reconstruction contracting in early autumn 2005. In December 2005, we completed a draft Contracting Lessons Learned Report, which we presented to two forums made up of experts involved with Iraq Reconstruction contracting. The first forum was for government officials, academics, and officials of nonprofit organizations and think tanks. The second forum was for private sector personnel who held (or hold) Iraq reconstruction contracts from USAID and/or DOD. We are currently in the process of incorporating the information gained from these two events, further research, and interviews into the draft report. The revised paper will then be sent to forum members and other appropriate persons for vetting, before final publication.

Based on our research thus far, SIGIR has made the following key observations concerning Iraq reconstruction contracting:

The need for cooperation and collaboration is the overarching requirement for successful post-conflict reconstruction contracting. The job in Iraq proved just too big for one agency or contractor. U.S. agencies and departments have various capacities, flexibilities, and differing areas of expertise in terms of contracting and program management. In Iraq, efforts seemed to be most successful when different agencies understood and leveraged each other's mandates, needs, skills, and strengths. Unfortunately, SIGIR research found many situations in which agencies' lack of cooperation contributed to contracting inefficiencies.

#### OTHER OBSERVATIONS

- *Inclusion of Contracting Staff From the Beginning of Any Reconstruction Effort.* SIGIR research found that there was general agreement among agencies concerned with Iraq reconstruction that contracting plays a central role in mission execution and cannot be an afterthought in the planning process. Whether for stabilization or reconstruction, contracting officials can provide an accurate and holistic picture of the resources needed to efficiently contract for a given mission. This understanding extends to the number of personnel required, their skills and functional areas, and the systems and procedures required for them to operate efficiently.
- *Use of Flexible Contracting Mechanisms.* There is mixed opinion in the government contracting community about whether a "wartime FAR" or other additional

contracting regulations are required for post-conflict reconstruction efforts. Our information to date indicates that there needs to be a broader understanding of the flexibilities that currently exist in the FAR and its supplements, as well as the acceptable use of waivers and other provisions that apply when speed and flexibility are critical. SIGIR research indicates that not all contracting personnel in Iraq were properly informed about FAR flexibilities and thus were sometimes hesitant to use them, fearing that they might be subject to penalties for incorrect or improper use of these options. Methods are needed that would ensure personnel have the necessary knowledge and also the confidence to use such flexible mechanisms when necessary.

- *The Need for Better Requirements.* In order to efficiently procure an item or a service, contracting personnel must be provided with an adequate description of customers' needs. The inability to properly define and prepare these "requirements statements" for projects appears to be a significant and continuing shortcoming of the Iraq reconstruction process. To remedy this, customers and contracting personnel must work closely together on a continuing basis. There also needs to be sufficient personnel on the customer side—both in the field and in the United States—capable of laying out requirements with appropriate detail and accuracy. Moreover, in Iraq, this ability must be transferred to local personnel through capacity-building, in order to strengthen long-term contracting capabilities.
- *Use of Special Contracting Programs.* During the reconstruction effort in Iraq, various programs containing flexible funding and contracting mechanisms were used in order to enable quick execution of small-scale projects. Some of these, such as USAID's Office of Transitional Initiatives (OTI), predated the U.S. intervention in Iraq, while others apparently evolved out of necessity during the conflict, such as the Commanders' Emergency Response Program (CERP) and the Commanders' Humanitarian Relief and Reconstruction Program (CHRRP). Other such programs included CPA's "Accelerated Iraq Reconstruction Program (AIRP)" and the Project and Contracting Office's (PCO) Rapid Contracting Initiative for the electricity sector.
  - The focus of these programs was to meet immediate needs—especially employment generation that would help ameliorate security conditions—and not necessarily the long-term reconstruction of the country. Yet, these smaller programs appear to be vital to creating an environment conducive to and able to absorb larger, more sustainable reconstruction efforts.
  - Given the generally positive performance of these programs, it would be important in future reconstruction efforts to make available designated pools of flexible funds for such initiatives, and to create standardized, but unrestrictive, mechanisms for contracting and managing these funds. It should be noted, however, that these programs can present accountability challenges due to their speed and flexibility.
- *Sustainment of Advances and Innovations.* Lessons have been learned throughout the experience of Iraq reconstruction contracting, resulting in improvements to contracting and related processes. Examples include: The development of civilian-military partnerships, creation of centralized contracting coordination, flexible contracting mechanisms, and personnel who arrive in-country better prepared to carry out their required tasks. This gain in understanding and capability needs to be institutionalized within the concerned U.S. Government agencies for application in future post-conflict reconstruction events.

Overall Impact of the Security Situation on Contracting. This is an area where SIGIR continues to carry out research and looks forward to providing more information as our findings develop.

The third and final topic we are reviewing in our lessons-learned initiative is program and project management. We are in the process of compiling a list of subject matter experts, and we plan to convene a forum in April.

I hope that the lessons-learned initiative will enhance ongoing efforts in Iraq as well as to inform future U.S. reconstruction and stabilization planning and programs.

#### THE WAY AHEAD

As I have noted, 2006 is a year of transition for Iraq reconstruction, and, of course, the Congress will face key decisions. As of February 1, the State Department reports that 84 percent of the \$18.4 billion Iraq Relief and Reconstruction Fund is obligated, under contract. What remains is less than \$3 billion, which we estimate will not permit the completion of all projects that were envisioned when the requirement for \$18.4 billion was being determined in late 2003.



While SIGIR has identified a Reconstruction Gap based on these initial requirements, and noted that water and electrical projects will not be completed, I reiterate that this is an observation—not an alarm bell.

Our conclusions on this matter do not constitute an evaluation of the original list of projects. We are not saying that all of these problems must be finished to complete successfully the U.S. investment in the reconstruction of Iraq. In our view, rather than to focus the remaining resources on finishing up this list of projects, our investment in ensuring the sustainment of projects that are, or will be, completed, and efforts toward building the capacity of the Iraqis to take over the repair of their infrastructure will bring a much higher return.

Also, among the improvements we have observed in the past year is the development of an integrated information management system to provide a more accurate picture for program management.

I am pleased to say that the cooperation that this inspector general is receiving from those engaged in Iraq reconstruction is refreshing. When I return to Iraq later this week, I will be in regular contact with senior reconstruction management, including IRMO director, Ambassador Dan Speckhard, Army Corps of Engineers Gulf Regional Division commander, BG Bill McCoy, and MG Darryl A. Scott, who recently relieved MG John Urias, as Commander, Joint Contracting Office–Iraq. As well, I regularly meet with Ambassador Zalmay Khalilzad and the Multi-National Force–Iraq commanding general, George W. Casey, Jr. Our relations are positive and productive and they are providing our 45 SIGIR auditors, inspectors, engineers, and investigators in Iraq the access they need to provide this important oversight.

#### CONCLUSION

We at SIGIR are vigorously carrying out the duties and responsibilities assigned by Congress in a highly hazardous environment. I am proud of my staff's commitment and willingness to serve in a dangerous land far from their families. We will continue to ensure effective oversight and timely reporting, and to promote the success of the Iraq reconstruction plan.

I am gratified that Congress has recognized the impact of my office through the extension of our tenure. On November 10, the Congress passed Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 containing an amendment to extend the duration of SIGIR oversight by modifying the SIGIR termination clause to base it upon the level of IRRF expenditures, instead of obligations. I will continue to serve Congress and the Secretaries of State and Defense by providing rigorous oversight to prevent waste, fraud, and abuse in Iraq.

I appreciate this opportunity to participate in this important hearing, and I look forward to answering any questions that the committee may have.

The CHAIRMAN. Thank you very much, Mr. Bowen, for your testimony.

As promised, the ranking member is here, and, at this point, I would like to ask him for his opening comments.

#### **OPENING STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S. SENATOR FROM DELAWARE**

Senator BIDEN. Well, I'll be very brief, Mr. Chairman.

I'd like to ask that my opening statement be placed in the record.

The CHAIRMAN. It will be placed in the record in full.

Senator BIDEN. I will just reference two parts of it.

First of all, I want to thank all the witnesses for being here, and thank you for having this hearing, Mr. Chairman.

And, Mr. Bowen, your report, I thought, was first rate, and I'm happy to hear that you're getting full cooperation. It does not surprise me. At this point, I think we have a first-rate Ambassador in place, and I think people want to straighten things out. The problems are legion. Some of them have been inherited, some we made ourselves: A lack of prewar planning, decrepit infrastructure that had been looted and raided, a security vacuum—as your report points out, security's worse now than it was in 2003 and 2004 and, I would argue, in the beginning of 2005, a misguided focus on mas-

sive centralized projects, in my view, and, to my surprise, the extent of the corruption. And you don't even know how wide that is yet.

We have missed all of our major reconstruction targets by significant amounts, whether it was oil, electricity, water. There has been progress. We've built hundreds of schools and clinics in an incredibly difficult environment. Men and women in the State Department and AID have performed with extraordinary bravery and skill. But they're working against significant odds. And the irony is, after being told—I think, accurately—that we had to move quickly with this \$18.4 billion a couple of years ago, because it had to have an immediate impact, here we are with \$9 billion of it not spent yet, a significant portion being built on security, roughly \$5,000 per Iraqi, so far. And I'm being a little facetious, but sometimes I wonder if we might have not been better writing a check for \$5,000 for every Iraqi, in terms of changing their attitude.

But I'm anxious to hear the rest of the witnesses. And, most importantly—and I think the whole committee would say this, on both sides—we're anxious to get this right. There's not much time left. There's not much time left. So, we look forward to your continued effort to, for lack of a better phrase, "clean things up." And now that the transfer of this responsibility is at State, a lot of it, I'm looking for continued improvement, but we need significant, significant improvement.

So, I thank you, Mr. Chairman, and I apologize to all of you for watching the caboose of the train leave as I jumped in my car and tried to get down here in time. And I apologize for that.

So, thank you, Mr. Chairman.

[The prepared statement of Senator Biden follows:]

PREPARED STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S. SENATOR FROM  
DELAWARE

The next 6 months will help determine whether Iraq comes together or falls apart, and whether our mission is a success or a failure.

The drawdown of American troops is already underway—I believe we will be down to 100,000 Americans by the end of this year, and half that number by the end of 2007.

The critical question now is whether we will leave Iraq with our security interests intact, or whether we will have traded a dictator for chaos.

The answer will depend on our success in three areas:

First, we need to generate international pressure on Iraq's main communities to form an inclusive government and agree to a consensus constitution;

Second, we must build Iraqi police and army forces with the leadership, training, equipment, and logistical capabilities to operate on their own;

Third, we must develop Iraq's governing capacity and ability to deliver basic services.

Until recently, the administration's reconstruction effort in Iraq has been a textbook case of how not to go about rebuilding post-conflict.

The problems are well known and legion. Some we inherited. Some we made ourselves.

A lack of prewar planning. A decrepit infrastructure run into the ground by three decades of neglect. A security vacuum that made reconstruction sites even more vulnerable to sabotage. A misguided focus on massive, centralized projects run by multinationals instead of small bore, Iraqi-led efforts with short-term payoffs. Gross mismanagement and corruption.

Now, many Iraqis have less electricity than they did before the war. Last week, for example, the residents of Baghdad had just 5 hours a day.

Oil exports lag 700,000 barrels a day below target, depriving Iraq of up to \$15 billion a year.

Too many homes have dirty water flowing from their taps and untreated sewage on their doorsteps. Unemployment is estimated at 40 percent—providing a steady supply of recruits to the insurgency.

Yes, there has been progress—we’ve built hundreds of schools and clinics—in an incredibly difficult environment. Men and women from the State Department and AID have performed with extraordinary bravery and skill. But they are working against the odds—odds made even longer by the miscalculations of their leadership here in Washington.

The result is what Mr. Bowen has accurately described as a “reconstruction gap” between what was promised and what has been delivered.

This is not what the American people expected when Congress committed over \$20 billion to rebuild Iraq. That translates to roughly \$5,000 per Iraqi household—more than 5 years salary for an average Iraqi.

Given the mismanagement, graft, and astronomical security costs, Mr. Bowen and others have described, one wonders whether we would have been better off simply writing a \$5,000 check to every Iraqi family.

During hearings the chairman and I held before the war, it was obvious that military planning was far ahead of civilian planning for the day after—or what we called the “Decade After.”

Now, almost 3 years later, the question is: Are we 3 years too late? Can we still turn this reconstruction effort around and deliver real results for the benefit of Iraqi people—and for the sake of our own interests in Iraq? If so, what will it take to do that? That’s what I hope our witnesses will talk to us about today. Thank you.

The CHAIRMAN. Thank you very much, Senator Biden.

I’m going to call now on Mr. Christoff, then Ambassador Jeffrey, and then Mr. Kunder, so you will know the sequence.

Joseph Christoff is Director of the International Affairs and Trade of the Government Accountability Office, the GAO, in Washington, DC.

And we’re very pleased to have you. If you’ll please proceed with your testimony.

**STATEMENT OF JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC**

Mr. CHRISTOFF. Thank you, Mr. Chairman and members of the committee. Thanks for inviting GAO to this important hearing.

My testimony today is based upon numerous reports that GAO has issued on security, cost, and reconstruction issues in Iraq. First, I’d like to discuss three key challenges that the United States faces in both stabilizing and rebuilding Iraq.

And, again, the first challenge is security. The continuing strength of the insurgency has made it difficult for the multinational force to transfer security responsibilities to Iraq and to draw down United States forces. Iraqi forces are growing in number, and they’re taking an increasing lead in counterinsurgency operations. However, these forces will not be able to operate independently for some time, because they need logistical capabilities, ministry capacity, and command, control, and intelligence structures.

Security has also affected the cost and schedule of reconstruction efforts. The State Department has reported that security represents 16 to 22 percent of the cost of infrastructure projects. But security is not the only problem. Other problems include disagreements among United States agencies, contractors, and Iraqi authorities on priorities, uncertain site ownership, high staff turnover, inflation, and unanticipated site conditions.

The second challenge the United States faces is developing performance measures. Most measures do not assess how United States efforts are making a difference in the lives of the Iraqi people. In the electricity sector, the United States tracks the number of megawatts added to the power grid, but does not track the hours of uninterrupted service Iraqis receive daily. In the water sector, the United States reports the number of projects completed, rather than the number of clean water reaching Iraqi households.

The third challenge is sustainability. The Iraqi Government has not been able to sustain the rebuilt infrastructure, due to shortages of power, trained staff, and supplies. As of July 2005, \$52 million in water and sanitation projects were not operating, or were operating at low capacity, due to these problems. In the electricity sector, some powerplants are using low-grade oil to fuel turbine engines designed to operate on natural gas. Iraqi powerplant officials told us that they had not received the additional training needed to operate and maintain these new engines. In response to our findings, the State Department has begun to develop metrics for measuring progress and plans for sustaining the U.S.-built infrastructure. And the fiscal year 2007 budget proposes resources for sustaining Iraq's infrastructure and building ministry capacity.

Let me also turn to the challenges that a new Iraqi Government will face.

Iraq will likely need more money for reconstruction than the \$56 billion the World Bank estimated in 2006. The country's needs have increased, due to additional security costs, looting, sabotage, and more severely degraded infrastructure. In the oil sector alone, the Iraqi Government estimates that it will need \$30 billion over the next several years to achieve its oil production goals. However, Iraq's contributions will be constrained by the cost of continuing subsidies, generous wages and pensions, and an expanding security force. Current government subsidies have kept prices low for food, fuel, and electricity. Low fuel prices have encouraged overconsumption and smuggling to neighboring countries. As part of an agreement with the IMF, Iraq plans to raise fuel prices to levels comparable to other gulf countries by the end of 2006. However, it's unclear whether the Iraqi Government will have the political commitment to raise fuel prices.

It is equally unclear how the government will reduce food subsidies, since at least 60 percent of the Iraqi population depends on food rations. Food and energy subsidies account for about 18 percent of projected GDP in 2006.

The Iraqi Government also owes billions of dollars to international creditors and victims of its invasion of Kuwait. Iraq's debt to creditors is about \$51 billion, according to the IMF. In addition, Iraq owes about \$33 billion to war victims. Depending upon the growth of oil revenues, Iraq may be paying for war reparations through the year 2020.

So, in conclusion, the United States must ensure that the billions it has already invested in Iraq and its infrastructure are not wasted. The Iraqis need additional training to operate and maintain the powerplants, water treatment facilities, and healthcare centers that the United States has built. At the same time, Iraq's new government must work to reduce subsidies, control public salaries and

pensions, and pay for its growing security force. These collective actions will encourage the international community and the private sector to invest in Iraq, and will demonstrate Iraq's commitment to rebuilding its own country.

Mr. Chairman, that concludes my statement. Thank you for inviting us.

[The prepared statement of Mr. Christoff follows:]

PREPARED STATEMENT OF JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. Chairman and members of the committee, I am pleased to be here today to discuss U.S. efforts to rebuild and stabilize Iraq. The United States, along with its coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to transition to its first permanent government. The United States reconstruction assistance goal is to help the Iraqi Government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

My testimony today is based on the four reports that we have issued to the Congress since July 2005 and our recent trips to Iraq. Since July 2005, we have reported on (1) the status of funding and reconstruction efforts in Iraq, focusing on the progress we have achieved and the challenges we face in rebuilding Iraq's infrastructure; (2) U.S. reconstruction efforts in the water and sanitation sector; (3) U.S. assistance for the January 2005 Iraqi elections; and (4) U.S. efforts to stabilize the security situation in Iraq (a classified report). We continue to review U.S. efforts to train and equip Iraqi security forces, develop the oil and electricity sectors, reduce corruption, and enhance the capacity of Iraqi Ministries.

Based on these four reports and recent audit work conducted in Iraq, I will discuss the challenges (1) that the United States faces in its rebuilding and stabilization efforts and (2) that the Iraqi Government faces in financing future requirements.

This statement includes unclassified information only and is based on recent GAO reports. We conducted our reviews for these reports between September 2004 and October 2005 in accordance with generally accepted government auditing standards. In addition, we recently conducted audit work in Iraq in November 2005 and January 2006.

#### SUMMARY

The United States faces three key challenges in rebuilding and stabilizing Iraq. First, the continuing strength of the insurgency has made it difficult for the multinational force to develop effective and loyal Iraqi security forces, transfer security responsibilities to them, and progressively draw down U.S. forces in Iraq. The security situation in Iraq has also affected rebuilding efforts. The security situation has deteriorated since June 2003, with significant increases in attacks against the coalition and coalition partners. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. Although the United States has set broad goals for providing essential services in Iraq, limited performance measures present challenges in determining the overall impact of U.S. projects. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. U.S. agencies are working to develop better performance data and plans for sustaining the rehabilitated infrastructure.

As the new Iraqi Government forms, it must plan to secure the financial resources it will need to continue the reconstruction and stabilization efforts begun by the United States and international community. Iraq will likely need more than the \$56 billion that the World Bank, United Nations (U.N.), and the Coalition Provisional Authority (CPA) estimated it would require for reconstruction and stabilization efforts from 2004 through 2007. More severely degraded infrastructure, post-2003 conflict looting and sabotage, and additional security costs have added to the country's basic reconstruction needs. It is unclear how Iraq will finance these additional requirements. While the United States has carried the primary financial responsibility for rebuilding and stabilizing Iraq, its commitments are largely obligated and re-

maining commitments and future contributions are not finalized. Further, U.S. appropriations were never intended to meet all Iraqi needs. In addition, international donors have mostly committed loans for the reconstruction of Iraq that the government is just beginning to access. Iraq's ability to contribute financially to its own rebuilding and stabilization efforts will depend on the new government's efforts to increase revenues obtained from crude oil exports, reduce energy and food subsidies, control government operating expenses, provide for a growing security force, and repay \$84 billion in external debt and war reparations.

#### BACKGROUND

From May 2003 through June 2004, the CPA, led by the United States and the United Kingdom, was the U.N.-recognized coalition authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating the reconstruction effort. In May 2003, the CPA dissolved the military organizations of the former regime and began the process of creating or reestablishing new Iraqi security forces, including the police and a new Iraqi army. Over time, multinational force commanders assumed responsibility for recruiting and training some Iraqi defense and police forces in their areas of responsibility.<sup>1</sup> In May 2004, the President issued a National Security Presidential Directive, which stated that, after the transition of power to the Iraqi Government, the Department of State (State), through its Ambassador to Iraq, would be responsible for all U.S. activities in Iraq except for security and military operations. U.S. activities relating to security and military operations would be the responsibility of the Department of Defense (DOD). The Presidential Directive required the U.S. Central Command (CENTCOM) to direct all U.S. government efforts to organize, equip, and train Iraqi security forces. The Multi-National Security Transition Command–Iraq, which operates under Multi-National Force–Iraq (MNF–I), now leads coalition efforts to train, equip, and organize Iraqi security forces.

Other U.S. Government agencies also play significant roles in the reconstruction effort. The U.S. Agency for International Development (USAID) is responsible for projects to restore Iraq's infrastructure, support healthcare and education initiatives, expand economic opportunities for Iraqis, and foster improved governance. The U.S. Army Corps of Engineers provides engineering and technical services to USAID, State, and military forces in Iraq. In December 2005, the responsibilities of the Project Contracting Office (PCO), a temporary organization responsible for program, project, asset, and financial management of construction and nonconstruction activities, were merged with those of the U.S. Army Corps of Engineers Gulf Region Division.

On June 28, 2004, the CPA transferred power to an interim sovereign Iraqi Government, the CPA was officially dissolved, and Iraq's transitional period began. Under Iraq's transitional law,<sup>2</sup> the transitional period included the completion of a draft constitution in October 2005 and two subsequent elections—a referendum on the Constitution and an election for a permanent government.<sup>3</sup> The Iraqi people approved the Constitution on October 15, 2005, and voted for representatives to the Iraq Council of Representatives on December 15, 2005. As of February 3, 2006, the Independent Electoral Commission of Iraq had not certified the election results for representatives.

Once certified, the representatives are to form a permanent government. According to U.S. officials and Iraqi constitutional experts, the new Iraqi Government is likely to confront the same issues it confronted prior to the referendum—the power of the central government, control of Iraq's natural resources, and the application of Islamic law. According to U.S. officials, once the Iraqi Legislature commences work, it will form a committee that has 4 months to recommend amendments to the Constitution. To take effect, these proposed amendments must be approved by the Iraqi Legislature and then Iraqi citizens must vote on them in a referendum within 2 months.<sup>4</sup>

<sup>1</sup>The CPA was responsible for police training at the Baghdad and Jordan academies. The Iraqi army units were trained by the Multi-National Security Transition Command–Iraq.

<sup>2</sup>Law of Administration for the State of Iraq for the Transitional Period, March 2004.

<sup>3</sup>See GAO, "Iraq's Transitional Law," GAO-04-746R (Washington, DC: May 25, 2004), for more information on key events during Iraq's transitional period.

<sup>4</sup>The referendum is successful if it is approved by the majority of the voters and is not rejected by two-thirds of the voters in three or more governorates.

SECURITY, MEASUREMENT, AND SUSTAINABILITY CHALLENGES IN REBUILDING AND STABILIZING IRAQ

The United States faces three key challenges in stabilizing and rebuilding Iraq. First, the unstable security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and to engage in rebuilding efforts. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. U.S. agencies are working to develop better performance data and plans for sustaining rehabilitated infrastructure.

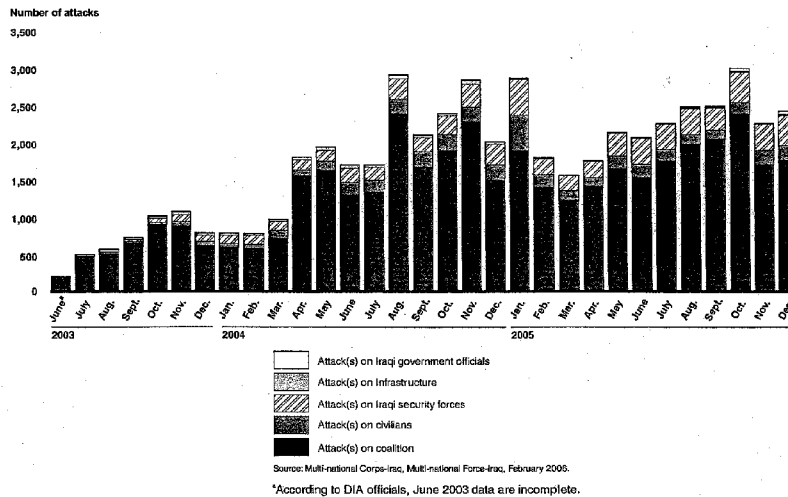
*Strength of the insurgency has made it difficult to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts*

Over the past 2½ years, significant increases in attacks against the coalition and coalition partners have made it difficult to transfer security responsibilities to Iraqi forces and to engage in rebuilding efforts in Iraq. The insurgency in Iraq intensified through October 2005 and has remained strong since then. Poor security conditions have delayed the transfer of security responsibilities to Iraqi forces and the draw-down of U.S. forces in Iraq. The unstable security environment has also affected the cost and schedule of rebuilding efforts and has led, in part, to project delays and increased costs for security services. Recently, the administration has taken actions to integrate military and civilian rebuilding and stabilization efforts.

*Insurgency has intensified and delayed the transfer of security responsibilities*

The insurgency intensified through October 2005 and has remained strong since then. As we reported in March 2005, the insurgency in Iraq—particularly the Sunni insurgency—grew in complexity, intensity, and lethality from June 2003 through early 2005.<sup>5</sup> According to a February 2006 testimony by the Director of National Intelligence, insurgents are using increasingly lethal improvised explosive devices and continue to adapt to coalition countermeasures.<sup>6</sup>

Figure 1: Enemy-Initiated Attacks against the Coalition and Its Partners, by Category, June 2003 through December 2005



<sup>5</sup>For more information on security trends and the makeup of the insurgency, see GAO, "Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police," GAO-05-431T (Washington, DC: Mar. 14, 2005).

<sup>6</sup>U.S. Senate, Senate Select Committee on National Intelligence, "Current and Projected National Security Threats to the United States," Washington, DC: Feb. 2, 2006.

As shown in figure 1, enemy-initiated attacks against the coalition, its Iraqi partners, and infrastructure increased in number over time. The highest peak occurred during October 2005, around the time of Ramadan and the October referendum on Iraq's Constitution. This followed earlier peaks in August and November 2004 and January 2005. According to a senior U.S. military officer, attack levels ebb and flow as the various insurgent groups—almost all of which are an intrinsic part of Iraq's population—rearm and attack again.

As the administration has reported, insurgents share the goal of expelling the coalition from Iraq and destabilizing the Iraqi Government to pursue their individual and, at times, conflicting goals.<sup>7</sup> Iraqi Sunnis make up the largest portion of the insurgency and present the most significant threat to stability in Iraq. In February 2006, the Director of National Intelligence reported that the Iraqi Sunnis' disaffection is likely to remain high in 2006, even if a broad, inclusive national government emerges. These insurgents continue to demonstrate the ability to recruit, supply, and attack coalition and Iraqi security forces. Their leaders continue to exploit Islamic themes, nationalism, and personal grievances to fuel opposition to the government and recruit more fighters. According to the Director, the most extreme Sunni jihadists, such as al-Qaeda in Iraq, will remain unreconciled and continue to attack Iraqi and coalition forces. The remainder of the insurgency consists of radical Shia groups, some of whom are supported by Iran, violent extremists, criminals, and, to a lesser degree, foreign fighters. According to the Director of National Intelligence, Iran provides guidance and training to select Iraqi Shia political groups and weapons and training to Shia militant groups to enable anticoalition attacks. Iran also has contributed to the increasing lethality of anticoalition attacks by enabling Shia militants to build improvised explosive devices with explosively formed projectiles, similar to those developed by Iran and Lebanese Hezbollah.

The continuing strength of the insurgency has made it difficult for the multinational force to develop effective and loyal Iraqi security forces, transfer security responsibilities to them, and progressively draw down U.S. forces in Iraq.<sup>8</sup> The Secretary of Defense and MNF-I recently reported progress in developing Iraqi security forces, saying that these forces continue to grow in number, take on more responsibilities, and increase their lead in counterinsurgency operations in some parts of Iraq. For example, in December 2005 and January 2006, MNF-I reported that Iraqi army battalions and brigades had assumed control of battle space<sup>9</sup> in parts of Ninewa, Qadisiyah, Babil, and Wasit provinces. According to the Director for National Intelligence, Iraqi security forces are taking on more-demanding missions, making incremental progress toward operational independence, and becoming more capable of providing security. In the meantime, coalition forces continue to support and assist the majority of Iraqi security forces as they develop the capability to operate independently.

However, recent reports have recognized limitations in the effectiveness of Iraqi security forces. For example, DOD's October 2005 report notes that Iraqi forces will not be able to operate independently for some time because they need logistical capabilities, Ministry capacity, and command and control and intelligence structures.<sup>10</sup> In the November 2005 National Strategy for Victory in Iraq, the administration cited a number of challenges to developing effective Iraqi security forces, including the need to guard against infiltration by elements whose first loyalties are to institutions other than the Iraqi Government and to address the militias and armed groups that are outside the formal security sector and government control. Moreover, according to the Director of National Intelligence's February 2006 report, Iraqi security forces are experiencing difficulty in managing ethnic and sectarian divisions among their units and personnel. GAO's classified report on Iraq's security situation provided further information and analysis on the challenges to developing

<sup>7</sup> Department of Defense, "Report to Congress, Measuring Stability and Security in Iraq," July 20, 2005. National Security Council, "National Strategy for Victory in Iraq," November 2005.

<sup>8</sup> As we previously reported, the multinational force attempted to shift responsibilities to Iraqi security forces during spring 2004 but did not succeed. In response, resources available for developing Iraqi security forces were increased during fiscal years 2004 and 2005. In November 2003, the United States decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than drawing down to 105,000 troops by May 2004 as DOD had announced in November 2003. In December 2005, DOD announced a drawdown from 17 to 15 U.S. combat brigades, a decrease to about 131,000 U.S. military personnel, by spring 2006.

<sup>9</sup> Battle space can be defined as the physical space in which Iraqi security forces are conducting operations.

<sup>10</sup> Department of Defense, "Report to Congress, Measuring Stability and Security in Iraq," October 2005.



Iraqi security forces and the conditions for the phased drawdown of U.S. and other coalition forces.<sup>11</sup>

*Security situation and management issues have affected rebuilding efforts*

The security situation in Iraq has affected the cost and schedule of reconstruction efforts. Security conditions have, in part, led to project delays and increased costs for security services. Although it is difficult to quantify the costs and delays resulting from poor security conditions, both agency and contractor officials acknowledged that security costs have diverted a considerable amount of reconstruction resources and have led to canceling or reducing the scope of some reconstruction projects. For example, in March 2005, USAID canceled two task orders<sup>12</sup> related to power generation that totaled nearly \$15 million to help pay for the increased security costs incurred at another power generation project in southern Baghdad. In another example, work was suspended at a sewer repair project in central Iraq for 4 months in 2004 due to security concerns. In January 2006, State reported that direct and indirect security costs represent 16 to 22 percent of the overall cost of major infrastructure reconstruction projects.<sup>13</sup>

In addition, the security environment in Iraq has led to severe restrictions on the movement of civilian staff around the country and reductions of a U.S. presence at reconstruction sites, according to U.S. agency officials and contractors. For example, the Project Contracting Office reported in February 2006, the number of attacks on convoys and casualties had increased from 20 convoys attacked and 11 casualties in October 2005 to 33 convoys attacked and 34 casualties in January 2006. In another example, work at a wastewater plant in central Iraq was halted for approximately 2 months in early 2005 because insurgent threats drove away subcontractors and made the work too hazardous to perform. In the assistance provided to support the electoral process, U.S.-funded grantees and contractors also faced security restrictions that hampered their movements and limited the scope of their work. For example, IFES<sup>14</sup> was not able to send its advisors to most of the governorate-level elections administration offices, which hampered training and operations at those facilities leading up to Iraq's Election Day on January 30, 2005.

While poor security conditions have slowed reconstruction and increased costs, a variety of management challenges also have adversely affected the implementation of the U.S. reconstruction program. In September 2005, we reported that management challenges such as low initial cost estimates and delays in funding and awarding task orders have led to the reduced scope of the water and sanitation program and delays in starting projects. In addition, U.S. agency and contractor officials have cited difficulties in initially defining project scope, schedule, and cost, as well as concerns with project execution, as further impeding progress and increasing program costs. These difficulties include lack of agreement among U.S. agencies, contractors, and Iraqi authorities; high staff turnover; an inflationary environment that makes it difficult to submit accurate pricing; unanticipated project site conditions; and uncertain ownership of project sites.

Our ongoing work on Iraq's energy sectors and the management of design-build contracts will provide additional information on the issues that have affected the pace and costs of reconstruction.

*Recent actions to integrate military and civilian rebuilding and stabilization efforts*

The administration has taken steps to develop a more comprehensive, integrated approach to combating the insurgency and stabilizing Iraq. The National Strategy for Victory in Iraq lays out an integrated political, military, and economic strategy that goes beyond offensive military operations and the development of Iraqi security forces in combating the insurgency. Specifically, it calls for cooperation with, and support for, local governmental institutions, the prompt dispersal of aid for quick and visible reconstruction, and central government authorities who pay attention to local needs.

Toward that end, U.S. agencies are developing tools for integrating political, economic, and security activities in the field. For example, USAID is developing the Fo-

<sup>11</sup>GAO, "DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq," GAO-06-152C (Washington, DC: Oct. 2005).

<sup>12</sup>Task orders are placed against established contracts for the performance of tasks during the period of the contracts.

<sup>13</sup>Department of State, "Report to Congress, Section 2207 Report on Iraq Relief and Reconstruction," January 2006.

<sup>14</sup>IFES is a nonpartisan, nonprofit organization founded in 1987 that provides technical assistance concerning democracy and governance to transitional democracies. In 2004, USAID gave IFES a \$40 million grant to provide technical assistance to the Independent Electoral Commission of Iraq through the end of 2005 to help it administer elections.

cused Stabilization Strategic City Initiative that will fund social and economic stabilization activities in communities within 10 strategic cities. The program is intended to jump start the development of effective local government service delivery by directing local energies from insurgency activities toward productive economic and social opportunities. The U.S. Embassy in Baghdad and MNF-I are also developing provincial assistance teams<sup>15</sup> as a component of an integrated counter-insurgency strategy. These teams would consist of coalition military and civilian personnel who would assist Iraq's provincial governments with (1) developing a transparent and sustained capability to govern; (2) promoting increased security, rule of law, and political and economic development; and (3) providing the provincial administration necessary to meet the basic needs of the population. It is unclear whether these two efforts will become fully operational, as program documents have noted problems in providing funding and security for them.

*Limited performance data and measures and inadequate reporting present difficulties in determining progress and impact of rebuilding effort*

State has set broad goals for providing essential services, and the U.S. program has undertaken many rebuilding activities in Iraq. The U.S. program has made some progress in accomplishing rebuilding activities, such as rehabilitating some oil facilities to restart Iraq's oil production, increasing electrical generation capacity, restoring some water treatment plants, and building Iraqi health clinics. However, limited performance data and measures make it difficult to determine and report on the progress and impact of U.S. reconstruction. Although information is difficult to obtain in an unstable security environment, State reported that it is currently finalizing a set of metrics to track the impact of reconstruction efforts.

- In the water and sanitation sector, the Department of State has primarily reported on the numbers of projects completed and the expected capacity of reconstructed treatment plants. However, we found that the data are incomplete and do not provide information on the scope and cost of individual projects nor do they indicate how much clean water is reaching intended users as a result of these projects. Moreover, reporting only the number of projects completed or under way provides little information on how U.S. efforts are improving the amount and quality of water reaching Iraqi households or their access to sanitation services. Information on access to water and its quality is difficult to obtain without adequate security or water-metering facilities.
- Limitations in health sector measurements also make it difficult to relate the progress of U.S. activities to its overall effort to improve the quality and access of health care in Iraq. Department of State measurements of progress in the health sector primarily track the number of completed facilities, an indicator of increased access to health care. However, the data available do not indicate the adequacy of equipment levels, staffing levels, or quality of care provided to the Iraqi population. Monitoring the staffing, training, and equipment levels at health facilities may help gauge the effectiveness of the U.S. reconstruction program and its impact on the Iraqi people.
- In the electricity sector, U.S. agencies have primarily reported on generation measures such as levels of added or restored generation capacity and daily power generation of electricity; numbers of projects completed; and average daily hours of power. However, these data do not show whether (1) the power generated is uninterrupted for the period specified (e.g., average number of hours per day); (2) there are regional or geographic differences in the quantity of power generated; and (3) how much power is reaching intended users. Information on the distribution and access of electricity is difficult to obtain without adequate security or accurate metering capabilities.

Opinion surveys and additional outcome measures have the potential to gauge the impact of the U.S. reconstruction efforts on the lives of Iraqi people and their satisfaction with these sectors. A USAID survey in 2005 found that the Iraqi people were generally unhappy with the quality of their water supply, waste disposal, and electricity services but approved of the primary health care services they received. In September 2005, we recommended that the Secretary of State address this issue of measuring progress and impact in the water and sanitation sector. State agreed with our recommendation and stated in January 2006 that it is currently finalizing

<sup>15</sup>As of late January 2006, these teams were called Provincial Reconstruction Teams, or PRTs. A U.S. Embassy document, however, called for changing the name to Provincial Assistance Teams, or PATs, to reflect the main effort of the teams—capacity development and sustainability of the provincial government. Three provincial teams were operational as of mid-January 2006.

a set of standard methodologies and metrics for water and other sectors that could be used to track the impact of U.S. reconstruction efforts.

*Iraq's capacity to operate and maintain U.S.-funded projects presents sustainability problems*

The U.S. reconstruction program has encountered difficulties with Iraq's ability to sustain the new and rehabilitated infrastructure and address maintenance needs. In the water, sanitation, and electricity sectors, in particular, some projects have been completed but have sustained damage or become inoperable due to Iraq's problems in maintaining or properly operating them. State reported in January 2006 that several efforts were under way to improve Iraq's ability to sustain the infrastructure rebuilt by the United States.

- In the water and sanitation sector, U.S. agencies have identified limitations in Iraq's capacity to maintain and operate reconstructed facilities, including problems with staffing, unreliable power to run treatment plants, insufficient spare parts, and poor operations and maintenance procedures.<sup>16</sup> The U.S. Embassy in Baghdad stated that it was moving from the previous model of building and turning over projects to Iraqi management toward a "build-train-turnover" system to protect the U.S. investment. However, these efforts are just beginning, and it is unclear whether the Iraqis will be able to maintain and operate completed projects and the more than \$1 billion in additional large-scale water and sanitation projects expected to be completed through 2008. In September 2005, we recommended that the Secretary of State address the issue of sustainability in the water and sanitation sector. State agreed with our recommendation and stated that it is currently working with the Iraqi Government to assess the additional resources needed to operate and maintain water and sanitation facilities that have been constructed or repaired by the United States.
- In the electricity sector, the Iraqis' capacity to operate and maintain the powerplant infrastructure and equipment provided by the United States remains a challenge at both the plant and Ministry levels. As a result, the infrastructure and equipment remain at risk of damage following their transfer to the Iraqis. In our interviews with Iraqi powerplant officials from 13 locations throughout Iraq, the officials stated that their training did not adequately prepare them to operate and maintain the new U.S.-provided gas turbine engines. Due to limited access to natural gas, some Iraqi powerplants are using low-grade oil to fuel their natural gas combustion engines. The use of oil-based fuels, without adequate equipment modification and fuel treatment, decreases the power output of the turbines by up to 50 percent, requires three times more maintenance, and could result in equipment failure and damage that significantly reduces the life of the equipment, according to U.S. and Iraqi powerplant officials. U.S. officials have acknowledged that more needs to be done to train plant operators and ensure that advisory services are provided after the turnover date. In January 2006, State reported that it has developed a strategy with the Ministry of Electricity to focus on rehabilitation and sustainment of electricity assets.

Although agencies have incorporated some training programs and the development of operations and maintenance capacity into individual projects, problems with the turnover of completed projects, such as those in the water and sanitation and electricity sectors, have led to a greater interagency focus on improving project sustainability and building Ministry capacity. In May 2005, an interagency working group including State, USAID, PCO, and the Army Corps of Engineers was formed to identify ways to address Iraq's capacity-development needs. The working group reported that a number of critical infrastructure facilities constructed or rehabilitated under U.S. funding have failed, will fail, or will operate in suboptimized conditions following handover to the Iraqis. To mitigate the potential for project failures, the working group recommended increasing the period of operational support for constructed facilities from 90 days to up to 1 year. In January 2006, State reported that it has several efforts under way focused on improving Iraq's ability to operate and maintain facilities over time. As part of our ongoing review of Iraq's energy sector, we will be assessing the extent to which the administration is providing funds to sustain the infrastructure facilities constructed or rehabilitated by the United States.

<sup>16</sup>See GAO-06-179T and GAO, "Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities," GAO-05-872 (Washington, DC: Sept. 2005), on limitations in the Iraqis' capacity to maintain and operate reconstructed facilities.

## IRAQ FACES CHALLENGES IN FINANCING FUTURE NEEDS

As the new Iraqi Government forms, it must plan to secure the financial resources it will need to continue the reconstruction and stabilization efforts begun by the United States and international community. Initial assessments in 2003 identified \$56 billion in reconstruction needs across a variety of sectors in Iraq. However, Iraq's needs are greater than originally anticipated due to severely degraded infrastructure, post-conflict looting and sabotage, and additional security costs. The United States has borne the primary financial responsibility for rebuilding and stabilizing Iraq; however, its commitments are largely obligated and remaining commitments and future contributions are not finalized. Further, U.S. appropriations were never intended to meet all Iraqi needs. International donors have provided a lesser amount of funding for reconstruction and development activities; however, most of the pledged amount is in the form of loans that Iraq has just begun to access. Finally, Iraq's ability to contribute financially to its additional rebuilding and stabilization needs is dependent upon the new government's efforts to increase revenues obtained from crude oil exports, reduce energy and food subsidies, control government operating expenses, provide for a growing security force, and repay external debt and war reparations.

*Iraqi needs may be greater than originally anticipated*

Initial assessments of Iraq's needs through 2007 by the United Nations, World Bank, and the CPA estimated that the reconstruction of Iraq would require about \$56 billion. The October 2003 joint U.N./World Bank assessment identified \$36 billion, from 2004 through 2007, in immediate and medium-term needs in 14 priority sectors, including education, health, electricity, transportation, agriculture, and crosscutting areas such as human rights and the environment. For example, the assessment estimated that Iraq would need about \$12 billion for rehabilitation and reconstruction, new investment, technical assistance, and security in the electricity sector. In addition, the assessment noted that the CPA estimated an additional \$20 billion would be needed from 2004 through 2007 to rebuild other critical sectors such as security and oil.

Iraq may need more funding than currently available to meet the demands of the country. The state of some Iraqi infrastructure was more severely degraded than U.S. officials originally anticipated or initial assessments indicated. The condition of the infrastructure was further exacerbated by post-2003 conflict looting and sabotage. For example, some electrical facilities and transmission lines were damaged, and equipment and materials needed to operate treatment and sewerage facilities were destroyed by the looting that followed the 2003 conflict. In addition, insurgents continue to target electrical transmission lines and towers as well as oil pipelines that provide needed fuel for electrical generation. In the oil sector, a June 2003 U.S. Government assessment found that more than \$900 million would be needed to replace looted equipment at Iraqi oil facilities. These initial assessments assumed reconstruction would take place in a peacetime environment and did not include additional security costs.

Further, these initial assessments assumed that Iraqi Government revenues and private sector financing would increasingly cover long-term reconstruction requirements. This was based on the assumption that the rate of growth in oil production and total Iraqi revenues would increase over the next several years. However, private sector financing and government revenues may not yet meet these needs. According to a January 2006 International Monetary Fund (IMF) report, private sector investment will account for 8 percent of total projected investment for 2006, down from 12 percent in 2005.<sup>17</sup> In the oil sector alone, Iraq will likely need an estimated \$30 billion over the next several years to reach and sustain an oil production capacity of 5 million barrels per day, according to industry experts and U.S. officials. For the electricity sector, Iraq projects that it will need \$20 billion through 2010 to boost electrical capacity, according to the Department of Energy's Energy Information Administration.

*Future contributions for Iraq reconstruction may be limited*

The United States is the primary contributor to rebuilding and stabilization efforts in Iraq. Since 2003, the United States has made available about \$30 billion for activities that have largely focused on infrastructure repair and training of Iraqi security forces. As priorities changed, the United States reallocated about \$5 billion of the \$18.4 billion fiscal year 2004 emergency supplemental among the various sec-

<sup>17</sup>International Monetary Fund, "Iraq: Request for Stand-By Arrangement" (Washington, DC, January 2006).

tors, over time increasing security and justice funds while decreasing resources for the water and electricity sectors.<sup>18</sup> As of January 2006, of the \$30 billion appropriated, about \$23 billion had been obligated and about \$16 billion had been disbursed for activities that included infrastructure repair, training, and equipping of the security and law enforcement sector; infrastructure repair of the electricity, oil, and water and sanitation sectors; and CPA and U.S. administrative expenses. These appropriations were not intended to meet all of Iraq's needs.

The United States has obligated nearly 80 percent of its available funds. Although remaining commitments and future contributions have not been finalized, they are likely to target activities for building ministerial capacity, sustaining existing infrastructure investments, and training and equipping the Iraqi security forces, based on agency reporting. For example, in January 2006, State reported a new initiative to address Iraqi ministerial capacity development at 12 national Ministries. According to State, Embassy Baghdad plans to undertake a comprehensive approach to provide training in modern techniques of civil service policies, requirements-based budget processes, information technology standards, and logistics management systems to Iraqi officials in key Ministries.

International donors have provided a lesser amount of funding for reconstruction and development activities. According to State, donors have provided about \$2.7 billion in multilateral and bilateral grants—of the pledged \$13.6 billion—as of December 2005.<sup>19</sup> About \$1.3 billion has been deposited by donors into the two trust funds of the International Reconstruction Fund Facility for Iraq (IRFFI),<sup>20</sup> of which about \$900 million had been obligated and about \$400 million disbursed to individual projects, as of December 2005.<sup>21</sup> Donors also have provided bilateral assistance for Iraq reconstruction activities; however, complete information on this assistance is not readily available. Most of the pledged amount is in the form of loans that the Iraqis have recently begun to access. About \$10 billion, or 70 percent, of the \$13.6 billion pledged in support of Iraq reconstruction is in the form of loans, primarily from the World Bank, the IMF, and Japan. In September 2004, the IMF provided a \$436 million emergency post-conflict assistance loan to facilitate Iraqi debt relief, and in December 2005, Iraq secured a \$685 million Stand-By Arrangement (SBA) with the IMF.<sup>22</sup> On November 29, 2005, the World Bank approved a \$100 million loan within a \$500 million program for concessional international development assistance.

*Iraq must address budget constraints to contribute to future rebuilding and stabilization efforts*

Iraq's fiscal ability to contribute to its own rebuilding is constrained by the amount of revenues obtained from crude oil exports, continuing subsidies for food and energy, growing costs for government salaries and pensions, increased demands for an expanding security force, and war reparations and external debt.

Crude oil exports account for nearly 90 percent of the Iraqi Government revenues in 2006, according to the IMF. Largely supporting Iraq's government operations and subsidies, crude oil export revenues are dependent upon export levels and market price. The Iraqi 2006 budget has projected that Iraq's crude oil export revenues will grow at an annual growth rate of 17 percent per year (based on an average production level of 2 million bbl/d in 2005 to 3.6 million bbl/d in 2010), estimating an average market price of about \$46 per barrel. Oil exports are projected to increase from 1.4 million bbl/d in 2005 to 1.7 million bbl/d in 2006, according to the IMF. Iraq's current crude oil export capacity is theoretically as high as 2.5 million bbl/d, according to the Energy Information Administration at the Department of Energy. However, Iraq's crude oil export levels have averaged 1.4 million bbl/d as of December

<sup>18</sup> See Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108–106.

<sup>19</sup> According to State information provided in October 2005, in addition to the \$13.6 billion, donors pledged an additional \$203 million for Iraq reconstruction at the IRFFI Donors' committee meeting in Jordan in July 2005.

<sup>20</sup> The IRFFI was established in response to the June 24, 2003, U.N. technical meeting and the 2003 Madrid conference's calls for a mechanism to channel and coordinate donor resources for Iraq reconstruction and development activities. The IRFFI is composed of two trust funds, one run by the United Nations Development Group and the other by the World Bank Group.

<sup>21</sup> Data for the U.N. Iraq Trust Fund portion of the IRFFI are as of November 31, 2005.

<sup>22</sup> If Iraq needs balance-of-payment support, the IMF has agreed to provide \$685 million as part of the SBA.

2005, in part due to attacks on the energy infrastructure and pipelines. In January 2006, crude oil export levels fell to an average of about 1.1 million bbl/d.<sup>23</sup>

Further, a combination of insurgent attacks on crude oil and product pipelines, dilapidated infrastructure, and poor operations and maintenance have hindered domestic refining and have required Iraq to import significant portions of liquefied petroleum gas, gasoline, kerosene, and diesel. According to State, the Iraqi Oil Ministry estimates that the current average import cost of fuels is roughly \$500 million each month.

Current government subsidies constrain opportunities for growth and investment and have kept prices for food, oil, and electricity low. Before the war, at least 60 percent of Iraqis depended on monthly rations—known as the public distribution system (PDS)—provided by the U.N. Oil-for-Food Programme to meet household needs. The PDS continues to provide food subsidies to Iraqis. In addition, Iraqis pay below-market prices for refined fuels and, in the absence of effective meters, for electricity and water. Low prices have encouraged overconsumption and have fueled smuggling to neighboring countries. Food and energy subsidies account for about 18 percent of Iraq's projected gross domestic product (GDP) for 2006.

As part of its Stand-By Arrangement with the IMF, Iraq plans to reduce the government subsidy of petroleum products, which would free up oil revenues to fund additional needs and reduce smuggling. According to the IMF, by the end of 2006, the Iraqi Government plans to complete a series of adjustments to bring fuel prices closer to those of other gulf countries. However, it is unclear whether the Iraqi Government will have the political commitment to continue to raise fuel prices.

Generous wage and pension benefits have added to budgetary pressures. Partly due to increases in these benefits, the Iraqi Government's operating expenditures are projected to increase by over 24 percent from 2005 to 2006, according to the IMF. As a result, wages and pensions constitute about 21 percent of projected GDP for 2006. The IMF noted that it is important for the government to keep nondefense wages and pensions under firm control to contain the growth of civil service wages. As a first step, the Iraqi Government plans to complete a census of all public service employees by June 2006.

Iraq plans to spend more resources on its own defense. Iraq's security-related spending is currently projected to be about \$5.3 billion in 2006, growing from 7 to about 13 percent of projected GDP. The amount reflects rising costs of security and the transfer of security responsibilities from the United States to Iraq.

The Iraqi Government also owes over \$84 billion to victims of its invasion of Kuwait and international creditors. As of December 2005, Iraq owed about \$33 billion in unpaid awards resulting from its invasion and occupation of Kuwait. As directed by the United Nations, Iraq currently deposits 5 percent of its oil proceeds into a U.N. compensation fund.<sup>24</sup> Final payment of these awards could extend through 2020 depending on the growth of Iraq's oil proceeds. In addition, the IMF estimated that Iraq's external debt was about \$51 billion at the end of 2005.

#### CONCLUSION

For the past 21 years, the United States has provided \$30 billion with the intent of developing capable Iraqi security forces, rebuilding a looted and worn infrastructure, and supporting democratic elections. However, the United States has confronted a lethal insurgency that has taken many lives and made rebuilding Iraq a costly and challenging endeavor. It is unclear when Iraqi security forces will be able to operate independently, thereby enabling the United States to reduce its military presence.

Similarly, it is unclear how U.S. efforts are helping Iraq obtain clean water, reliable electricity, or competent health care. Measuring the outcomes of U.S. efforts is important to ensure that the U.S. dollars spent are making a difference in the daily lives of the Iraqi people. In addition, the United States must ensure that the billions of dollars it has already invested in Iraq's infrastructure are not wasted. The Iraqis need additional training and preparation to operate and maintain the powerplants,

<sup>23</sup>According to State Department monthly estimates from January 2005 to January 2006, crude oil production averages ranged from 1.71 to 2.17 million bbl/d and monthly crude oil export averages ranged from 1.05 to 1.61 million bbl/d.

<sup>24</sup>The U.N. Security Council established the U.N. Compensation Commission in 1991 to process claims and pay compensation for damages and losses resulting from Iraq's invasion and occupation of Kuwait; along with the Oil-for-Food Programme, the commission received funding from Iraqi oil proceeds. In May 2003, U.N. Security Council Resolution 1483 directed that 5 percent of oil proceeds are to be deposited into the U.N. Compensation Fund account. As of January 2006, the Commission had awarded \$52.5 billion to more than 1.5 million claimants and paid out about \$20 billion of this amount.

water and sewage treatment facilities, and health care centers the United States has rebuilt or restored. In response to our reports, State has begun to develop metrics for measuring progress and plans for sustaining the U.S.-built infrastructure. The administration's next budget will reveal its level of commitment to these challenges.

But the challenges are not exclusively those of the United States. The Iraqis face the challenge of forming a government that has the support of all ethnic and religious groups. They also face the challenge of addressing those constitutional issues left unresolved from the October referendum—power of the central government, control of Iraq's natural resources, and the application of Islamic law. The new government also faces the equally difficult challenges of reducing subsidies, controlling public salaries and pensions, and sustaining the growing number of security forces. This will not be easy, but it is necessary for the Iraqi Government to begin to contribute to its own rebuilding and stabilization efforts and to encourage investment by the international community and private sector.

We continue to review U.S. efforts to train and equip Iraqi security forces, develop the oil and electricity sectors, reduce corruption, and enhance the capacity of Iraqi Ministries. Specifically, we will examine efforts to stabilize Iraq and develop its security forces, including the challenge of ensuring that Iraq can independently fund, sustain, and support its new security forces; assess issues related to the development of Iraq's energy sector, including the sectors' needs as well as challenges such as corruption; and examine capacity-building efforts in the Iraqi Ministries.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other committee members may have.

The CHAIRMAN. Well, thank you very much for that statement, for the data, and your prepared statement. We appreciate that.

We'd like now to call upon the Honorable James Jeffrey, Senior Advisor to the Secretary and Coordinator for Iraq Policy, Department of State.

Ambassador Jeffrey.

**STATEMENT OF HON. JAMES JEFFREY, SENIOR ADVISOR TO THE SECRETARY AND COORDINATOR FOR IRAQ POLICY, DEPARTMENT OF STATE, WASHINGTON, DC**

Ambassador JEFFREY. Thank you.

Mr. Chairman, Senator Biden, members of the committee, it is an honor to be here today to talk about our programs in support of our strategy for victory in Iraq.

President Bush, in the past several months, has laid out, repeatedly, his strategy for moving forward on Iraq. It is based upon three strategic tracks—security, political, and economic—with the intent of having the Iraqis take over responsibility for these tracks as soon as possible. Our experience has demonstrated that this transition cannot be sustained without integrated progress on all three tracks, in full consultation with the Iraqis every step of the way. Foreign assistance, led by the flagship US Programs, the Iraqi Relief and Reconstruction Fund 1 and 2, or IRRF, totaling \$20.9 billion, is essential to progress on all tracks.

Supporting the security track, Senator, is not enough. Progress on the economic and political tracks is equally critical to victory, and this progress requires United States, other international, and Iraqi funding. As Mr. Bowen mentioned, the World Bank has estimated that Iraqi reconstruction needs were at least \$56 billion, and we think probably more. The IRRF program was not designed to address all of that, but rather to focus on immediate needs—getting oil exports, that was down almost to nothing, up to over 2 billion—or 2 million barrels a day; to promote exports; start training and equipping Iraqi security forces; working on the dilapidated in-

frastructure, and improving government capabilities—until the Iraqis can take up the burden.

By and large, despite many reverses and problems, we have achieved many of our goals. We have increased Iraq's total potential electrical generation capability by 30 percent. We have brought on-stream 1.5 million barrels of restored oil capacity. We have brought safe water and sewage disposal to millions, stood up, equipped, and trained several hundred thousand Iraqi troops and police, and supported, with funds and sound advice, a remarkable democratic political transformation. We have pushed the Iraqis to reduce, as my GAO colleague has just mentioned, their oil subsidies, and they have done that by a factor of five, and they're going to take another step this year. That will bring their cost of fuel products to the consumer at least equal, if not above, that of other gulf states.

We have certainly not done as much as we originally hoped for. We have needed to adjust the situation on the ground, which has often required projects be canceled, be rescope; in some cases, slowed down. Mr. Bowen has illustrated well the various problems from three governments in 2 years to terrorist attacks that have impacted the program. But, nonetheless, we have forged ahead. Of the \$20.9 billion provided less than 3 years ago, we have obligated all but \$2.9 billion of that, and we have disbursed a remarkable almost \$13 billion of the total, sir.

In response to the problems we've seen, and as we gained experience with operating in Iraq's hostile environment, we have shifted our focus away from the larger wholesale projects run by design/build contractors to smaller, faster moving projects better integrated with our political and security lines of operation. Examples of this approach abound. I'll cite two: Then-Ambassador Negroponte's shifting of funds in 2004 to democracy programs and to the military's Commander's Emergency Relief Program just before the January 2005 elections, or the USAID construction support for the 1st Cavalry Division's combat in Baghdad in the fall of 2004.

I am also delighted to be here today with my colleagues from the GAO and from SIGIR. Mr. Bowen's work, that of the Special Inspector General for Iraq Reconstruction, and those of the other inspector and audit operations that monitor our activities in Iraq, one vitally important to us, as well as to you and to the American people. Just as with other U.S. military and civilian personnel on the ground, they are doing a tremendous job under austere conditions and a very dangerous situation. Secretary Rice reiterated her commitment to what Mr. Bowen is doing, last week in a meeting with him, and I know Ambassador Khalilzad shares these views.

We believe in SIGIR, because we are fully aware of our responsibilities to you and to the American people for the immense amount of money that you have placed in our trust, and for the life-and-death responsibilities we all bear in carrying out our work in Iraq.

I want to particularly highlight the signature work of SIGIR in evaluating management operations and big-picture issues related to our IRRF strategy.

We listen too closely to SIGIR suggestions in many of our actions, from direct contracting, including with Iraqis, to our focus on



cost-to-complete. And plans for operations and maintenance of our projects reflect SIGIR's input. For example, we have put over \$150 million into our fiscal year 2007 budget submission for operations and maintenance sustainment followup, and have begun a program called "Asset Recognition and Transfer" to ensure that Iraqis are ready to take over projects we have helped put in place.

What we do recognize is that IRRF alone will not complete our work, as Mr. Bowen has suggested. But, right now, our priority will be to complete the IRRF program's projects that are vital to boosting Iraq's economy and capacity. At the same time, we will work to convince our friends and allies to disburse the remainder of the \$13.5 billion that they pledged at the Madrid Conference, and to consider additional new funding, as Secretary Rice suggested to you several months ago.

Our fiscal year 2007 assistance submission to Congress of \$771 million represents another shift away from the large infrastructure projects that the IRRF has funded to a focused capacity-building program that will help enable Iraqis to build and sustain a democratic society and healthy economy. Some of the programs funded will include infrastructure sustainment, capacity-building at core Iraqi Ministries, and rule-of-law programs. We will look to your support, and that of the entire House and Senate, for our continued activities in Iraq, including our own State Department operating budget.

Finally, let me again, today, commit the Department of State and our Embassy in Baghdad to the most efficient, transparent, and cost-conscious execution of funds entrusted to us in the service of extraordinary national objectives.

Thank you.

[The prepared statement of Ambassador Jeffrey follows:]

PREPARED STATEMENT OF AMBASSADOR JAMES JEFFREY, SENIOR ADVISOR TO THE SECRETARY OF STATE FOR IRAQ AND COORDINATOR FOR IRAQ POLICY, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. Chairman, Senator Biden, members of the committee, it is an honor to be here today, to talk about our programs in support of our Strategy for Victory in Iraq.

The U.S. goal in Iraq is a pluralistic, democratic, federal, and united Iraq, stable, at peace with its neighbors, prosperous, and an ally in the Global War on Terrorism. To accomplish this, all our efforts support the President's three strategic tracks—security, political, and economic—with the intent of having the Iraqis take responsibility for these tracks as soon as possible. Our experience has demonstrated that this transition cannot be sustained without integrated progress on all three tracks, in full consultation with the Iraqis. Foreign Assistance, led by the flagship US Programs, IRRF I and II, totaling \$20.9 billion, is essential to progress on all tracks. Supporting simply the security track is not enough. Progress on the economic and political tracks is equally critical to victory, and this progress requires United States, other international, and Iraqi funding.

In 2003, the World Bank estimated that rebuilding Iraq's dilapidated infrastructure would require over \$50 billion. The IRRF II \$18.4 billion program was designed by the administration and Congress, not to take on that entire burden, but, rather, to quickly respond to the most pressing needs in oil production and export, and in key essential services, security forces, and government capacity, and repair a dilapidated infrastructure until Iraqis can take up the burden. To a considerable degree, IRRF II, supplementing the initial \$2.5 billion in IRRF I, is accomplishing that mission.

We have increased Iraq's total potential electrical generation capability by 30 percent, brought safe water and sewerage disposal to millions, stood up, equipped, and trained several hundred thousand Iraqi troops and police, and supported, with funds and sound advice, a remarkable democratic political transformation. We certainly

have not done as much as we originally had hoped for. We have needed to adjust the situation on the ground, which has often required projects be cancelled, rescoped, or slowed down because of the insurgency and the extent of the dilapidated infrastructure. Working with three different Iraqi governments in 2 years has also, at times, slowed progress. Targeted terrorist attacks on the infrastructure, designed to deprive the Iraqi people of essential services and cripple the economy, significant project security costs, the need to shift several billion dollars from water and electricity projects to training and equipping the security forces and other key areas, have all slowed us down and driven some costs up. Projects in some cases have had to be cancelled or rescoped.

In response to some of these factors, and as we gained experience with operating in Iraq's hostile environment, we adapted our strategy and shifted our focus, away from major projects run by large wholesale contractors, to smaller, faster moving projects better integrated with our political and security lines of operation. Examples of this approach abound, be it the funds then-Ambassador Negroponte shifted to democracy programs, CERP funding before the January 2005 elections, or the innovative, creative USAID construction support for the 1st Cavalry Division's operations in Baghdad against the Mahdi militia.

Thus, while we had intended that our funding would enable completion of a greater number of projects, we are pleased with its contribution to the overall strategy for stability and security in Iraq. The political process has made immense progress, Iraqi security forces are making a powerful difference, and the Iraqi population strongly rejects the insurgency and participates in the political process.

To ensure that the benefits of this progress reach the entire Iraqi population, we have initiated Provincial Reconstruction Teams to strengthen provincial and regional governments.

I am also delighted to be here today with my colleague and fellow Baghdad veteran, Mr. Stuart Bowen. The work of his organization, the Special Inspector General for Iraq Reconstruction (SIGIR), and that of the other inspector and audit operations that monitor our activities in Iraq, are vitally important. Just as with other U.S. civilian and military people on the ground, they are doing a tremendous job under austere and dangerous conditions. Secretary Rice encouraged my presence here today and reiterated her commitment made just last week to Mr. Bowen to support his agency's activities in every way possible. I know Ambassador Zal Khalilzad echoes these sentiments.

We believe in SIGIR because we are fully aware of our responsibilities to you and to the American people for the immense amount of money placed in our trust, and for the life and death responsibilities we all bear in carrying out our work in Iraq as part of the broader war on terror. But to do our job, we need advice, oversight, transparency, and immediate response to allegations of fraud and mismanagement. Mr. Bowen and SIGIR, ably assisted by the other inspection and audit agencies in the field, have fulfilled these missions with great professionalism.

I want to particularly highlight the signature work of SIGIR in evaluating management strategy and big picture issues related to our IRRF strategy, to complement its invaluable auditing, inspecting, and investigatory missions. We listen closely to SIGIR's suggestions, and many of our actions, from direct contracting, including with Iraqis, to our focus on cost-to-complete, and plans for operations and maintenance of our projects, reflect SIGIR's input. For example, we have put over \$150 million in our FY 2007 budget submission for operations and maintenance followup, and have begun a program we call ART, or Asset Recognition and Transfer, to ensure the Iraqis are ready to take over projects we have helped to rebuild or put in place. We do not agree with everything which SIGIR has proposed but we have the highest professional respect for our SIGIR colleagues, and take their views most seriously.

What we do recognize is that the IRRF, alone, will not complete our work, as Mr. Bowen has suggested. But right now, our priority will be to complete the IRRF program's projects that are vital to boosting the Iraqi economy and capacity. At the same time, we will continue to work to convince our friends and allies to disburse the remainder of the \$13.5 billion pledged at the Madrid Conference and consider additional funding.

Our FY 2007 assistance submission of \$771 million represents a shift away from the large infrastructure projects the IRRF funded to a focused capacity-building program that will help enable Iraqis to build and sustain a democratic society and healthy economy. Some of the programs funded will include infrastructure sustainment, capacity-building at core Iraqi Ministries, agricultural development, and rule of law programs. We will look to your support and that of the entire Senate and House for our continued activities in Iraq, including our own State Department operating budget.

Finally, let me again, today, commit the Department of State and our mission in Baghdad to the most efficient, transparent, cost-conscious execution of funds entrusted to us, in the service of extraordinary national objectives, and to the best possible working relationship with Mr. Bowen and his colleagues.

The CHAIRMAN. Thank you very much, Ambassador Jeffrey.

The Chair would like to recognize, now, the Honorable James R. Kunder, Assistant Administrator for Asia and the Near East of the U.S. Agency for International Development.

You may proceed.

**STATEMENT OF HON. JAMES R. KUNDER, ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC**

Mr. KUNDER. Thank you, Mr. Chairman, Senator Biden, members of the committee. We appreciate the opportunity to be here today.

Although we appreciate the opportunity to bring USAID's perspective to this important discussion, I do want to commend Ambassador Jeffrey and Ambassador Khalilzad for their coordination leadership. We do have a seamless team, and that extends to working with our United States military colleagues, both back here in Washington and in the various outposts in Iraq. It has been very much a team effort.

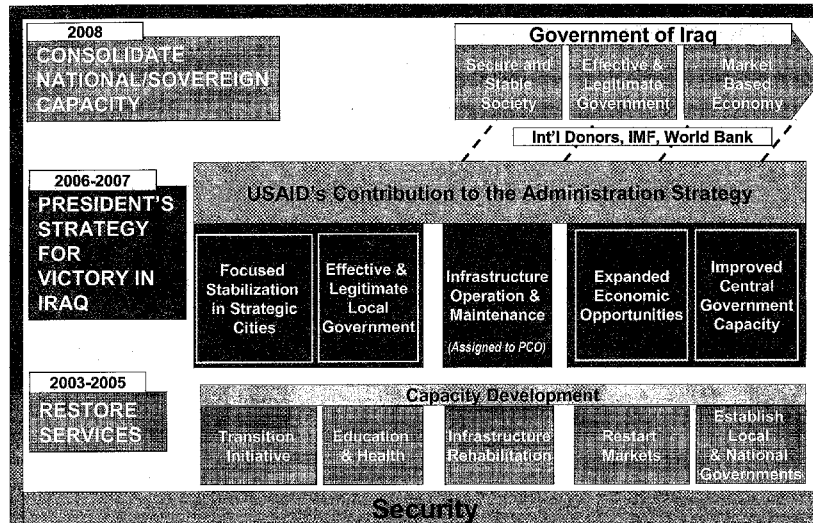
I just want to make two points to supplement what's been said so far. We, also, take the accountability issues, that this committee has emphasized, very seriously. We've had a very productive relationship with Mr. Bowen and the entire SIGIR staff. The USAID Inspector General has also been heavily involved since day one. In fact, recognizing the complexity of working in Iraq, we asked our own inspector general to deploy with us from day one. We have seven of our own inspector general personnel living within the USAID compound in Baghdad now, and those folks have conducted 27 performance audits and 73 financial audits since we first deployed to Iraq in 2003. So, we have taken accountability seriously. We value the recommendations that Mr. Bowen and the GAO have brought to our attention. We take them seriously, and we're working on their recommendations.

The second point I would make is just to emphasize what Ambassador Jeffrey has said about transition and capacity-building. Mr. Bowen referred to a Year of Transition. We really are reshaping the program. I've tried to visually represent this in the slide that's appended to my testimony. We have done a lot of good reconstruction work in Iraq over the last couple of years. We did not meet all of the goals, the ambitious goals we originally intended.

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# Transition Strategy



But I want to emphasize for the committee how much the program has shifted in the next coming years to a capacity-building program for the Iraqis. What's critical now is that this new permanent government have the capacity, both at its central ministerial level and down at the provincial level and local level, to harness Iraqi oil revenues to the service of the Iraqi people. And we're putting a lot of effort into that. I sometimes am concerned, frankly, that we focus solely on the O&M aspects of this, the operations and maintenance aspects. Certainly, protecting the U.S. taxpayers' investment in large-scale infrastructure projects in electricity and water is a critical part of it. But that is symptomatic of the systems change that needs to be made within the Iraqi Government structure to convert a Stalinist command economy into a free-market effective governance system that will service the Iraqi people. And that's going to require years of work.

The only point I may disagree with Mr. Bowen on is, it's more than a year of transition. It's going to take some time, just as it takes time in Bangladesh or in Africa and other places where the systems have deteriorated, as they did under Saddam's rule, and you simply don't have the accountability systems, the financial-management systems, the computer systems, the anticorruption systems that will be required to really make this a functioning government.

So, I just want to emphasize—I put an exclamation point on that—on that thrust of what we're trying to do. We really are finishing up the reconstruction projects, but we're taking this next couple of years to focus on building-capacity within the Iraqi Government. And now is the time to do it. Now is the window of opportunity. We have had, as Ambassador Jeffrey has pointed out in his statement, three transitional governments over the last couple of

years. Now's the time to get the traction on changing these systems.

And, in closing, Mr. Chairman, I'd just make a personal comment about the work that this committee has done in trying to improve the U.S. Government's post-conflict reconstruction capacity in the CRS Office at State, and so forth. I noted that Mr. Bowen talked about the fact that, while cooperation and accountability and performance have improved dramatically in Iraq in the last couple of years, naturally there were those rough spots in the early period, as multiple U.S. Government agencies tried to coordinate, and clearly the Secretary of State's request to the Congress in 2007 talks about the need to put money into a reconstruction fund so that the U.S. Government can respond more rapidly when we have these kinds of situations in the future. So, I think these two issues of great interest to the committee are related, the somewhat slow start here to get to the point where we are now, and the need to have a standing capacity in this area.

Again, we thank the committee for the opportunity. I'd be glad to take any questions. Thank you, sir.

[The prepared statement of Mr. Kunder follows:]

PREPARED STATEMENT OF JAMES R. KUNDER, ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. Chairman, members of the committee, it is an honor to appear before you today. I welcome the opportunity to testify on behalf of the U.S. Agency for International Development (USAID). Before I proceed, I want to take a moment to thank Congress for providing the Special Inspector General for Iraq (SIGIR). Today, I would like to describe to the committee USAID's contributions to the President's Victory in Iraq Strategy as well as USAID's perspective on the most recent report from SIGIR.

The administration has a clearly defined plan of action in Iraq, and USAID's programs, including our goals and benchmarks, support the President's National Strategy for Victory in Iraq in all three tracks—security, political, and economic. The goal of the administration's strategy is to create a new Iraq with a constitutional, representative government that respects civil and human rights; is able to maintain domestic order; keep Iraq from becoming a safe haven for terrorists; capable of providing essential and other services to Iraqi citizens; and able to harness its economic potential to create jobs and other opportunities for its people. The fundamental operating principle of this strategy is that transition to Iraqi self-sustainment and responsibility cannot be made without integrated progress on all three tracks.

I would like to talk about what USAID doing now as well as what we are planning for the future. The civilian USG effort is crucial to our success in Iraq. It supports the Multi-National Force–Iraq (MNF–I) and the Government of Iraq's (GOI) security actions against the insurgency. We have all heard how Iraqi and coalition forces have wrested control of many cities and areas from the terrorists. In most cases, Iraqi troops, with the help of the coalition, are maintaining security. Their success in these post-conflict areas will allow our forces to come home. But these Iraqi units cannot be expected to maintain peace and stability without the help of Iraqi civilian institutions, and without assurances that Iraqis can depend upon essential services provided by their government and can look forward to economic opportunities. Specifically, the United States and international civilian effort helps to enable and consolidate gains made in the security situation in several ways:

- It strengthens Iraq's capacity at the local and national level to govern and provide essential services to Iraqi citizens.
- It supports economic and social stabilization programs to minimize local support for the insurgency and foster support for the GOI.
- It assists the public sector's sustainable economic development by creating the enabling environment that will allow the private sector to flourish and by providing the private sector with the resources for the economic growth that creates jobs.

Since March 2003, USAID has been allocated approximately \$5.2 billion in Iraq emergency relief and reconstruction funds. Of this amount, we have disbursed approximately \$3.7 billion and we expect to disburse most of the remaining funds by this summer. Now, let me briefly summarize some of our accomplishments with these funds.

#### ACCOMPLISHMENTS

USAID works with U.S. and multinational units to help cities recover from the effects of battle and to gain a sense of balance after the insurgency has departed. Projects are funded with combinations of military and USAID money. Projects are aimed at a combination of small, rapid programs that are followed by more complex projects that return public services to operation, promote representative local government, and reactivate the economy. Military patrols do much of the project monitoring.

USAID-managed programs enable the democratic transformation in Iraq. USAID worked with the United Nations and the European Community for a successful constitutional referendum in October 2005 and two national elections in January and December 2005. Our programs have provided expert assistance, drawing from the international community and Iraqi civil society to assist the Iraqi Constitutional Drafting Committee. USAID continues to support decentralization, empowering provincial and city authorities to provide essential services so that Iraq will be less likely to return to authoritarian national government. In the field, assistance teams work with the Provincial Reconstruction and Development Councils to help them shoulder the burden of decentralized power.

Assistance to the Iraqi Central Bank helped stabilize the dinar, prevented hyperinflation, and enabled Iraqis to qualify for International Monetary Fund (IMF) resources and debt reduction. At the Ministry of Finance, a financial management information system is beginning to track the Iraqi Government's budget and expenses. USAID supports agriculture, which employs 25 percent of the Iraqi workforce, and seeks to better target the social safety net, the Public Distribution System, to reach those who cannot purchase enough food. Infrastructure repairs are plugging gaps in power and water delivery. At present, USAID projects have added 1,200 MW of new or rehabilitated generation capacity to the national grid. Further generation increases are planned by contractors under the Department of the Army. USAID partners provide operation and maintenance programs that will safeguard the investment of U.S. assistance.

A demographic bulge threatens Iraq's future. In 2004, half of all Iraqis were under the age of 20 years. The population will double by 2030. Despite vast oil reservoirs, Iraq currently has some of the lowest literacy rates and poorest health statistics in the region. USAID's education and health projects smoothed the way for the United Nations (U.N.) to work with schoolchildren and administer vaccinations against polio. The World Bank expanded a USAID pilot program for textbooks—our 8 million books leveraged their program of 70 million books. Poor girls bear the greatest burden of discrimination, reinforcing the need for equal education and adequate health programs for young mothers.

#### OUR COMMITMENT TO ACCOUNTABILITY

USAID has been, and continues to be, committed to ensuring that the resources that Congress has provided are managed effectively and transparently. Indeed, ensuring that these funds are used and managed in such a manner only strengthens their impact on Iraq and improves our chances for success in Iraq. Accountability for Iraq funds is fortified by the right mix of experience and teamwork between our field mission in Baghdad and USAID in Washington. Experienced controllers, contracting officers, and inspector general staff have been in Iraq since 2003 working with technical staff to help ensure program accountability.

Accountability starts with a fair and open procurement process. USAID complies with all applicable federal regulations and works closely with our Office of the Inspector General (OIG) to identify and address any weaknesses USAID may have had in its procurement processes. USAID's accounting and procurement systems ensure that the responsibility for procurement authorizations, justifications, and payments are segregated and recorded. A summary audit report on the contract award process found that USAID has generally complied with these regulations.

The President's Management Agenda shows USAID with "green light" progress on improvements in financial management. The Iraq Budget and Finance Team received the Administrator's 2005 Management Improvement Award for innovative financial information tracking.

USAID's on-the-ground presence is critical to project oversight. Well-trained, on-site contracting staff and project managers use informed judgment to oversee USAID projects. USAID's project managers are trained through a certification program in acquisition management practices. These personnel, located in Baghdad and regional offices, provide the technical oversight of these programs. USAID on average makes 10 to 15 project site visits per week. Our colleagues in the U.S. military have been forthcoming in providing not only security support for our staff but assistance in monitoring USAID projects in those areas deemed to be insecure. USAID has also taken proactive measures, such as fraud awareness training, for Government employees, contractors, and grantees to reduce the likelihood of undetected fraud, waste, or abuse of funds. OIG audit staff in Baghdad conduct performance audits of USAID programs on a regular basis, and often concurrently, to enable USAID to identify problem areas early on. As of December 31, 2005, there have been 27 OIG performance audits and reviews and 73 financial audits completed.

Finally, USAID's most valuable resources in ensuring program effectiveness and accountability are Iraqis themselves, who have greater freedom of movement than expatriates. USAID has 114 Iraqi national staff in its mission in Baghdad and through its implementing partners, an extensive network of Iraqi organizations that are critical to the design and implementation of USAID's projects. As of the beginning of this year, nearly 39,000 Iraqis were employed implementing USAID projects. These staff have the community ties that facilitate Iraqi ownership and contribute to proper oversight of USG resources.

To date, there have been three audits completed by SIGIR directed toward USAID. One had a recommendation for USAID and that involved the "Cost to Complete" (CTC) estimates. SIGIR's January 27, 2006, report entitled "Methodologies for Reporting Cost-To-Complete Estimates," recommended that USAID develop written guidance for a methodology for calculating CTC reports. The report also recommended that USAID develop a review process to eliminate errors in its reporting spreadsheets; create and maintain a permanent central file to document estimates-at-completion by project; and develop policies to define significant contract scope changes.

In response to these recommendations, USAID is developing written policies and procedures for estimating CTC that include controls for validating and revalidating estimates. Moreover, USAID is working with the Iraq Reconstruction Management Office (IRMO) to develop a mutually agreeable methodology for calculating CTC estimates and creating a permanent central file to document the calculation of estimates-at-completion by project. USAID is also developing policies to define significant scope changes. USAID will meet these recommendations using its current resources and personnel. The mission will comply with SIGIR recommendations so that there will be no replication of similar findings.

In conclusion, I want to assure you that USAID is taking every measure it can to ensure that U.S. Government resources are used effectively and transparently. The successes that have been achieved to date in Iraq are the tangible results of these efforts. I believe with Congress's continued support, USAID will be able to make further strides in helping to achieve victory in Iraq.

Mr. Chairman, thank you for offering me this opportunity to discuss USAID's role in Iraq with your committee. I am prepared to answer any questions that the committee has. Thank you.

The CHAIRMAN. Well, thank you very much, sir.

We'll have a round of questions now, and the Chair would suggest that we have an 8-minute limit for the first round, and we may then have a second round, as members have supplemental questions.

I'll begin the questioning by asking you, Ambassador Jeffrey, for some general discussion of this proposition. Mr. Christoff has mentioned, and so have you, that originally the World Bank estimated about \$56 billion would be required for reconstruction of Iraq. Both of you have felt that that's inadequate and is likely to go upward. And you offer good reason for this; namely, some moneys have been reappropriated for security of what we've already built. There is money still—of the \$13.5 billion pledged in loans and grants by other countries—still to be paid toward the reconstruction. But probably more fundamental in the political situation, is the thought

that 60 percent of the country is still on food rations. This dates back to the much-discussed Oil-for-Food Programme. The fact is that, in a humanitarian way, a very large percentage of the population has been fed in this way. We had testimony at an earlier hearing that gasoline, in equivalent dollar terms, was maybe 8 cents a gallon. That may understate it, but not by far. Subsequently, after that hearing, we saw evidence that that price was raised, and we also saw evidence of protests by motorists, in Baghdad and elsewhere, who were very unhappy with the government for making such a change.

So, you have a political philosophy of the past, a lot of free food, virtually free gasoline. And suddenly you begin to talk about market prices for the area, not necessarily for the world. That's critical in this situation, because the budget forecast that we've seen—we haven't got into this today—would show a deficit right off the bat, in terms of requirements of the fledgling government and the money coming in, principally from oil exports, but not much else in terms of taxation or other revenue generation that has not been worked out very well.

Clearly, we are faced with a multiyear project. Each year, the State Department, USAID, and others are going to request funds. The Department of Defense will be requesting funds, in one form or another. And the American people will be trying to evaluate, when does it end? If, in fact, reconstruction of Iraq is required, how about reconstruction of parts of the United States? This may seem insensitive, but, nevertheless, these are the sorts of arguments our constituents raise. And so, we will have a new government there, but we will maybe criticize that government for failure to take a look at food or fuel costs or market principles or how you formulate a budget, quite apart from the point you made, Mr. Christoff, that there's still \$51 billion of debt, even after all the debt forgiveness that many countries have forgiven. The irony being that some nations may not be as forgiving. They may want their pound of flesh, as we are appropriating money to fund reconstruction or to supplement the Iraqi budget.

Now, to my question. How did your discussions go with the Ambassador and the Iraqi Government or with the Secretary of State and others, as you were trying to determine where all of this is headed? We can criticize momentarily a little corruption here or there on the part of Iraqis or the contractors or so forth, the security problem, the insurgents, but this is a monumental project, the rebuilding of a whole nation, and with many people not being very cooperative in the process. And many have different philosophies as to how the money should be allocated, and what the reconstruction ought to be. And, ultimately, the irony of it is that the oil, which was prophesied by many who came before this committee as the way you pay for all of it, doesn't pay for all of it. There may be less produced some months than there was under Saddam.

How do you rationalize this? Or, in the big picture, how do you portray to people what our mission ought to be, and the reason for constancy over the coming years, not just over the coming year?

Ambassador JEFFREY. Senator, you paint a daunting picture. And, first of all, all the facts you've cited are correct. And let me



try to lay out very briefly where we do see this, going forward, and what assumptions we make to continue on that road.

First of all, in looking at the Iraqi budget, a very large percent of it, as you said, in the past was tied up in just the food subsidy alone. It's \$4 billion. The real cost of importing fuels, largely because of problems in producing oil, refining oil, and security attacks, reduces the amount that they can produce domestically, was up to almost \$5 billion this past year. Now, some of that is because of a huge climb in demand as people bring in generators to respond to electricity outages. And, of course, hundreds—literally hundreds of thousands of automobiles that they didn't have before. So, there's a good-news aspect to that, as well, but, it's, all in all, something that we have to deal with.

The Iraqis are dealing with it. As we mentioned, at the end of last year, they raised fuel prices for the key consumption items—diesel and gasoline—by a factor of about 500 percent, and they're planning another tranche of that. The goal is to cut their imports for fuel by the end of this year to about \$2.4 to \$2.8 billion, so that will be a savings of several billion dollars. And we're pushing them very hard to do this. But that also means, as was mentioned here, protecting infrastructure, keeping the refineries from being hit, keeping the pipelines flowing.

In terms of the longer term, we don't see the United States as continuing with anything like the IRRF. As I mentioned, we're moving more, in the FY07 budget, to a traditional program similar, in general terms, to that which we have done in the Balkans, in Africa, South Asia, and other areas to build capacity, focus on key things like education, agriculture, government Ministries.

What we are looking for is, first of all, the international community, but also eventually the private sector. The private sector, particularly in the oil field, has tremendous capacities, but to bring in the private sector, of course, you have to have a secure situation on the ground militarily, and you have to have a stable government. So, therefore, again, that's where all of the security elements come together.

We're also looking, first and foremost, to the Iraqis themselves. Their budget this year does have a deficit of \$3 billion, but we believe that there will be \$3 billion left from their DFI account that will cover that. They have \$6 billion in their budget this year for capital expenditures. And of the capital expenditures, a large percent of that, \$3.5 billion, will be devoted to their oil infrastructure. Their goal is to get production up, in the near term, to 3 million barrels a day, and to then double that again, with almost all of it being exported.

We think over time, with foreign investment, with foreign assistance, with more of our assistance, and, importantly, with victory on the political and on the military security lines of operation, we can achieve this within the next few years.

In terms of debt, for example, it looks bad, but, in fact, the Iraqis are not paying interest on this debt. We have had great success in the Paris group with forgiveness of 80 percent or more of one-third of Iraqi debt. We are working—the Secretary personally, with the Arab Gulf States, who hold another 50—roughly \$50 billion of debt.

We're also working on the \$20-plus billion of commercially held debt. Again, I think that that's going to be a good-news story, sir.

Thank you.

The CHAIRMAN. Thank you very much, Ambassador.

Senator Biden.

Senator BIDEN. Mr. Ambassador, is there any good news about a political settlement?

Ambassador JEFFREY. Sir, where we are right now is that the Iraqi court, their special panel that will investigate all of the election challenges, has basically ruled, by today, on all of the large ones from the major parties. So, we believe that we will be on track for two things within the next few days. First of all, that, by or about the 11th, the final results will be announced for the Parliament, and, second, we believe—and this is a prediction, it's not a fact—that the parties will, while there will be some additional grumbling, basically accept the results. And that's a huge step forward. We took a lot of additional time and urged the Iraqis, which they did, to bring in international monitors to really go over this election several times to ensure that people would believe in it, because we are basing everything on both the election results and what Zal Khalilzad calls a "national compact" to bring in the various groups. There's work going on every day out there, Senator, with the major Sunni groups, with the Kurds, with Allawi's folks, what we call the secular Shia, and Sunnis and with the various factions of the United Iraqi list, Shia cleric—

Senator BIDEN. Who, beyond us, is doing any of that work?

Ambassador JEFFREY. A great deal of it is being done by the British, and, to some degree, other coalition allies, but also the U.N. Ambassador on the scene. Ambassador Qazi has not only played an important role in the technical support for the elections, but he is also working with these folks. In addition, we're reaching out to other Arab countries. The Secretary, Assistant Secretary David Welch, I, and Zal Khalilzad have made about seven different trips in the region in the past 4 months to work with our Arab friends to get them to weigh in, as well, sir.

Senator BIDEN. Let me ask you—I think, as we all agree, it's important to be realistic with the American people, to tell them the truth—I'm not suggesting that any of you aren't telling the truth—but to tell them the truth about what to expect. I know many of you, and probably some of my colleagues here, are tired of hearing me, over the last 3 years, echo the refrain that no foreign policy can be sustained without the informed consent of the American people. And "informed consent" means leveling with them. And I just want to make something clear, from my perspective, and find out whether any of you disagree with it, that, absent a coalition government, absent a Sunni buy-in, absent a constitution that's viewed as a document that unites that country, including the Sunni buy-in, as opposed to dividing it, all of which needs to occur by this summer—absent that, none of this is going to matter, that there's no possibility of getting foreign investment in that country. Zero. None, absent that. And I wonder whether any of you would disagree with that assertion.

Ambassador JEFFREY. Senator, we believe in this. This is why we do think that—

Senator BIDEN. That's not my question. I understand you believe in it. And I believe you believe in it. That's not my question. My question is, Do you believe there is any? You said there's a combination of three things that are needed. You need foreign assistance, you need private investment, and you need continued U.S. support, financially, in order to deal with the economic side of this equation. My question is, Do you think you will get any of the remaining \$13 billion pledged, do you think you'll get any serious private investment, and do you think you're going to be able to convince the American people to continue to spend—we've now spent over—we have now authorized over \$300 billion for Iraq—\$300 billion—do you think there's any possibility, absent a political settlement where all three major parties buy in to a coalition government and a constitution—do you think there's any possibility of those three things coming together?

Ambassador JEFFREY. I don't disagree with that. But, two caveats. First of all, I wouldn't put a deadline of the summer—and it's on or off—and, second, we believe that we're going to get it, sir.

Senator BIDEN. Well, I sincerely hope so. I think we should just level with the folks, though. Absent a constitution that is a uniting document, which is supposed to occur by the summer—supposed to; maybe it gets kicked down the road further, and maybe the Iraqi Parliament decides to deal with it a different way; that's theoretically possible—but, absent that, this is one guy you're going to lose, in terms of a guy who's supported every penny that's been asked for.

Of the roughly \$30 billion for reconstruction, Mr. Ambassador, you've indicated \$13.6 billion has been disbursed. How much of that \$13.6 billion is for security, and how much went directly to projects?

Ambassador JEFFREY. It's about \$13 billion, sir. We've disbursed a high percent of the \$5 billion we put into the security portion—that is, for the training and equipping. In fact, I have that figure right here. Just a second.

Senator BIDEN. I want to make sure I'm asking—you understand the question—

Ambassador JEFFREY. I am, Senator.

Senator BIDEN [continuing]. I'm asking. Of the \$13 billion disbursed, how much was for security?

Ambassador JEFFREY. For starters, we've disbursed almost \$4.8 billion—I'm sorry, we've disbursed \$4.2 billion of that \$13 billion, roughly, for security, in the narrow sense of training and equipping the police and the security forces. Of the approximately \$8 billion remainder, a rough estimate would be—and this isn't as precise as the figures I just gave you—would be 20 to—roughly 20 percent would have gone to the security of the projects—that is, hiring PSDs, hiring Iraqis, and that kind of thing. So, with \$8 billion, that would be about \$1.6 billion, added onto the \$4.1 billion, so roughly \$5.8 billion of the \$13 billion, sir.

Senator BIDEN. So, in fact, in terms of the actual projects, we anticipated the money not to be for security. We anticipated, when we voted for the money—I'm not suggesting we had any alternative, but the anticipation was it would go directly into projects, whether it was water purification, sewage, electricity, et cetera. We have, in

fact, actually put on the ground, in the ground, and around the ground, in terms of projects, something considerably less than \$7 billion. And, again, I just think it's important for us to level with folks.

I mean, if you look at the inspector general's report—this isn't about blame, this is about reality—oil production: Prewar, is 2.6 million barrels a day; currently it's 2.1 million barrels a day. In terms of water sanitation: Prewar, people with sewage coverage, 6.2 million; today, 5 million. People with potable water available: 12.9 million before the war, 8.3 million after the war. I mean, since we have invested this time and money. And electricity: Generating capacity before the war, 4.5—4,500 megawatts; currently, 3,995. Hours of power in Iraq: 4 to 8 hours per day prewar, 10.2 per day currently. Hours of power in Baghdad: 16 to 24 per day; today, 3.7. Now, in part, that was because Saddam was stealing power, in effect, from other—from the grid to keep Baghdad going.

So, my concluding question is this. Can you tell me, if you can—this is both to Ambassador Kunder and Jeffrey—will more Iraqis have access to potable water at the end of the year than before the war? Will they have—will Baghdad's political, commercial, and cultural capital of Iraq have half the power it had before the war by the end of the year? And will Iraqi oil production reach prewar levels by the end of the year? And, I might add, in the hearing we had before the war, oil experts came and testified before this committee, including representatives from the Cambridge—what's it called?—Cambridge Energy Associates—and they indicated that it would take \$30 billion in investment in the ground before we could get to the levels of actually producing sufficient amount of oil for the Iraqis to even begin to meet their needs and pay. Interestingly enough, we were told that, no, no, that wasn't true, we'd be able to pay for it right away. Now the number I heard from GAO is \$30 billion. So, no one should be surprised. We wrote that in a report we wrote over 2 years ago.

So, my question is, How about—what do you expect at the end of the year, on water, power, and sewage?

Ambassador JEFFREY. Sure. Senator, let me start, and Jim Kunder can jump in.

On water, we've added about—we've added water, potable water, to about 3 million Iraqis since the war. And, again, the prewar statistics have to be bounced against what happened during the war and immediately after, when much of the infrastructure crashed. And so, we had to do a lot of work to get back up. We've added about, as I said, 2.75 million people to the potable-water stream. And we hope to do almost 4 million more. That will get us up to the 12.9, roughly, that had water—potable water before the war. In terms of sewage, again—

Senator BIDEN. No, excuse me, you expect to do that by year's end?

Ambassador JEFFREY. We expect to do that when the program completes, sir. Now, the program will be all obligated by the end of the fiscal year. And how long it will take for that to roll out, I don't know, but certainly by the end of the year or into 2007 the program will be substantially complete.

Senator BIDEN. Mr. Secretary, do you know how long it will take to roll out? You guys are doing it.

Mr. KUNDER. We're doing part of it, sir. I'm not trying to duck your questions, sir, because I take your point, but clearly we're trying to do a number of things simultaneously, which is, improve the security situation, invest in O&M—operations and maintenance—so that the existing investment is protected, and roll out the different services. I mean, it's a calculus of how those variables come together. But I would agree with Ambassador Jeffrey's point on what our plans are for our projections by the end of the year. The other thing I think we need to raise—

Senator BIDEN. That's what I'm asking. What are they? What are they? You just got finished saying, "By the end of the fiscal year, they'll be obligated." But when—what do you expect by the end of the calendar year, by January of next year? Do you expect those obligations to have borne fruit and these projects, X number, finished? What do you expect? And maybe you could submit it for the committee.

Mr. KUNDER. I would submit that.  
[The submitted information follows:]

While we are currently in the process of transitioning our focus from infrastructure reconstruction to capacity-building, USAID has contributed significantly to the larger USG infrastructure reconstruction effort. By the end of this calendar year USAID will have added or restored 1292 MW of electrical capacity, increased access to clean drinking water for 3.1 million Iraqis, and provided sewage treatment capacity for 5.1 million Iraqis.

Mr. KUNDER. But that was the point I was going to make, sir. And the way—and, again, I don't want to quibble with the main point you're making, which I understand, but the term "disbursement"—not to bog the Senators down on this issue, but the term "disbursement" does mean "bills paid," so that when we obligate the money, that may well mean that the construction is taking place, the benefits are beginning to flow. So, we do say "funds obligated" and "funds disbursed." And in terms of impact on the ground, I would argue that the obligation rate is probably a greater indication of what's happening on the ground, as opposed to the disbursement rate. So, the way the numbers line up may underestimate the impact on the ground.

Senator BIDEN. I'm over my time. I apologize. Thank you.

The CHAIRMAN. Thank you very much, Senator Biden.

Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you. Gentlemen, welcome.

Ambassador Jeffrey, you have responded to questions of Senator Biden regarding debt forgiveness, and have framed a rather positive picture. When Secretary Rice was before this committee last year, she talked about the \$13 billion in international commitments to Iraq, and I—if I recall, about \$3 billion had been met. Where are we with that \$13 billion number today?

Ambassador JEFFREY. Senator, we're at about—\$3.2 billion has been obligated. The next two big—

Senator HAGEL. \$3.2 million or billion?

Ambassador JEFFREY. Billion, sir. The next two big tranches will be from the Japanese, who have done very well. They pledged \$5 billion, \$1.5 billion of the \$5 billion was direct grants, and they

have pretty well completed that. And they're now moving into structured loans, and they're being very active, and we're very, very optimistic about that. The World Bank has done very well, too, sir. And the IMF, as well. The World Bank has begun a special \$500 million program for Iraq. The IMF provided about \$485 million for a special post-conflict agency for Iraq last year. They have now, with the signing of a standby agreement, which was another accomplishment we had in December, have agreed to another \$600-plus million that they will provide for currency support.

So, the international funding institutions and the Japanese are doing very well. The British have done very well. The European Union has increased its pledges after Madrid, where they pledged about \$235 million, up to almost \$700 million, and they're working on capacity-building, in particular, in law enforcement and other areas. That will take longer to roll out. We're pushing real hard on the Kuwaitis and the Saudis, for example, who, between them, pledged a billion dollars, and we haven't seen very much of that yet. And there are a couple of other big donors in that category in the Middle East that we're looking at, sir.

Senator HAGEL. So, where would that roughly put us, of the \$13 billion?

Ambassador JEFFREY. If—

Senator HAGEL. Total that up.

Ambassador JEFFREY. If all of these things over the next 18 months came on-stream—

Senator HAGEL. All—excuse me—all of what you've just said—

Ambassador JEFFREY. Right.

Senator HAGEL. So, they're not on-stream, they're another commitment, an additional commitment.

Ambassador JEFFREY. No, if—this is all within the \$13.5 billion that was initially pledged, these things that I mentioned. If we could get progress on the Japanese on the—which we think we are seeing—on the World Bank, on the IMF, and on just two or three of the Arab countries that have pledged the most, we would see an additional \$3 or \$4 billion flow into the country, sir.

Senator HAGEL. But you just said “if we could do it.”

Ambassador JEFFREY. Right.

Senator HAGEL. But I thought you said earlier, a moment ago, that that was already done, that they had already committed that, and they were moving.

Ambassador JEFFREY. They have committed to it. And, thus, they have pledged this money, and they have begun to take the steps. What we want to see is concrete and—

Senator HAGEL. Well, that's what I'm talking about. I'm talking about meeting those commitments with actual cash or—

Ambassador JEFFREY. Right.

Senator HAGEL [continuing]. In kind, or however way they made those commitments.

Ambassador JEFFREY. I'm very confident on the—

Senator HAGEL. But where are we today—of the \$13 billion, what's been—not over the next 16 months, but of all these international commitments, around \$13 billion, where are we today?

Ambassador JEFFREY. \$3.2 billion has been disbursed; and, thus, the \$3.2 billion is actually moving its way through contracts and work.

Senator HAGEL. Well, we haven't come very far, because, when Secretary Rice was here, a year ago, she used the figure \$3 billion. So, that's not good news, I wouldn't think. Again, it goes back to Senator Biden's comments about the American taxpayer continues to carry the heavy burden here.

In that regard, do you anticipate additional supplemental requests as the administration will be sending up a supplemental package for fiscal year 2007? And how much of that will be yours?

Ambassador JEFFREY. Senator, the administration is, of course, looking at that. Within a few days, they'll take their decision. We've laid out all of the issues, the problems, the need for more capacity-building and where we are with the IRRF, with all but \$2.9 billion obligated to the Secretary and to the President, and they'll have to make that decision, sir.

Senator HAGEL. So, you don't know, or you can't say, or what?

Ambassador JEFFREY. It's a combination of both, Senator.

Senator HAGEL. You can't say, and you don't know.

There are reports—I suspect you've heard about reports that our Ambassador, Ambassador Khalilzad, who we all have the highest regard for, is holding a billion dollars in U.S. reconstruction funds aside. What I have understood to be the case, that he is waiting to use that as some leverage as the new government is formed. Any truth to that? Is he doing that?

Ambassador JEFFREY. That's part of the \$2.9 billion that we haven't obligated yet, and it involves, sir, primarily projects in the electrical and water field that he is now engaged in the elected leadership with. We're not going to wait for a government to come on-stream, because we don't know when the government will be there, and we think we need to spend that money now.

Senator HAGEL. So, what are you saying, in answer to my questions?

Ambassador JEFFREY. What I'm saying is, there is no reserve that's being held back until the new government comes on-stream.

Senator HAGEL. He is not holding a billion back, or any other number back.

Ambassador JEFFREY. He is, of course, responsible for carrying out the program, as he sees fit, within the guidelines set by the President and by you folks, but he recognizes that he can't be holding back a reserve for a government that we don't know whether it will be formed in 2 weeks or 2 months; and, therefore, he has agreed that we should be obligating this money. But I have to emphasize, we need to run this by—many of these projects, because they are important projects—the elected leadership. We know who the elected leadership is going to be. We just don't know how they will sort out into a government. But with the kind of coalition government that we are striving for, and Senator Biden emphasized is so important, we think that you do have to talk to the Kurds, you have to talk to the Shia, you have to talk to the Sunnis, on some of these projects. And we are.

Senator HAGEL. On the point of the government being formed in Iraq, what's your sense of when that government will be formed?

Ambassador JEFFREY. Senator, when I was out there, you remember, last year, it took us—it took the Iraqis 3 months to go through the political process to finally get a government that reflected Sunni buy-in, back in the spring. I can't put a date on it. I will say that it is important that it be stood up as soon as possible, for many reasons that we've discussed today. It's also important that this process be used as a way to bring in the various groups and to promote national reconciliation. So, we have two conflicting goals, and we're trying to sort those out as best we can. But, believe me, we're well aware, we need to have a government that we can deal with on these pressing problems as soon as possible.

Senator HAGEL. Thank you.

How bad is corruption in the oil sector in Iraq? And I'm going to ask each of you that. You've all touched on it a little bit. The reports we get, firsthand reports—I was over there in December, I know Senator Biden's been there recently, some of my other colleagues—it's pretty deep, my understanding, and pretty high in the current government. How bad is it? And connect with that what your conversation was with Senator Biden, in the way of how you can reach these estimated production numbers, which are far below what we heard—this committee heard 3 years ago, and 2 years ago, as to what was going to happen by the Government, our Government. So, where are we? How bad? How much trouble are we in over there with corruption?

Ambassador JEFFREY. Very briefly. I'll leave it to the others, sir. We've looked at—with these increasing infrastructure attacks and the problems we've had, we've looked at this, and it is pervasive in many of the areas around Baghdad, in the refineries, in the collection areas, and particularly export of oil, because it is so—and fuel—because it is so cheap in Iraq, to neighboring countries. Thus, we think, while there are many ways to approach this, the best way to attack it is to raise the price of fuel.

Senator HAGEL. Well, in addition to the question, I would add this. As you know, the press reports have stated—and other reports—that a certain amount of this corruption is taking funds out of the Iraqi Government and—legal flow—and those funds are ending up in the coffers of insurgents. And you've read those reports. Is that accurate?

Ambassador JEFFREY. At the retail production level, we think it is, Senator. Where we're pretty sure that—because we have international monitors and such—is, once the oil is sold—that is, we don't think we have the same problem we had with Saddam, with the Oil-for-Food—once the oil is sold on the international markets, we think there's good tracking of that, and that's very important. But on the ground, before the oil gets to the ships, gets to the refineries and such, and some of it after the refineries, that's where the problem lies.

Senator HAGEL. So, the insurgents are getting some of these oil revenues.

Ambassador JEFFREY. That's what we understand. We can't put a number on it, but—and this is all reports and some rumors and some indications, but there's a lot of that out there, I have to say.

Senator HAGEL. Thank you, Mr. Ambassador.



Mr. Christoff.

Mr. CHRISTOFF. Definitely, there is—smuggling is occurring. I think there's no doubt about that. The International Advisory and Monitoring Board, who's supposed to check oil reserves, has consistently reported that there is a difference between what's being produced and what's being exported, even when you take out domestic production. They can't figure out where the gap is. That gap, partly, is due to smuggling.

The other problem is, we still don't have any meters. Metering was a problem in the Oil-for-Food Programme. CPA recognized it. There still aren't meters to try to accurately gauge what's coming out of the ground and what's being exported.

Senator HAGEL. What about corruption, that question?

Mr. CHRISTOFF. Corruption. I mean, I think the—

Senator HAGEL. How deep? How pervasive, top to bottom? Big problem, or not?

Mr. CHRISTOFF. I think corruption—well, let's look at the Oil-for-Food Programme. There is a legacy of corruption that's been inherited, and I'm sure you have inheritors of that legacy throughout the entire government, so it is an important problem.

Senator HAGEL. Big problem.

Mr. Bowen, you're the inspector general. How are we fixing it?

Mr. BOWEN. Yes, sir, Senator. Well, we're fixing it by empowering Iraqi anticorruption institutions. Specifically, the Commission on Public Integrity, 29 inspectors general's offices in each of the Ministries, and the—

Senator HAGEL. How long is that going to take? Reports I get, it's getting worse. So, how long is this going to take to structure the process, the people? A year before we'll see a change, a reversal of this corruption?

Mr. BOWEN. Well, I—well, first of all, I think you're right in your perception that corruption is endemic within—

Senator HAGEL. It isn't just a—

Mr. BOWEN [continuing]. Within—

Senator HAGEL [continuing]. Perception—

Mr. BOWEN. Well, the reality. The reality is that—

Senator HAGEL. Reality.

Mr. BOWEN. I don't have data, other than the data I get when I meet with the Commission on Public Integrity. And, you're right, it's not just perception, he has 400 open cases, and his focus on corruption is in the Ministry of Defense and the Ministry of Interior. Very significant corrupt practices have been uncovered, particularly in the Ministry of Defense. He's got investigative cases of up to \$1.5 billion in missing dollars in the Ministry of Defense.

Smuggling is an ongoing problem in the oil sector. It's known that those funds have been going to the insurgents. But it's difficult to track the data, because it's so covert.

Mr. Christoff hit on an important issue, an issue that we have been identifying for a while, and that's the lack of metering. They have absolutely the most rudimentary way to measure outputs, just marklines on their storage tanks. And there's really no way to know how much has been lost, to be honest with you, without meters.

Senator HAGEL. Well, my time's up, and I appreciate the indulgence of the chairman, but I would say it's just like what we're dealing with up here, on lobbying reform. I mean, you can take process and procedure, and put meters in place, but if people are going to break the law, if they're going to cheat the system, if they're going to smuggle and do the things that they're doing, that are going on, that isn't going to fix the problem—meters.

Mr. BOWEN. Right.

Senator HAGEL. It's a process. But it—that isn't the core of the problem, just like lobbying reform up here, more laws doesn't fix the problem. Thank you for what you're doing. Please give your colleagues our thanks, as well.

Mr. Chairman, thank you.

The CHAIRMAN. Well, thank you very much, Senator Hagel.

Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman. And thank you for calling this extremely important hearing.

The testimony and the answers that we're hearing today will help shed light on what has become an increasingly burdensome and complex endeavor. That, of course, is rebuilding Iraq in the shadows of a violent and determined insurgency.

When I originally introduced legislation to create the Office of the Special Inspector General for Iraq, in 2003, my intent, along with other Members of this Congress, was to help ensure that United States taxpayer dollars would be spent effectively, and that we would monitor and analyze the reconstruction spending in a calculated and strategic manner. Let me say that this office has done that, with great success, and I want to applaud Mr. Bowen and his team.

Mr. BOWEN. Thank you.

Senator FEINGOLD. Transparency and accountability in reconstruction efforts in Iraq are not about finding new things to criticize, or about finding new ways to analyze charts or graphs, it's about responsible stewardship of taxpayers' resources, and it's about getting our reconstruction efforts right.

I appreciate the work of those testifying today, and their hard work on some of the toughest challenges that face our Government today. And I want to start with Mr. Bowen. He has been more than willing to continue—continually consult with me and keep me up to date on his activities, in addition to the public reports that we've had the benefit of.

Mr. Bowen, as you noted, your recent reports have highlighted the dramatic increase in security costs and the drain it has had on funds that were originally allocated for reconstruction. The reports have also highlighted the fact that sustainability of this may be the biggest challenge that the U.S. Government and donor communities face in handing off programs to Iraqis. We've talked about this, that security costs have increased from 18 percent to 40 percent of original allocations. Can you give us a sense for how our security costs, now borne by the United States, will be absorbed and managed by Iraqis when IRRF funds are completely obligated at the end of fiscal year 2006 and what the consequences might be if Iraqi security forces are not fully capable of protecting infrastructure and other projects?

Mr. BOWEN. We've seen those consequences over the last 9 months. As I mentioned earlier, we were above prewar levels in oil output, we were above prewar levels in electricity last July. We are now substantially below them, because of attacks upon infrastructure. And that's why we are going to audit, over this next quarter, capacity-building within the Iraqi forces for infrastructure protection. It's not working, right now. And unless we fix it, and unless the Iraqis develop the capacity to protect their own infrastructure, then their infrastructure is going to continue to limp along at these subprewar levels. And that's unacceptable, because that is the lifeblood of the economy. Without an oil sector that's working well, their national income is not going to be sustainable at levels sufficient enough to pay off this debt that we've been talking about, sufficient to fund the rest of the reconstruction, most of which has yet to start, and ultimately to bring prosperity to the Iraqi people.

Senator FEINGOLD. Well, related to that, and assuming that you're worried about the fact that the Iraqis may not be able to afford these kind of high security costs, among other things associated with ongoing reconstruction operations, are you satisfied with the actions being taken by DOD, State, and USAID to ensure that programs that are currently underway or in the planning phases take into account budgetary, security, and management limitations that the Iraqis will almost undoubtedly face?

Mr. BOWEN. Well, first, I think the reallocation, the reprogrammings of funds out of bricks and mortar and into guns and bullets, was appropriate 2 years ago. We've seen the necessity of that, over time. However, we have not seen its full effect, at least yet. And the security situation is not substantially better. And, indeed, with respect to infrastructure security, it's worse. So, this audit that's going to look at this particular issue, infrastructure security, will provide more direct and substantiated answers to your question in our next report.

Senator FEINGOLD. In light of all this, in your opinion, and given your work of the past 2 years, would you say that United States taxpayer dollars have been used effectively in Iraq?

Mr. BOWEN. Well, I think that we're still waiting to answer that question. There has been much progress, but it's a mixed story. Obviously, we've had to change course during our experience, because of the security issue. We're only going to build about 36 percent of the water projects that—vice the amount that was initially intended in the supplemental. We're going to build about 70 percent of the electrical projects. We've had to make those course corrections because of security issues.

So it's a mixed story, to answer your question. I think there are successes, and there are continuing challenges.

Senator FEINGOLD. In the hearing yesterday in front of the Senate Armed Services Committee, you made the very salient point that the United States started executing reconstruction programs prior to attaining stabilization. I found this to be a succinct and important point, and it leads me to a question about sequencing.

In your investigations of when, how, and where U.S. taxpayer dollars were spent, what were the most important lessons you learned about synchronizing or coordinating stabilization and reconstruction activities?

Mr. BOWEN. Well, I think the World Bank has looked at this issue, and they have, through several studies, identified the self-evident fact that investment in reconstruction is more effective in a stable environment than one that's ridden with security problems. When the reconstruction program began, the level of insurgency was much less than what we saw subsequently. So, it became unstable over time.

I think the new directive, NSPD-44, which seeks to create a capacity-building for contingency responses to stabilization and reconstruction situations, anticipates that sort of dynamic; that is, you pursue stabilization, and then you advance with reconstruction.

And, as I said yesterday, I think it is relevant and accurate to say that our invested reconstruction dollar today is returning more than it did 2 years ago, because we have invested heavily in security and are hopefully going to begin to see the effects of that soon.

Senator FEINGOLD. Did you have input into the National Security Presidential Directive 44, or Secretary Rumsfeld's related Directive 3000?

Mr. BOWEN. No, I didn't.

Senator FEINGOLD. Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you very much, Senator Feingold.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman, for calling this hearing on stabilization and reconstruction in Iraq.

I think everybody is agreeing that security comes first, my colleagues and members of the panel. And, Mr. Bowen, you testified that the lethal environment in Iraq continue to pose extraordinary challenges to reconstruction contractors, and that since reconstruction began, in March 2003, 467 deaths—claims for contractors of all nationalities have been submitted, and the daily situation to the U.S. Army Corps of Engineers present the full range of dangers facing those who work on reconstruction projects in Iraq. The reports routinely list kidnappings, murders, attacks, bombings, armed vandalism, and threats.

The January 13, 2006, report, for example, listed a car bombing, a gunshot through a car window, armed vandalism, a threat delivered by five armed and masked men on a jobsite, and six attacks on contractors. So, that's just one day of what's occurring there. So, what's important, of course, is to stabilize the security, and then we can go ahead with reconstruction.

And, Mr. Christoff, you're the one member of the panel that's not a member of the administration, so, as you look ahead, can you predict how long we're going to be there to stabilize the security, and how much it's going to cost?

Mr. CHRISTOFF. What we're doing right now in GAO is reviewing some of those issues; and that is, reviewing the revised campaign plan of DOD. And in that are the classified assessments and terms of what it's going to take, in stages, to try to meet the goals that we need in the campaign plan. And it's just not security goals. I think what can be said about the campaign plan is that it's a combination of training and equipping the Iraqi security forces, improving security, but also building up institutions, building up the abilities of the central government, its Ministers, and the provincial

governments to try to serve and best meet the needs of the people. And so, those conditions that are in the campaign plan all have to come together at different phases in order to relate to a drawdown. And we're looking at those conditions right now. That was one of the recommendations that we have made that I can talk about in our classified report, that you have to have good benchmarks and indicators associated with those conditions to know how you are progressing in your campaign plan.

Senator CHAFEE. So, you're not talking about drawdowns?

Mr. CHRISTOFF. Yes.

Senator CHAFEE. It seems to be in contrast with the existing situation, where it's—the testimony is that it's getting worse, the security's getting worse, but we're going to draw down.

Mr. CHRISTOFF. Well, I would reiterate what DOD and State have said, it's a condition-based approach, and we have to ensure that we're meeting the conditions that are part of that plan before you can begin drawing down U.S. forces.

Senator CHAFEE. And, once again, based on your experience of looking back on what we've spent so far, can you predict, looking ahead, what it's going to cost?

Mr. CHRISTOFF. I don't know if—in the supplemental, if the amount—additional amounts for training and equipping Iraqi security forces are in them. When I was in Baghdad a couple of weeks ago talking with MNSTC-I, they were talking about at least an additional \$3.9 billion in a supplemental just to complete the training and equipping of Iraqi security forces.

Senator CHAFEE. Well, thank you very much.

Secretary Jeffrey and Ambassador Kunder, on—in your biographies, you both served in Vietnam, I believe, so you have a little bit of experience in chaotic situations. Looking ahead, is there any sense of optimism?

Ambassador Kunder.

Mr. KUNDER. I'm a Vietnam-era veteran, sir. I believe Ambassador Jeffrey actually served in Vietnam.

I've worked in Somalia, Bosnia, Afghanistan. I believe that it's more than rhetoric to say that you just have to “stay the course.” All of these situations are violent, complex, chaotic, and require extreme persistence. Nothing I've seen so far in Iraq shocks me with the difficulties. I mean, they're extraordinary difficulties, because of the communal relations within Iraq, because of the extreme autocratic regime that crushed political and economic forces in the country for decades, and because of the violent insurgency.

So, do I see hope? Absolutely. I see things happening on the economic side. There have been dramatic things happening on the political side, in terms of the constitutional process and the elections. Am I here to slap a smiley face on things and say that it's going to be rosy in a year? Absolutely not. I mean, this is going to take some time. There are no silver bullets to address the corruption issues that Mr. Hagel rightly raised. These are tough issues. We've got a very detailed plan to get into the Ministries, to do training on anticorruption, to build the computer systems, the budgetary systems, the financial accountability systems that will slowly turn these systems around. But they don't come quick, they don't come cheap, and we'd be misleading you to say they would.

But I'm an optimist that these things will come together on the security side, in terms of training Iraqi forces, getting private investment, and this new government getting some traction. You asked a very general question, that's a very general answer, but that's how I would see it.

Ambassador JEFFREY. Senator, I'm optimistic. Once again, as we've seen in the past few weeks—not in Iraq, but in the area—

Senator CHAFEE. I'd just ask what was your experience in Vietnam?

Ambassador JEFFREY. I was an Army officer in 1972–73 in Vietnam, sir.

Senator CHAFEE. And so, a platoon leader?

Ambassador JEFFREY. Briefly, a platoon leader, also a staff officer.

Senator CHAFEE. Thank you.

Ambassador JEFFREY. Senator, I'm optimistic, because I believe that, as I told Senator Biden, there are all of these steps that have to happen, and we're all holding our hands and hoping that they do happen, but they—we're sure will happen. And that's been our experience on the political side.

On the security side, I think—I agree with Stuart Bowen that attacks on infrastructure have gone up in numbers, and particularly in lethality, but overall security is improved. Overall attacks are down significantly, in the past roughly 2 months, to levels that we haven't seen for quite some time, and that's an indication that we are making some progress. The Iraqi forces are out there in large numbers now, 130 police and army battalions in the fight. And this is something we certainly didn't see in the fall of 2004, when we were scraping to find a few battalions to go into Fallujah and Najaf. So, it's a—an improved picture. It's not yet a picture that we can say, "Our job is done." Thus, we're turning to Congress, we're turning to the American people to say, "We need"—as the President has said, "We need to stay the course. We need to continue to commit resources." We think it's worthwhile.

Senator CHAFEE. And what's the status of the so-called "squabble" between State and Defense on the PRTs? Defense is saying, "We don't want many Green Zones around Iraq." State is saying, "This is the direction we want to go." What's the status of that dispute?

Ambassador JEFFREY. We have three set up already, Senator. We are working with DOD and with the interagency process to see—and with our international partners, because some of them are interested in doing these things—and basically to see how we can best tie together very significant elements, be it USAID's local programs or military/civil affairs troops or our own political offices and our reconstruction operations and our law enforcement and police programs in the field in a more coherent way, and to add resources into them. We've done a great deal already. We are looking now to ensure that what we are doing will not be a burden on either the U.S. military or on our own resources, but we're making progress, and I think we'll take some more decisions and announce them soon, sir.

Senator CHAFEE. Thank you, gentlemen.

The CHAIRMAN. Thank you very much, Senator Chafee.

Senator Voinovich.

Senator VOINOVICH. Thank you for being here, and thank you for your service to your country.

I'm glad that you have provided the committee with a publication documenting our successes in Iraq, but I will tell you that I don't believe that the administration has leveled with the American people about the task that we have before us, and the work that will be required for the reconstruction and the rebuilding of Iraq. I think it's incumbent on the administration to be forthright about how difficult the task will be, how long it will take, and the approximate amount of money that will be required to complete it.

I mention this because the United States is facing a serious budget situation, and we are going to be allocating a lot of resources to this effort. At the same time that we are doing that, we are reducing our own domestic non-Defense budget and saying, "We're going to have to squeeze more and more out of it so that we can take care of the war," and then, of course, we are continuing to borrow money. There has to be a sensible, commonsense explanation for where we are in Iraq, how long it's going to take, and how much money we estimate it's going to cost us to get there.

I would like you to comment on what Mr. Christoff said about needing metrics for Iraq's reconstruction. How do we judge whether we are making progress or not? The problem around this place is that we do a lot of talking, "Well, we're doing this and we're doing that," but I want to know if we are making any progress? How do we determine if we're making progress in Iraq? What do you think about his suggestion, or his criticism, that we're not using the proper metrics to determine whether reconstruction efforts are successful or not? Would you like to comment on that?

Ambassador JEFFREY. Thank you, sir.

The President has spoken to the American people, I think, seven or eight times in the past 3 months on the way ahead in Iraq, and he's made several critical points. First of all, we do have an integrated strategy; second, this is going to be a long, tough battle. He made the point repeatedly, this is not going to result, in the end, in a victory on the decks of a battleship, but rather a process of transitioning to Iraqis who are democratic, at peace, prosperous, and are allies in the fight against terrorism, and it's going to require more resources.

On the other hand, we don't see this as an endless road. As you know, we have announced the drawdown of two brigades of the 17 we have in Iraq. The IRRF program will be coming to an end. That was a huge operation of \$20-plus billion. We do not anticipate the U.S. Government and the American taxpayer providing funds of that magnitude. As I said, we'll be looking to the Iraqis themselves, and the international community, the international financial institutions to take on that burden.

We do see that we have Iraqi forces in large numbers, now, who are more and more capable of taking over battlespace, as we call it.

So, we do have a variety of positive indicators that are suggesting to us, along with the progress in the political process, that this isn't an endeavor that we're going to be stuck in for a long time.

The last thing the President stressed that is absolutely important is that this is a vital struggle, Senator. This is something that we cannot afford to lose, given the situation in the Middle East, given the global war on terror.

Senator VOINOVICH. I think that the President has done a much better job of explaining to the American people why we are in Iraq. As the chairman knows, when we had Condoleezza Rice testifying, we encouraged her to get out more often and explain to the American people that this is a long-term battle. I call it the fourth world war against terrorism, in which Islamic extremists and religious fanatics have hijacked the Quran, in an effort to convince people that the war against the United States, and any who share our values, is the way to get to heaven. I'm glad the President is speaking more. But we need to show how this particular situation in Iraq impacts the long-term battle that we have in the Middle East, and we need to be as careful as we can in explaining to the American people how difficult it is going to be.

We are talking about drawing down troops. We still have troops in Kosovo. God only knows how long we'll have to have troops in Iraq. We want to leave, because it's an issue of us being depicted or thought of as occupiers. But we need to be more candid with the American people about the difficulties we are facing in Iraq, and we need to be more transparent, in terms of the metrics that will determine and measure success.

All of the members of this committee were told, "Don't worry about reconstruction. Iraq, has all this oil. They'll sell the oil, and the oil will pay for reconstruction." Am I right that the Iraqis are actually importing 5 billion dollars' worth of oil?

Ambassador JEFFREY. You're right.

Senator VOINOVICH. And then you read, in the Times or the Post, about some guy in the Iraqi Government who's supposed to protect the oil supply and pay Iraqi people, and he pockets the money, and then some general that's in cahoots with him is putting the money, oil that should be used for Iraq, into the black market. We talk about dealing with corruption. Corruption is still an issue in Iraq. I asked the chairman to have a hearing on corruption in Southeast Europe. Corruption is undermining some of those governments as well and it continues to. I think that we have a tendency here to say, "You know, it's going to all work itself out." But we have to make sure that the American people know that we're not trying to cover up and to gloss over things. We need to tell them how much of a commitment they are going to have to make and how important it is.

Have you given consideration to reevaluating the metrics that we use in Iraq? I'd like to have you come before this committee and say, "Here is how we are going to measure whether or not we're making progress." We should agree with them, and you should agree with them. Only with clear metrics can we make some progress. As long as it's fuzzy, I don't think we're going to be able to show any progress to the American people.

Ambassador JEFFREY. Senator, we do agree with the GAO on the metrics. And the metrics we measure, and I've got before me, are millions of people who have access to sewage systems, millions of people who have access to water and hours of electricity. And we



can go even further down—as we say, bore down—in households that have electricity. So, we do try to measure not just outputs, but outcomes. How does it impact on the people?

Senator VOINOVICH. Mr. Christoff, I saw you shaking your head.

Mr. CHRISTOFF. Yeah, I—

Senator VOINOVICH. Respond, please.

Mr. CHRISTOFF. Those are—

Senator VOINOVICH. What do you think?

Mr. CHRISTOFF. Those are the same statistics that I think have been reported repeatedly.

Let me just give—let me use the water sector as an example of how you need better metrics. Water is consistently reported as how many households we can serve with the additional capacity that we generate at the water treatment plants. The problem in Iraq is that 65 percent of the water leaks as it's going through the distribution system, and the water pipes are right next to the sanitation pipes. So, in addition to that, they're contaminated. So, we really don't know how many households get potable, drinkable water. We know how much water we generate, but, as a result of leakage and contamination, we really don't know how many people are drinking clean water. That's an outcome measurement, unlike the output measurement that talks about generation.

Senator VOINOVICH. The same way with electricity.

Mr. CHRISTOFF. Exactly.

Senator VOINOVICH. Yeah.

Well, I would make a suggestion, Mr. Chairman. I've done this in a couple of other committees that I am on. It seems to me that State Department ought to get together with the General Accounting Office and talk about some clear metrics, so there is consensus on what they should be. So that when we reconvene to review progress there's agreement as to whether or not progress has been made.

The CHAIRMAN. Thank you very much, Senator Voinovich.

Mr. KUNDER. Could I make one point on that, sir? I just want to point out the distinction, sir. And it's a very fair set of questions you're asking. But we certainly understand the concept of measuring output rather than measuring input. This is essential to the way the U.S. foreign assistance program is running.

As Mr. Christoff's reports point out, the difficulty is that, in this system, which was completely broke and completely deteriorated under Saddam's system, it is the water—for example, taking clean drinking water, it is the water treatment plant that is not functioning. It is the underground distribution system that is broke, and that there was no metering in the individual households, because there was no one enforcing the metering or the billing system. People are accustomed to free water and will resist installing a meter, because then they'll start having to pay for water. So that what you're about is a very substantial reengineering of the whole system.

We understand that that's where we should go, but, in the short term, given the limited taxpayer dollars available and how we can have the maximum input, naturally the thing you would do first is to focus on the water treatment plant. You don't start fixing the lines if there's no clean water to put in them.

Now, we understand that, ultimately—and this is why we're trying to build capacity within the Iraqi Ministries—that the Iraqis have to harness their oil revenues to fixing the whole system. But I don't want you to be left with the impression that we don't understand what we should be measuring at the other end. We certainly do. But it's a systems reengineering problem that is quite profound that we've inherited.

Thank you, sir.

The CHAIRMAN. Thank you very much, Senator Voinovich.

Let the Chair respond that, in our hearings, I think, each time have brought reports of more progress of establishing metrics, of measurements. This is very important. You've made headway today in our understanding. And the Senator is correct that we would like to see more. And I think Mr. Christoff has asked for more in your report.

Let me just also say that, without being self-serving on the part of the committee, we noted, in the fourth quarter of last year, much of the congressional debate seemed to be surrounding whether we should stay in Iraq, get out of Iraq; if the latter, how many weeks, how many months, and so forth. Those are important issues. But we thought it was very important, simply, that the debate be at least informed with more facts. And so, we have used some of the reports that you have written. We've replicated hundreds of pages to send to all of our colleagues, with a cover letter from the chairman of this committee. Six of these letters have proceeded out from the Foreign Relations Committee, I think, quietly and without demonstration, but just to provide Members and their staffs with some of the metrics that we now have, some of the measurements that you have recited today with regard to water and oil and numbers of schools and children who are imbibing in more education, all of this.

Now, this is not meant to be persuasive one way or another, but it's to give some idea to Members of the Congress who need to be visiting with their constituents and with the press and others about some facts. So, to the extent that you know that that is our intent, and that we do read the reports, and our staffs read even more of them and find the best to distribute and, again, emphasize them, why, we'd ask you to consider that as you write and as you bring to our attention, even without public hearings, certain bodies of information, certain metrics that would be very helpful to us. I thank you publicly for the contribution you've made, but, likewise, for the ones that I hope that you will be making.

Mr. BOWEN. Mr. Chairman, if I may, in our latest quarterly report we really shifted our emphasis to address that exact issue—

The CHAIRMAN. Great.

Mr. BOWEN [continuing]. Moving from issue based to information based. And section 2 really defined a series of metrics that we will continue to use as we measure progress in Iraq, move forward.

The CHAIRMAN. For example, the oil question is always with us. How many barrels are being pumped? How many are being exported? What is the capacity? And then, of course, there is a problem of infrastructure, of leaks, repair, outmoded facilities, the same as in many countries that have oil facilities. But right now we are

focused on Iraq, for a good reason, because we have heavy human investment, as well as the capital of the American public.

Mr. BOWEN. And with respect to the oil question, this report points out that only 9 percent of the IRRF has been invested into oil. And so, if oil is going to be the engine driving Iraq, we need to invest more into the oil sector. And also, the pace of completion of projects in the oil sector is behind.

The CHAIRMAN. Senator Martinez.

Senator MARTINEZ. Thank you, Mr. Chairman. Thank you very much for holding this hearing.

If it ever is going to be a successful society, I would suppose that having something we call the rule of law would be an important consideration for Iraq. And I wondered if either you, Ambassador Jeffrey, or Mr. Kunder, could enlighten me as to what progress is being made in creating stable rules of the game that might, at some point, when conditions are otherwise appropriate on the ground, entice foreign investment, create entrepreneurship, even within the country? I hear a lot of reports about a stock market even being operational, and a lot of things that are going on, on the commercial front, that seem rather encouraging, and I just wonder what progress we're making in establishing the rule of law, and how that is being accomplished.

Ambassador JEFFREY. Sir, we're doing this on a number of fronts. And Mr. Bowen, in his other capacity, as the mentor of the Iraqi inspectors general, can talk about this, as can my USAID colleague.

First of all, in the narrow, but important, area of fighting corruption and managing the government, there are three institutions in Iraq. There is the Board of Supreme Audit, which is an inherited institution, but one with a high—a very good reputation. There are the inspectors general that CPA put into each Ministry. And there is the Public Integrity Board, which also looks at these issues, as well. So, we have put together a number of these.

In addition, we've put a great deal of funding into, as you said, the stock exchange, to automate it and to get more Iraqi companies into the stock exchange. And we're making good progress there. But, more generally, the rule of law encompasses the court system. It encompasses issues such as detainees. It encompasses police training for human rights, judges, and including even—we've—putting money into the FY07 budget to help protect judges and to provide them secure courthouses and such. We're putting about a third of our FY07 budget submission into rule-of-law programs, sir. And, in addition, we have USAID programs, as well, that are focusing on that, as well.

And I'll turn it over to Mr. Kunder.

Mr. KUNDER. Thank you for the question, sir. I'll be very brief. But your perception is correct. One of the things we've been working on behind the scenes, and I think it's one of the areas where we've made some real progress, is to do exactly what you're suggesting, establish the framework for rule of law within the country. We have provided to the Iraqi Government drafts based on the best advice of international experts on privatization of the state-owned enterprises, on an international investment code, on creating an Iraqi securities and exchange commission and all these other crit-

ical building blocks to having an open, transparent process that will encourage private sector investment. I recognize, as I think Senator Hagel said earlier, there are still security issues involved, but these are the critical building blocks that will allow the Iraqi Government to go forward, and the Iraqi people to benefit.

What we've been waiting for, of course, is to have a permanent Iraqi Government, as Ambassador Jeffrey said earlier. Now we're on the eve of getting that government formed, and our hope is that they will take this work that's been done, pass it through the national assembly, and begin to implement these critical rule-of-law interventions. We've been doing that legwork.

Senator MARTINEZ. That's excellent, and I appreciate that. Is there a court system established, in place today?

Ambassador JEFFREY. Yes, sir; there is. First of all, there is the inherited court system, which our Assistant Secretary for International Narcotics and Legal Affairs, Ann Patterson, newly named, who has much experience in Colombia and elsewhere, was just out there, and she was quite impressed with the sophistication and the competence of the judges, based upon her experiences elsewhere in the world, including South America. There is also a court that CPA set up, the Central Criminal Court of Iraq, which is focused on trials of terrorists. We were unhappy with that. The U.S. military was unhappy with that, about a year ago, because it's a primary venue for people that we catch that we do have charges against, and the Iraqis have put a great deal of effort into that, also setting up satellite courts in Hillah, Kut, and elsewhere, and to begin prosecuting the backlog of people that we have—or the Iraqi security forces have caught who are—can be charged with terrorist crimes. So, we think that this is a major area of improvement.

Senator MARTINEZ. Would that same court be the court of jurisdiction to prosecute and bring to justice anyone who might be involved in corrupt practices?

Ambassador JEFFREY. It could be used for that, sir, but the primary—it's primarily focused on—

Senator MARTINEZ. Where would someone—I mean, if—you know, if there's ever going to be an end to corruption, there's going to have to be some backstop there with legal consequences. Where would that be?

Ambassador JEFFREY. It could be that court. And that court is the one that we have the most visibility into. It's the one we have the most faith in. But, also, the regular Iraqi court system, in some cases, has performed well. But the court that has done the best is the CCCI, sir.

Senator MARTINEZ. I wanted to ask you about a related issue, which is the Ministries. I know that, until a government is formed, that there won't be permanent Ministries to carry out the functions of government, but how are we doing, in terms of developing the infrastructure of knowledge, of technical knowhow, to provide the kind of services that Ministries of government have to provide, whether it be tax collection, whether it be running the oil industry, whether it be providing housing, you know, dealing with issues relating to housing or the treasury or whatever else it may be?

Ambassador JEFFREY. It's a big job, sir, and I'll turn it over to Mr. Kunder in a second, because USAID has a big part of this.

But, first of all, we have several hundred advisors in all of the Ministries. And the Ministries are up and functioning. The leadership changes with the government, but it's just like here in the United States, there's a permanent civil service corps. These are——

Senator MARTINEZ. Is there not a tremendous amount of turnover every time there has been a transition?

Ambassador JEFFREY. There's much too much, but, still, at the technical level, you do keep most——

Senator MARTINEZ. OK.

Ambassador JEFFREY [continuing]. Of the people. And the advisory teams are drawn from agencies of the U.S. Government and State Department, temporary employees from the private sector with expertise in each of the Ministries. Two of the Ministries, Interior and Defense, are under the operational command of General Casey's training command, because they're working specifically on security forces. The rest of it, Ambassador Khalilzad leads the effort. And we're also tied very closely to the reconstruction funds that go to each Ministry. And USAID has developed a program that Mr. Kunder will brief, that we've put money in the FY07 budget for, to further expand this by complementing the Ministry advisors.

Mr. KUNDER. And this is the system I referred to earlier, sir. We are right at the transition point where we need to make these functioning Ministries, both so that they can provide services to the Iraqi people and so that they will be credible partners for international donors, so we can get other donors——

Senator MARTINEZ. Right.

Mr. KUNDER [continuing]. Linked into this process, as well. And what we have done—and I'll make it very brief; we could certainly provide more background information—but, working with our State Department colleagues, working with the Iraqi leaders themselves, we've devised a list of the critical tasks that must be done, in terms of training the civil servants, in terms of their responsibilities as public employees, anticorruption activities, rebuilding the financial integrity systems, the checks and balances, the inspectors general's offices, the computer systems. We've developed the first financial management-information system so that Iraq's Ministry of Finance, the Treasury Department, if you will, can actually track expenditures in the other agencies. They simply weren't able to track it, and, therefore, could not do sound budgeting.

So, there are Iraqi training institutions that historically existed, predating Saddam Hussein, both at the regional level and in Baghdad. We're going to refurbish those training institutions, launch a training-of-trainers program with what we hope will be the resources available in the coming year. We take this as a major, major responsibility, as well, to a very difficult task ahead, because of the deterioration of the civil service function under Saddam's regime. But we're going to take this on, and I think we have a very targeted plan on how we can have some impact in the next couple of years.

Senator MARTINEZ. If I might, just one quick additional question, Mr. Chairman.

The CERP program, U.S. CERP program, which is the Commander's Emergency Response Program—I know this has been very useful. I've talked to commanders on the ground who have used it and find it to be a very useful way to get things done. And I know that there's some concerns and have been reports of this as a wide opportunity for fraud, waste, and abuse. And I wonder how we will strike a good balance between accountability, but, at the same time, also allowing for this very useful and flexible program to be continued in the future.

Mr. BOWEN. Senator, we have done two audits of the CERP program, both the CERP 2004 and the CERP 2005. And while we've found some problems with how some of the programs were executed, overall we gave it a thumbs up. I think that it has been an effective program, and, indeed, it's one of the things we're going to emphasize in our lessons-learned initiative, that this sort of localized, quick reaction, locally responsive reconstruction initiative is the kind of thing that brings the most benefit to the average Iraqi.

Senator MARTINEZ. Very good, thank you, Mr. Bowen.

The CHAIRMAN. Thank you very much, Senator—

Senator MARTINEZ. Thank you—

The CHAIRMAN [continuing]. Martinez.

Senator MARTINEZ [continuing]. Mr. Chairman.

The CHAIRMAN. Let me start the second round of questioning by pointing out that we've talked about publications that the offices that you gentlemen represent have made available. One of these that I have in my hand here would be familiar, certainly to the SIGIR people, because it is, in fact, the Special Inspector General for Iraq Reconstruction Quarterly, the semiannual report, dated January 30, 2006. Many Members of Congress would not be aware that it exists. It's important to take advantage of this hearing to emphasize the reporting that is occurring in our Government. For example, in this report there is much information about the status of the electricity sector, plus charts and graphs. The same with regard to petroleum, and the same with regard to water. It also goes into the SIGIR audits and precisely what is known. The report summarizes the SIGIR hotline, how many calls have come, how many have been referred to other agencies, how many have been followed up on. There is a very good outline of appropriations by the U.S. Government and the disposition of those with regard to how much is expended, how much is left, and all the rest of it, plus appendixes filled with all the contractual language that is involved with those who have those burdens.

I mention this for the benefit of members of the committee and the press and others. There is an extraordinary number—hundreds—of pages of material available now that hit many of the points that you have summarized, and that have been made in response to some of our questions. Having said that, why, obviously, we've talked today about how we would refine the system even further with regard to specific metrics that, after you have published all of this, you have found might be useful, in terms of better understanding, within governmental circles, as you deal interagency, as well as in the relationships with the Congress and the public. I commend that.

But I simply want to say that I've been impressed with the volume of information that is there, plus some general understanding of Iraq. For example, one statistic in this report just says, blandly, "95 percent of the national income of Iraq comes from oil." That is a profound statement; 95 percent. In any discussion of the future economy of the country, that is a big figure. So, if, in fact, oil production and export are not doing very well, then it's apparent that the national income is not going to do very well either. And as we've already gotten into the weeds with regard to the internal mechanisms of the Iraqi economy, if, in fact, oil is not priced correctly, if it's given away or so badly subsidized that you're importing, as the Iraqis are, oil to satisfy the motorists who are buying it at 8 cents a gallon, or 15, or 20, or whatever it is, to say the least, as the American public understands this, then there is consternation as to what's going on here.

And you would say, "Well, what's going on?" You ought to understand the history of Iraq. Subsidization of food, 60 percent; subsidization of automobile fuel, to the extent of almost 95 percent, I suppose. And so, then you ask, "Well, how is that going to change?" Well, there will be tough changes. If you're an elected person in Iraq now, and you come along and say, "It's a new day, and, my people, I want you to understand we're going to market principles," and suddenly Iraqi motorists begin to pay \$2.50 a gallon for gasoline, or even 50 percent of the cost of food, many Iraqis who are suffering already would say, "Well, this is impossible. We're going to starve. We are totally immobilized."

And this is the predicament that we're looking at. It's not just simply security or the fact that the stuff wasn't fixed up very well, and the water lines leak. It's a whole system of governance that we've been working on arduously, through our Ambassador and through others, who now have to shoulder some monumental historical realities.

Now, how all that is to work out, I don't know, but let me just ask this question. The headlines in the newspapers, that may not reflect precisely what you have said today, indicate that reconstruction appropriations are over, or about over. You can say, "Well, there's money in the pipeline," or, "Americans don't understand fiscal years. It just goes out for a little ways," and so forth. But an impression has come that somehow or other we've said, "That's about it, folks. We're sort of winding down."

Now, as I heard you, you said, "Well, not exactly. We're going into more conventional foreign assistance, as opposed to the more emergency situation of reconstruction, as we have known it." But clarify, if you can, What is the mode in our Government now? Is the thought that we have hit the top of what we want to, reconstructionwise? Granted, some things are still in the pipeline and still working their way through. And, if so, what is the reaction of the Iraqis to this? What kind of reports are occurring in Iraq as to American governance or the attitude of our political class toward their situation? Can you help us on that, Ambassador Jeffrey?

Ambassador JEFFREY. Sir, some of these reports in the media confuse reconstruction, in the narrow sense of bricks and mortar, with reconstruction in the broader sense. The original IRRF legisla-

tion, of course, had hundreds of millions of dollars for capacity-building, democracy, rule of law, justice, that kind of thing. And we think that those programs should continue, which is why the President submitted a budget of almost a billion dollars for Iraq for these purposes for fiscal year 2007, and we're looking at other possible requests; but we haven't taken a decision yet, as I mentioned to Senator Hagel.

The way we've approached this with the Iraqis—and we were doing this 2 years ago, right after sovereignty and the standup of the Embassy—was to tell them that, “Look, we have a program that has significant targets that will give you a boost and get the economy very grossly”—and we can debate this with the metrics and such—“basically, back to where you were in 2003, but moving you forward in a few areas, such as electricity,” where we did achieve about 1,200 or 1,300 more megawatts, about 30 percent more than before the war by last summer. So, in a few key areas, we wanted to make significant progress, because that was so key. Get the oil production back up, get oil exports kicking in, because that's so important for the Iraqis themselves. And while we've had setbacks, we've been putting one set of projects in, for example, in the water area. It's been dams, irrigation, and sewage systems that have taken most of the hit as we reprogrammed about 50 percent of what was originally going to be a \$4 billion program into security and other things, but we've tried to keep the potable water, because we thought that was the most important.

So, we've had to make these decisions. We make them with the Iraqi Government. And we don't try to go directly to the Iraqi people on much of this, because, first of all, we want the Iraqi Government to get the credit. They're our partners in it. And, second, we don't want our projects to become the target of insurgents.

We do think that there is a tremendous need still to be met. If the Iraqis—our job right now, through our programs, and, frankly, our security and other actions we're taking, is to ensure that the Iraqis can spend that \$6 billion that they've reserved just for this fiscal year, which is, on an annual rate, roughly what—or more than what we would have—be putting into the IRRF, or the oil sector, \$3.5 billion, and for other key infrastructure improvements. The threats to this will be attacks on the infrastructure, failure to export oil, or inability to ratchet down the huge amount—\$10 billion, roughly—in subsidies for oil and food and such. That requires political commitment, which gets back to Senator Biden's point that we need a comprehensive consensus government. So, we're trying to work all of that together, and the international angle, as well, that we've discussed today, sir.

The CHAIRMAN. Let me slip in an entirely different sort of question. I've just noted, through the research of staff, that child mortality rates in Iraq are higher than in India, for example. They're high, in essence. And one of the problems is that the hospitals, the clinics, the public health infrastructure, has suffered grievously, as have many other institutions. Is there some emphasis there, in a humane way, on trying to turn around these trends?

Ambassador JEFFREY. Yes, sir. Very briefly, on the health situation. First of all, you're right. And a major reason for that is not what we're doing in the health sector, where we've apportioned



\$739 million and focused it on refurbishing 20 hospitals, building a new children's hospital in Basra, and a whole series of clinics that we'll—I think that we'll build about 50 now. We've had to descope that project. I think one of the major reasons for the climb in infant mortality, in particular, is, frankly, bad water.

The CHAIRMAN. Senator Biden.

Senator BIDEN. Thank you very much. I appreciate you allowing me a second round, Mr. Chairman.

A couple of things. You know, you talked about your emphasis—and I think it's been genuine, and you've attempted it, but the truth to the Iraqi people is, it doesn't matter how much you put in if the end result is they still have less electricity, less water, less of the amenities, higher infant mortality rate, et cetera, less potable water. Doesn't matter. It doesn't matter. You don't get—we don't get rewarded for effort. We kind of think we should. The American people think they should. I think we should. But we don't get rewarded for effort. And so, when you walk out your front door, and there's still 18 inches of sewage in the front of your house, it doesn't matter—in the street. And so, it's about results. And I'd like to ask three or four quick questions here, if I may, and then cease.

There are accounts, back in December—or, I mean, excuse me, mid-January, where—that the PRTs and the rebuilding programs hit kind of a snag here. And it was reported in the Post that the question of who will pay for these PRTs is unresolved, that the—with State looking at Defense, and Defense looking to State, and clear to me that Rumsfeld and company doesn't want to extend now, looking to pull in. So, who pays for the PRTs? And when do we get the bill?

Ambassador JEFFREY. Senator, most of the personnel costs and the other logistics costs come out of the normal operating budgets of the State Department, USAID, and, to the extent that military personnel, civil affairs teams, out of the Defense budget, because this is a grouping and a clustering—

Senator BIDEN. Say that last part?

Ambassador JEFFREY [continuing]. Will come out of the existing budgets, because this is a grouping—

Senator BIDEN. Existing State Department budget?

Ambassador JEFFREY [continuing]. Right, sir. We have—we have funds budgeted—this is to the tune of 70 or 80 officers. We have about 40 in the field now. So, we'll cover this out of our operating budget. The key issue—

Senator BIDEN. How about the security piece?

Ambassador JEFFREY. That's the key issue.

Senator BIDEN. Yeah.

Ambassador JEFFREY. The key question is, Who will provide the security for these teams? Will they be—right now, we have a mix, on the three PRTs we have, of U.S. military teams and State Department PSDs. They're still working this out, sir, but we've had—again, it's a process—

Senator BIDEN. The answer is, you don't know.

Ambassador JEFFREY. The answer is—

Senator BIDEN. The honest answer—

Ambassador JEFFREY [continuing]. We will—

Senator BIDEN [continuing]. You don't know.

Ambassador JEFFREY [continuing]. We will soon know.

Senator BIDEN. It's still a fight.

Ambassador JEFFREY. We will soon know. It's still a fight.

Senator BIDEN. Well, it's a big deal who provides the security. And it's clear to me that Rumsfeld and company have no desire to provide that security.

And, number two, we talked about, with my colleague from Florida, as a former Secretary in the Cabinet, asked the key question, What about the Ministries? I look at the assessment of the key Ministries, based upon the document prepared by—the AID document that you all prepared, and that it is—it is not a very pretty picture. I will not—I'd like to submit for the record this one page, Assessment of Key Ministries, from Finance, Oil, Electricity, Municipalities, Public Works, Water Resources, Justice, et cetera.

The CHAIRMAN. It will be placed in the record.

[The information previously referred to follows:]

#### ASSESSMENT OF KEY MINISTRIES

	Leadership	Strategy, Plans and Policy	Partnership	Resources & Personnel	Program and Budget	Information Systems Management	Technical Skills Training	Effectiveness	Public Perception	Overall Performance
Finance .....	3	3+	3	2+	2+	2	2+	2+	2	2+
Oil .....	3	2	2+	2	1+	0	1	2	2	2
Electricity .....	2	1+	2	1+	1+	1	1+	1+	1	1+
Municipalities and Public Works	2+	2+	3-	1+	1+	1+	2	2+	1+	2+
Water Resources .....	3	2+	2	2	2	2+	2	2+	2	2+
Justice .....	2+	2+	3-	2	2	2-	2+	2+	2	2+
Education .....	2+	2	3	1	1	2-	2-	2	2+	2
Health .....	0	2	1	1	2	1	2	1	2	1
Planning and Development .....	2+	2	2	2	2	2	2	2+	2	2+
Agriculture .....	1+	1+	2+	1+	1+	1+	2+	2	1+	1+
Central Government .....	1	1	0	1	1	2	2	1	1-	1

Legend:

Plus sign indicates positive progress or direction; Minus sign indicates otherwise.

(0)—Essentially no capability to perform the function.

(1)—Very little capability, some effort underway to develop it.

(2)—Developing capability to perform the function, with substantive effort underway.

(3)—Developed capability exists to perform the function.

Senator BIDEN. And it's really—they're all in rough shape. And we've known that for over 2½ years, they've been in rough shape. Even went so far as, before, to have—a year and a half ago; it's above all of our pay grades here, so I'm not laying responsibility on anybody, but we had Tony Blair talking about adopting agencies, the European Union coming in. We dissed that proposal and said no.

So, the question is, How many—how many American civilians from our various counterpart departments are actually in-country working in these Ministries? And if you don't have it at the top of your head, maybe you could—

Ambassador JEFFREY. I've got it.

Senator BIDEN [continuing]. Submit it for the record.

Ambassador JEFFREY. I've got it, Senator. The total that we have working in the Ministries, which is primarily—not counting U.S. military, but counting—

Senator BIDEN. Right.

Ambassador JEFFREY [continuing]. The U.S. State Department personnel, we hire people from the private sector as temporary U.S. Government officials, and from other departments of the Government—for example, the Treasury Department has a Treasury attaché who's also the Ministry's senior advisor—we have an advisor from the Ministry of—from the Bureau—from the Department of Agriculture. We have someone from the Department of Transportation. And, all in all, sir, the IRMO staff is about 150. Now, some of those people—

Senator BIDEN. IRMO. What's—again, remember, we're—

Ambassador JEFFREY. That's the overall—that's the overall Reconstruction Management Office. Over a hundred of those people are advisors out with the Ministries.

Senator BIDEN. Well, the assessment I got, some—about 8 months ago, is, you need probably close to 800 or 900 people to be able to do the job. Now, I may be wrong about that, and the information I have may—but the number of people in the Ministries every day, day to day, training people within these Ministries is essentially nonexistent. You have advisors. The advisors are inside the Green Zone. But I don't know that—and some—most—many of the Ministries are—but, I mean, do we have people actually out sitting, every day, in the Department of Agriculture at the various levels of the Department of Agriculture for the Department of Water Resources, the Department of Education, actually doing hands-on advising and training?

Ambassador JEFFREY. Senator, the answer is, absolutely. These advisors—

Senator BIDEN. The total number of people that—how many people are permanently assigned, when they get over there, to a Ministry? They work every day. The 12 hours a day they work, they work for that Ministry.

Ambassador JEFFREY. Uh-huh. It's 100-plus, Senator. For example, in the Ministry of Interior, we have 45 civilian employees for that Ministry, alone.

Senator BIDEN. Yeah, but that—but that's all—that's all security related, and that's military overseen. We have our military overseeing the Department of Interior, right?

Ambassador JEFFREY. Right, sir, for the—

Senator BIDEN. Yeah.

Ambassador JEFFREY [continuing]. Last month and a half. But we, the State Department, hired those people; they're our employees.

Senator BIDEN. OK. Look, I would like, for the record, if I could ask—

Ambassador JEFFREY. Sure.

Senator BIDEN [continuing]. For you to supply the specific responsibilities of each of the people you have in each of the Ministries.

Ambassador JEFFREY. That's fair enough.

Senator BIDEN. Good.

[The requested information was submitted by Ambassador Jeffrey as follows:]

**IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT OFFICIALS**

Count and position title	Primary responsibilities
<b>Ministry of Finance and Central Bank</b>	
1. Senior Consultant—Monetary Policy .....	Serves as the primary banking advisor to Iraqi Central Bank, Ministry of Finance, and state and privately owned banks on banking and finance issues; Advises on the assessment, planning and execution of banking policies and projects including the rehabilitation and restructuring of the state-owned banks and the national banking infrastructure.
2. Deputy Senior Consultant Debt Management	Aligns strategies consistent with the IRMO initiatives on analyzing Iraq's debt situation; Develops overall performance objectives and procedures for the region; Monitors adherence to credit quality standards/proper practices and is responsible for meeting all financial and compliance standards; Coaches and develops staff members on all aspects of successful business development, relationship management and customer retention strategies to include service, expense and credit controls, human resource management and meeting financial/compliance standards.
3. Deputy Senior Consultant for Banking .....	Serves as banking advisor to the Iraqi Central Bank, Ministry of Finance, and state and privately owned banks on banking and finance issues; Advises on the assessment, planning, and execution of banking policies and projects including the restructuring of the state and national banking infrastructure.
4. Budget Execution Director .....	Possesses knowledge of financial management theory, principles and practices, corporate organizations and operations, and business management practices as related to the analysis and proper utilization of financial resources.
5. Finance Consultant .....	Serves as consultant providing analytical work for IRMO; Participates in a variety of analytical and technical functions related to providing assistance to the Ministry of Finance budget execution and formulation activities; Serves as a general liaison between the Iraq Reconstruction Management Office (IRMO)/Office of Finance and the Ministry of Finance on issues of budget execution and formulation activities.
<b>Ministry of Agriculture</b>	
6. Senior Consultant .....	Serves as the liaison officer between and among donor organizations, NGOs and appropriate agriculture related academic institutions with various directorates of the Iraqi Ministry of Agriculture; Advises the Ministry on broad ranging strategic rehabilitation issues involving Iraqi MoA infrastructure, sectoral framework, market liberalization policy, pricing policy, and a credit system reform policy.
<b>Ministry of Education</b>	
7. Senior Consultant .....	Provides senior level advice to the Iraqi Ministry of Education concentrating in the areas of primary and secondary education, policies and processes for assessing and auditing schools, and study abroad programs.
<b>Ministry of Health</b>	
8. Senior Consultant .....	Advises on all health related programs and projects providing technical and professional expertise; Assesses, plans and executes health-related policies and projects to improve the Ministry of Health's mission to effectively meet the basic and future health needs of the Iraqi people.
9. Deputy Senior Consultant .....	Supports the Senior Consultant on the assessment, planning, and execution of health-related policies and projects to achieve the Ministry's goal to effectively meet the basic and future health needs of the Iraqi people.

**IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT OFFICIALS—Continued**

Count and position title	Primary responsibilities
10. Program and Project Manager .....	Oversees and provides advice on the formulation and execution of large-scale reconstruction projects for the Ministry of Health; Maintains cognizance of all assigned construction projects generates and reviews reports, correspondence and recommendations in order to make decisions and initiate action on related issues.
<b>Iraqi Property Claims Commission and Ministry of Displacement and Migration</b>	
11. Senior Consultant .....	Provides advisory support to the Iraq Property Claims Commission [IPCC], ensuring an accurate information campaign is conducted, to communicate to the Iraqi people what the Commission will and will not do.
12. Principal Consultant for Displacement and Migration.	Responsible for working with the Ministry of Displacement and Migration in developing the organizational capacity to monitor, protect and assist Internally Displaced Persons and refugees in Iraq.
<b>Ministry of Planning and Development</b>	
13. Senior Consultant .....	Provides guidance on donor coordination and development of information systems, specifically the Ministry's Donor Assistance Database system and Central Organization of Statistics and Information Technology (COSIT); Coordinates all U.S. national capacity building efforts through the Ministry's national training center and with other donor-sponsored training programs as appropriate and directed by the IRMO Deputy Director for Development.
14. NGO Reg. and Coordination .....	Reports to the senior U.S. liaison officer in the Ministry; Works closely with the Minister and his senior officials; Coordinates U.S. policy advice on NGO issues and providing it to the Ministry.
15. Donor Coordination Consultant .....	Facilitates the process and procedure for the \$1.5 billion in grants and \$3.5 billion in soft loans; Works closely with the respective Ministerial and IRMO counterparts to plan and implement projects, as well as coordinate activities. (Japan)
16. Donor Coordination Consultant .....	Serves as co-chair of the International Reconstruction Fund Facility for Iraq; Provides dedicated representation to liaise with the Ministry of Planning and Development Cooperation; Works closely with Embassy on policy initiatives related to international donor coordination. (Canada)
17. Donor Coordination Consultant .....	Works closely with IRMO on Council of Representatives and capacity development initiatives. (Canada)
<b>Ministries of Trade/Industry and Minerals</b>	
18. Senior Consultant .....	Provides advice on improvement of the Ministry's operation and management of the Public Distribution System (PDS); Develop creative ways to reform the PDS into a more affordable, efficient and transparent system for Iraq's benefit.
19. Trade and Privatization .....	Provides advice on improvement of the Ministry's operation and management of its State Owned Enterprises (SOE); Develops creative ways to reform the SOES into a more affordable, efficient, flexible, and transparent system for Iraq's benefit; Maintains good communications among members of MOT, MNFI, the Embassy's Economic Office and other relevant parties.
20. Trade and Operations Consultant .....	Supports the Ministry of Trade (MoT), under the overall supervision of IRMO Trade Senior Consultant, in improving the Ministry's operation and management of the Public Distribution System (PDS); Maintains good communications between members of MoT, MNFI, the Embassy's Economic Office and other relevant parties.

**IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT OFFICIALS—Continued**

Count and position title	Primary responsibilities
<b>Ministry of Youth and Sports</b>	
21. Senior Consultant .....	Provides oversight of the rebuilding of the MoYS and give support to restart the 167 Youth Centers and the 450 Sports Clubs across Iraq; Facilitates the communication between the MoYS and the NOCI to solve the issues of land ownerships; Facilitates the elimination of a military presence in the Olympic stadium so that it may be returned to the Iraqi people; Support the reintroduction of the soccer team back to international competition after a 12-year hiatus; Supports the formation of the new Olympic committee.
<b>Ministry of Communications</b>	
22. Senior Consultant .....	Serves as advisor on public telecommunications policy and regulations, develops and advises on all policies related to the management and future development of telecommunications systems in Iraq, and advises on all policies related to the management and future development of the Information and Communications Technology (ICT) strategy of the Iraqi government.
23. Program Manager .....	Provides professional level support and advice to the Senior Consultant for Telecommunications regarding the network deployment of the Iraqi Telephone and Postal Company (ITPC) and other Telecommunications projects, as needed.
24. Project Manager—Telecommunications .....	Manages network deployment projects designed to reconstruct and enhance the capacity of major portions of the IRRF and ITPC telecommunications network infrastructure; Applies technical and project management expertise to ensure that networks are deployed according to optimal network designs.
25. Telecom Regulatory Attorney .....	Serves as a legal advisor on telecommunications regulations and compliance; Advises on regulatory strategies and proceeding before Federal, state and municipal regulatory commissions as well as foreign governments, antitrust issues relating to telecommunications, and technology aspects of Internet, software and computer services transactions.
<b>Ministry of Electricity</b>	
26. Senior Consultant .....	Provides management recommendations on the reconstruction of Iraq's electrical system and all policies related to the management and future development of that system, including the institutional framework of the Ministry.
27. Sr. Engineer/Generation & Fuels Consultant	Coordinates the planning of new generation projects and supervises current generation projects with the ME staff; Coordinates generation development activities across all of the responsible U.S. government agencies and their contractor and subcontractors to ensure adherence to a coherent generation repair and expansion program.
28. Sr. Policy and Planning Consultant .....	Provides technical legal assistance to the Iraqi government regarding legal and regulatory reform and training, development and establishment of a regulatory commission, legal, procurement and contracting expertise, development of implementation of new tariffs, capacity development, assistance with constitutional issues affecting the Ministry and integration of national energy policy, and private sector development.
29. Deputy Senior Consultant/Finance and Rates.	Provides advice on the reconstitution of Iraq's electrical system and all policies related to the management and future development of that system; serves as the second in command to the Senior Consultant for all matters relating to Iraqi electricity sector; conducts numerous, complex and high priority special assignments relating to post-conflict reconstruction.

IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT  
OFFICIALS—Continued

Count and position title	Primary responsibilities
30. Senior Engineer/Transportation & Distribution.	Coordinates the planning of new transmission and distribution (T&D) projects and supervises existing T&D projects with senior management and technical staff of the Ministry of Electricity (ME); Also consults with ME officials concerning planning for transmission and distribution systems.
31. Security Operations Advisor .....	Advises the ME and the Senior Consultant on any and all issues concerning the effectiveness of the electrical infrastructure and provides real-time security analysis to accurately and effectively implement ministry resources to deal with non-violent or insurgent actions in the field.
32. Log and Supply Chain Management .....	Manages the supply chain for all IRMO Electricity ordered equipment in support of all 31 Iraqi power plants.
33. Energy Analyst (Distribution) .....	Coordinates the planning of new distribution projects and supervises existing projects with senior management and technical staff of the Ministry of Electricity and U.S. project managers.
34. Sector Program Manager—Electricity .....	Provides professional level support and advice on reconstruction issues, especially regarding the development of requirements and priorities in the Electricity sector; coordinates and provides technical assistance and advice to determine project requirements; provides oversight and compliance for all other agencies associated with the IRRF program as it relates to all Electricity programs.
<b>Ministry of Justice</b>	
35. Senior Consultant .....	Works with the Ministry of Justice to determine the degree of compliance with the applicable laws, regulations, treaties and guidelines of relevant authorities through periodic research, consultation and recommends necessary corrective action.
<b>Ministry of Oil</b>	
36. Senior Consultant .....	Establishes overall goals and objectives of the IRMO/Oil Technical Program, and manages monetary resources under IRRF appropriations and leads the staff to meet those objectives.
37. Economics and Planning .....	Compiles and analyzes oil and gas reserve estimates and production forecasts to predict future cash flow, estimate returns on investments/revenues, and evaluate the technical and economic feasibility of new development projects using investment decision modeling methods.
38. Oil Analyst .....	Provides technical analysis of Iraq's oil and gas industry processes and financial analysis of IRMO supported and related projects; Advises on the decision-making process for U.S. government investment in Iraq's oil and gas sectors.
39. Deputy Senior Consultant .....	Provides advice and oversight of energy-related aspects of post-conflict Iraq, i.e., ensuring safety of the facilities; restoration and maintenance of the oil fields; oil production; and the importation and distribution of any necessary fuels and materials for the operation of the infrastructure and for domestic consumption.
40. Petroleum Law .....	Provides technical assistance and utilizes expertise in law and ethics to assist the Iraqi government by coordinating closely with, and reporting through, Embassy Legal Advisor.
41. Sector Program Manager—Oil .....	Provides professional level support and advice on reconstruction issues for the IRMO Director and the Chief of Mission (COM), especially regarding the development of requirements and priorities in the Oil sector.
42. Finance Consultant .....	Advises on the reconstitution of Iraq's oil and gas sector and policies related to the management and future development; Serves as the IRMO point of contact in the absence of the Senior Consultant for all financial matters relating to Iraqi Oil sector.
43. Exploration and Production Consultant .....	Serves as geological consultant in exploration and production to the officials of the Ministry of Oil and the various United States government (USG) agencies participating in the Iraqi reconstruction effort.

IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT  
OFFICIALS—Continued

Count and position title	Primary responsibilities
<b>Ministry of Transportation</b>	
44. Senior Consultant .....	Advises on the reconstitution of Iraq's national transportation system including airports and the civil aviation system, seaports and associated waterways, railways, and State Owned Enterprises comprising surface transportation (trucks, transit buses, taxis, and rental cars).
45. Deputy Senior Consultant .....	Serves as the IRMO air carrier/aviation advisor, advising the Iraqi Ministry of Transportation and the Director General of Iraqi Airways (IA), a State Owned Enterprise (SOE) within MoT on air carrier rebuilding and economic reconstruction efforts. Consultant to the Minister of Transport and the Director General on organizational rebuilding efforts.
46. Business Manager .....	Serves as the Business Manager of the IRMO Ministry of Transportation (MOT) Office, Embassy Annex, Baghdad, Iraq; Serves as chief business/management advisor for a ministry of approximately 40,000 persons.
47. Contracts Manager .....	Serves as the lead expert on all contracting matters; Facilitates contracts for a variety of complex installation support services; mediates contract costs, special contract requirements, and technical issues; assists in the development of contract specifications, including Statements of Work.
48. Deputy Senior Consultant—Maritime Affairs.	Serves as the primary maritime advisor, advising the Iraqi Ministry of Transportation on issues affecting Iraqi reconstruction efforts related to port and waterway infrastructure projects, port operations, port security, waterways management, protection of life and property at sea, enforcement of maritime laws and treaties, and facilitation of the movement of cargo through the port complex and by intermodal means.
49. Deputy Senior Consultant—Railway Affairs	Serves as the railroad advisor, advising the Iraqi Ministry of Transportation on railroad issues; Advises on assessment, planning, and execution of railroad projects including the repair/rehabilitation of critical track bed sections, rail bridges, stations, locomotives, rolling stock, and other critical infrastructure.
50. Regional Consultant—North .....	Provides oversight and technical assistance to the Iraqi Civil Aviation Authority (ICAA) in the rebuilding of the aviation system in Iraq; Facilitates successful transition of local and regional airports and associated navigational aids to meet ICAO standards for domestic and international operations.
51. Railway Sustainment Advisor .....	Serves as an advisor to the Iraqi Ministry of Transportation and Iraqi Republic Railways on railway issues; Advises on capacity building, commercialization of transportation services and modernization and sustainment of the IRR's operating, maintenance, engineering, cost accounting and financial functions.
52. Transportation Development Liaison .....	Determines requirements, oversees and coordinates the IRMO road and bridge construction and non-construction project portfolio with the Project and Contracting Office (PCO), the Gulf Region Division—U.S. Army Corps of Engineers (GRD), the Joint Contracting Command—Iraq/Afghanistan (JCC-IA), the Iraq Ministry of Construction and Housing (MOCH), and the Iraq State Commission of Roads and Bridges (SCRB).
53. Regional Consultant—South .....	Provides oversight and technical assistance to the Iraqi Civil Aviation Authority (ICAA) in the rebuilding of the aviation system in Iraq; Facilitates successful transition of local and regional airports and associated navigational aids to meet ICAO standards for domestic and international operations.
54. Ports Operations Manager .....	Advises on maritime and port issues affecting the Iraqi Ministry of Transportation and Iraqi reconstruction efforts; Works directly with the Iraqi Ministry of Transportation and Iraqi Port Authority (IPA) to develop and execute the maritime strategic plan to increase port capacity and assist the IPA make the transition to modern inter-modal facilities.
55. Aviation Security Advisor—North .....	Provides technical support, advice and assistance to the Iraqi Civil Aviation Authority in accomplishing civil aviation security responsibilities; Facilitates the transition of local and regional airports and associated navigational aids to meet ICAO standards for domestic and international operations.



**IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT OFFICIALS—Continued**

Count and position title	Primary responsibilities
56. Aviation Security Advisor—South .....	Provides technical support, advice and assistance to the Iraqi Civil Aviation Authority in accomplishing civil aviation security responsibilities; Facilitates the transition of local and regional airports and associated navigational aids to meet ICAO standards for domestic and international operations.
57. Sector Program Manager .....	Conducts complex special assignments at the direction of the supervisor, involving research and fact-finding to develop position and recommendations on a variety of high-level subjects of critical importance to IRMO.
<b>Ministry of Housing</b>	
58. Housing and Construction—Senior Consultant.	Addresses problems raised by the Ministry concerning the previous occupation and interaction with the military and the USG; Develops and maintains a good and productive working relationship with the Minister and all Ministry officials.
59. Project Manager—Civil Engineer .....	Serves as an engineering liaison between various entities throughout Iraq, Iraqi officials, Embassy (IRMO) elements, and officials of coalition governments; Prepares special reports and studies, maintains records, and prepares reports and correspondence relating to the area of Civil Engineering.
<b>Ministry of Water/Ministry of Municipalities and Public Works</b>	
60. Senior Consultant .....	Coordinates with the PCO and USAID on all Ministry water resources, water treatment, and sanitation projects; Coordination of proposals and funding of Ministry projects with the World Bank and United Nations Development Group Trust Fund.
61. Deputy Technical Consultant—River Management.	Possesses knowledge of water resources, water control operations, H&H, GIS, hydraulic modeling, databases, and program/project management; Coordinates and facilitates numerous initiatives between the Iraqi Ministry of Water Resources, the State Department, and various organizations.
62. Deputy Senior Consultant .....	Assists fully in the overall management and direction of the staff of the IRMO Office of Water Resources, Office of Municipalities and Public Works, and Office of Environment, and Amanat Baghdad.
63. Public Works Advisor .....	Advises on and coordinate the implementation of potable water and sanitation infrastructure projects for the Ministry of Municipalities and Public Works and counterpart ministries of the Kurdistan Regional Government, taking into consideration timeliness, logistics, operations, financial feasibility and capacity of Iraqi component.
64. Water Resources Advisor .....	Advises on and coordinating the implementation of the water resource, potable water, and sanitation projects for the IRMO Ministry of Water Resources/Ministry of Municipalities and Public Works, taking into consideration timeliness, logistics, operations, financial feasibility and capacity of Iraqi component.
<b>Ministry of Defense</b>	
65. Senior Consultant (Secretary General/Minister).	Advises the Iraqi Ministry of Defense (MoD), works with coalition forces to recruit, train, and equip the Iraq Armed Forces (IAF) to ensure they are prepared and available for operations; Advises the Iraqi Minister of Defense on formulating Iraqi defense policy, determining capabilities, budgeting, providing communications, analyzing intelligence, building military infrastructure, and sustaining the forces.
66. Minister's Private Secretariat .....	Serves as an advisor and administrative specialist for the Minister of Defense's personal office staff including initiating and coordinating briefings, movements, and appointments for the Minister.

**IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT OFFICIALS—Continued**

Count and position title	Primary responsibilities
67. Advisor to DG Veterans Affairs & Militia ....	Serves as a key senior advisor to the Director of the Veterans Agency, providing organizational and administrative advice as required; manages the nascent relationship between the Iraqi Veterans Agency and the U.S. Department of Veterans' Affairs, and will assist the IVA in determining needs and requirements of that relationship.
68. Advisor to Director of Logistics .....	Assumes responsibility for both the professional development of the Director and for completing, in partnership with the director, the design and installation of the specified functional systems, procedures and operating modalities.
69. Advisor to Director of Infrastructure .....	Implements policy for military construction, public works on MoD facilities, and for environmental protection; Acquires and sustains the real property, buildings, facilities, ranges, and training areas to support the capability requirements of the Ministry.
70. Training Coordinator .....	Designs, develops and provides training for ministry staff (as appropriate) in the areas of need in the Ministry of Defense headquarters and Joint headquarters.
<b>Ministry of Interior—IRMO</b>	
71. Senior Consultant .....	Advises on the continued development of Iraq's police, civil defense (fire), special police, and border and immigration control; Advises on all policies related to the management and success of those entities, and serves as a point of contact for all matters relating to these systems for coordination with Department of State components, other agencies, coalition governments, the United Nations, non-governmental organizations, and the Iraqi Government.
72. National Security Consultant .....	Initiates and manages coordinated, integrated and appropriate institutional development for the internal security forces of Iraq; Liaises with MNF-I to ensure systematic integration, understanding, and execution of IMOI functions.
73. CT/SO Policy Advisor .....	Serves as part of the International Policy Advisory Team (IPAT) advising the Iraqi Police Service (IPS) Counterterrorism and Special Operations Teams on current investigations and operations; Provides program management, administrative and logistical support for current investigations and operations.
74. Director of National Security Affairs/Inst. Building.	Manages a team of National Security Affairs consultants; Liaises directly with senior officials of the Ministry of Interior and others within the Iraqi National Security Apparatus, providing consulting services on issues of security.
75. Finance Advisor .....	Provides financial assistance and analysis of accounting policies, procedures and systems operations; Prepares detailed accounting reports of the Ministry's finances, which include charts, schedules and narratives; Prepares detail analysis of cost areas.
76. National Security Advisor .....	Initiates, develops, and manages coordinated, integrated and appropriate policy for IMOI, including police policy, border security policy, facility protection policy, and other internal security policy.
77. Training Coordinator .....	Designs, develops and provides training for ministry staff (as appropriate) in the areas of census, sanitation, internal security, law enforcement, prisons, and border and immigration control.
78. Director, CT/SO Finance and Contracting ...	Develops and manages the Counterterrorism and Special Operation (CT—SO) Division financial and contracting plan; responsible for recommending, developing, and implementing financial and contracting procedures and policies for this division and oversees the reporting of funding, assets and expenditures.
79. Contracts .....	Negotiates contract costs, special contract requirements, and technical issues; Assists in the development of contract specifications, including Statements of Work.
80. Director of Finance and Contracting .....	Responsible for recommending, developing, and implementing financial and contracting procedures and policies for MOI and oversees the reporting of funding, assets and expenditures.

IRMO PERSONNEL/POSITIONS WORKING DIRECTLY/LIAISON WITH IRAQI MINISTRIES/GOVERNMENT  
OFFICIALS—Continued

Count and position title	Primary responsibilities
81. Election Security Advisor .....	Conducts training for Election Commissioners and supports both the Iraqi Government and Non-Governmental Organizations to conduct voter education activities throughout Iraq.
82. Senior Advisor National Uniforms Ops Advisor.	Advises the IMOI Deputy Minister on national issues relating to operational oversight, policy determination and institutional building of the Iraqi Police force, Highway Patrol, River Patrol, Traffic, and Shrine Police.
83. National Security Advisor .....	Initiates, develops, and manages coordinated, integrated and appropriate policy for IMOI, including police policy, border security policy, facility protection policy, and other internal security policy.
84. CT/SO Procedure Advisor .....	Advises on matters related to property acquisition, receipt and distribution, as well as property accountability and inventory control.
85. Intelligence Operations Consultant .....	Builds a sophisticated civilian Criminal Intelligence Operations (CI) Unit focused on high-risk tactical response to counter the growing threat posed by heavily armed and well-trained insurgents and a growing element of organized crime.
86. FPS Director .....	Oversees and supports the establishment of a police force that is charged with physical security and protection of Iraq's major infrastructure; Develops plans and schedules for training a multi-thousand member indigenous force with a dedicated purpose of preventing property loss and/or personal injury to the Iraqi government's facilities and employees.
87. Fire/Rescue Manager .....	Supervises Fire operations personnel within IRMO-MOI and works with the Civil Defense Directorate to bring its capabilities to modern technical levels and to introduce modern operational concepts.
88. Senior Consultant for DBE .....	Responsible for planning, developing and implementing policy, institution building and mentoring of the Iraqi Department of Border Enforcement; Serves as chief point of contact with the Iraqi Director General and subordinate agencies in Customs, Immigration and Border Police.
89. Border Police/Customs Advisor .....	Responsible for planning, developing and implementing policy, institution building and mentoring of the Iraqi Department of Border Enforcement to strengthen and develop the role of Iraqi Border Police Forces.
90. Communications Advisor .....	Provides professional level support and advice to the Senior Consultant for Interior regarding the network deployment of the Advanced First Responder Network and other projects, as needed.

Ambassador JEFFREY. The point we want to make, though, is that we will augment this with the USAID program that we're standing up, because we do know that we need to do more training of these Ministries, and we think that that will complement what these folks are doing out—and they're all out in the Red Zone, sir, other than the Ministry of Interior and Defense.

Mr. KUNDER. Sir, beyond the actual advisors who are sitting there, of course, what we've been doing since day one is bringing in technical trainers to, for example, reform the Central Bank. I mean, we brought highly skilled international trainers in. So, if you added up the man-days of on-the-spot training, it would be quite a substantial number, beyond the actual U.S. Government folks who are sitting there. We could provide that, if you're interested.

Senator BIDEN. I'm not suggesting that. We've got a long, long way to go.

Mr. KUNDER. A lot of work; yes, sir. We're not quibbling with that.

Senator BIDEN. A long way to go. And I—and I'd ask GAO and/or—well, either of the two of you—how much money is unaccounted

for—just actually, you know, cash put in bags and missing, and—how many billions?

Mr. CHRISTOFF. I think Stuart has the answer to that.

Mr. BOWEN. Well, there's no way to fix a number on that. First of all, there are two phases. The DFI phase, which our most significant corruption investigations have looked into that and found some very serious issues and prosecutions, and now convictions. The reason for the corruption in the DFI phase is that it was a cash-only environment back then. And, you're right, there were shrinkwrapped dollar bills—packages of money all over the place that were difficult to track, and our audits have identified the seriousness of that issue.

With respect to the second phase using IRRF dollars, it's a different story. Corruption lessened as reconstruction efforts were funded through the IRRF. IRRF funds were more carefully tracked through the use of electronic funds transfers.

Senator BIDEN. Can you give me a ballpark number? Your report, which I read, and I'm trying to find, indicated that there were pretty—I mean, there were, you know, hundreds of millions of dollars.

Mr. BOWEN. Yes. We've identified hundreds of millions of dollars lacking documenting is simply missing. Our audits have identified that. And our investigations have recovered millions of dollars. But those investigations deal with DFI dollars. With respect to IRRF, it's a different story—

Senator BIDEN. OK.

Mr. BOWEN [continuing]. And a better story.

Senator BIDEN. Good. Well, thank you very much.

I'm sorry, did you want to say something, Mr. Christoff?

Mr. CHRISTOFF. Just—I wanted to comment on—this is not this committee's jurisdiction, but one area that we're looking into is the accounting for the moneys that have been used to train and equip the Iraqi security forces. It's a lot of money that MNSTC—I has been in charge of. And I'm not quite certain if the accountability measures that they just put in, in October, took an account of all the billions that they spent prior to that. So, we're continuing and beginning a review in that particular area.

Senator BIDEN. I think you're going to find it's several billion dollars. But I could be wrong. I hope I'm wrong about that.

But, with that, I don't have any more questions. And I thank the panel very much for your being here.

The CHAIRMAN. Thank you, Senator Biden.

Let me just make a comment, parenthetically. Our committee doesn't have jurisdiction, necessarily, over that, but we are deeply interested in it. [Laughter.]

Mr. BOWEN. Good.

The CHAIRMAN. And the committee, in a broad sense, with regard to the foreign policy of our country, needs to have all of this information. We appreciate your furnishing it to us.

Senator Voinovich.

Senator VOINOVICH. I noticed, from the statistics here, that the coalition of the willing, or whatever you call that group that's helping, has allocated \$13 billion, and \$3 billion has been forthcoming. I get the impression that some of our friends are kind of waltzing

away from where we are, and say, "That's your baby to take care of." And it seems to me that \$13 billion from all the folks around the world for reconstruction, relative to the amount of money that we're spending, is a—is not what it should be. And the question I have is, What efforts are we being—are being made today to get some of our partners around the world to belly up and help us, in terms of this reconstruction? And how high is it on their priority list?

Ambassador JEFFREY. We agree with you, Senator. We might not put it quite that frankly, but we've got concerns both for what we call "the old business," the \$13.5 billion in commitments, and the commitments to forgive Iraqi debt, particularly from countries in the Middle East, and additional requirements. Because, as we've discussed today, and as we've seen, Iraq alone—and we certainly can't—do all of the work, not in the private sector, to reconstruct Iraq. On the other hand, it's, in the long run, a potentially extremely rich, extremely valuable country, and there should be more of a contribution from countries, particularly in the region, given the way that oil prices have gone up.

The Secretary raised that when she was here, Senator Lugar, several months ago. We have had several trips to the region to talk to countries about the possibility of making additional investments. We're going to continue that. It's a very important initiative. By the same token, the Secretary personally, when she was in Manama, back in November, pressed the Gulf Coordination Council Foreign Ministers to, in the presence of the Iraqi Planning and Foreign Minister, to do more on their pledges, because they, alone, had pledged about \$1½ billion. The Japanese, as I mentioned earlier, have done well with their grants, and they're beginning to move, and we think they'll do very well with the concession, alone, part of their \$5 billion, which is a great deal. The IMF and the World Bank have done well, and they'll continue, we are very confident, as with the British. The European Union has been slow, but they've pledged now about \$700 million, and we think they'll deliver, as well.

Frankly, as one who's been out there operating, as Mr. Kunder can say, as well, it's not easy to obligate funds in Iraq. We have not only the U.S. military, but we have literally thousands of security personnel to allow our folks to move around the country. Other people don't have that kind of base to operate out of, so that's slowing things down, sir.

Senator VOINOVICH. Well, it seems to me that some effort should be made to get the United Nations more involved in that effort there and put some pressure on some people to understand how important it is that we are successful, in terms of the reconstruction.

I'd like to build on the questions that Senator Biden raised. I have another committee that I am involved with. It's the Subcommittee on the Governmental Affairs Homeland Security Oversight of Government Management in the Federal Workforce. And I have concluded that most of the problems that we have been confronted here in our Government is because we don't have the right people with the right knowledge of—and skills in the right place at the right time. And I just wonder, How much pressure are we

putting on the new leaders in Iraq about the importance of getting competent people into these various—I don't know what they call them—departments? And what role is patronage being played? So many times you have a coalition, so that in order to get the guys to the table, you say, "Well, you take care of that, you take care of that." I'd like your comment on just what role patronage seems to be playing there, or do they understand that human infrastructure is more important than anything?

And, second—and I think Senator Biden got into it—the number of people that we have involved as advisors, do we have any private sector people involved in helping them with those particular areas, where we really know they need help?

And last, but not least, has anybody given any thought to talking to the United Nations and saying that this ought to be kind of a project for all of us, in terms of bringing the best and brightest people that we can to help these folks, make sure that these agencies have good people, train those people so that they can be successful? Because if that's not done, and they can't deliver the basic services, you know, and I know, that people are going to say, "Goodbye." You know? And what—how much effort's being placed there?

Ambassador JEFFREY. Sir, ever since the CPA period, a great deal of effort was placed on exactly this issue, the Ministries, because we do know that they are the—they're the transportation medium for almost everything. Iraq does not have a federal system, like we have. Even with the new Constitution, the fire departments in the local towns are run by the Ministry of Interior. Every Ministry has a director general who's responsible for paying and managing all of the people—police, teachers, medical personnel—in each province. So, it is a very centralized system. It is a system, frankly, that runs deeply on patronage, traditionally. And this goes back hundreds, if not thousands, of years, not just in Iraq, but, frankly, in much of the world. And we're doing our very best to try to break that.

In particular, having seen some of the problems we had in the last year with the government, we have pressed all of the political parties that it is absolutely essential as they do this, as you said, inevitable jockeying for positions and factions within the parties and among parties, that it is absolutely essential that, particularly for key Ministries such as Oil, Electricity, Interior, Defense, Finance, and a few others, that they are competent people who can manage their staffs. Because the Iraqis have good professional staffs in most of these Ministries, and these people need to be promoted, and they need to be protected, which is very important. We've seen a lot of problems on that.

But I think they are making progress. We do have advisory teams. Most of the State Department personnel that we put in the Ministries were actually hired from the private sector—oil industry, and such. And, in addition, we have NGOs who are working with the various Ministries, both on our contracts and on U.N. and other contracts. And we do work very closely with the United Nations, not only on the political process, but also on development assistance. And the United Nations is cochaired with the World Bank on a fund of \$1.3 billion, which is part of the \$13.5, that is aimed

at capacity-building and on doing specific projects. So, the United Nations is our partner in this.

Senator VOINOVICH. Well, I think it's really important that we really continue to put pressure on our allies to step up to the table and to do their fair share. I am familiar with the Stability Pact that came into being after the war with Serbia, and talking to some of the people, Mr. Chairman, that—on the Stability Pact countries. And they said, "We never really meant to give them that money." In other words, they made these pledges to these various countries, and they're sitting there waiting for the money to come in, and they said, "Well, we weren't really sincere about it." And I don't think we can afford to do that in Iraq, and I think that we need to really put the pressure on, including maybe the President picking up the phone and calling some of these people and saying, you know, "You guys have got to do your fair share."

Ambassador JEFFREY. The President has done that, sir.

Mr. KUNDER. Sir, I just want to mention, some of our—some of our colleague agencies, like the British Government, have been heavily, heavily involved and made real sacrifices in this area.

Senator VOINOVICH. Thank you.

The CHAIRMAN. Thank you very much, Senator Voinovich.

I would just comment, parenthetically, that at some point, hopefully, Iraq becomes a "normal country." As it does, it will have a situation such as I saw in Tripoli, Libya, this summer, in which the hotel was virtually filled with people from India, from China, from the United States. They were all interested in oil and other natural resources in the country, and making bids that were very generous to the Libyan Government.

The resources that Iraq has are enormous, and we've touched upon this today. But, as you've pointed out, without security forces following all the investors around, quite apart from their contractors and those that deal with them, these are really beyond the normalcy of business practices in the world, international or domestic. And that's the great tragedy that we're describing, which you have described, I think, very well.

Let me just say that all statements and handouts submitted today will be included in the record, and the record will remain open until the close of business if members wish to submit questions. And, on occasion, some of you have indicated that you would be prepared to furnish additional information for the record. The record will remain open for those additions, so that we will have as complete a record of this hearing as possible.

I thank all of you for the generosity of your time and, likewise, preparation. You can tell that the intensity of interest on our part simply represents the feeling of the entire body.

So saying, the hearing is adjourned.

[Whereupon, at 12 p.m., the hearing was adjourned.]

#### ADDITIONAL QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

RESPONSES OF SPECIAL INSPECTOR GENERAL STUART BOWEN, JR., TO QUESTIONS  
SUBMITTED BY SENATOR RICHARD G. LUGAR

*Question.* What actions are being taken by State to ensure the financial and technical sustainability of U.S.-funded construction projects?

Answer. The U.S. Department of State has reprogrammed portions of the Iraq Relief and Reconstruction Funds (IRRF) to focus on capacity-building and sustainment issues. Among other projects, these funds will be used to help train Iraqis to better manage new facilities and better plan and budget their own resources at the national and provincial level.

Specifically, the Iraq Reconstruction Management Office (IRMO) has established a number of working groups that are working toward resolving the issues surrounding the transition and support of U.S.-funded infrastructure projects. Individual working groups have been formed to cover Asset Recognition and Transfer, Sustainment, and Capacity Development. These groups have drafted plans that are being reviewed by management. In the meantime, individual infrastructure sector managers have a number of activities underway to ensure the long-term viability of their projects. These include direct operations and maintenance assistance, and capacity-development activities oriented toward improving the Iraqis' ability to manage their infrastructure on their own. Until State releases its plans, it is not possible to determine how well these activities will line up with State's goals and objectives. The major challenge facing each of these groups is the Iraqi calendar year 2007 budget. The U.S. plans will need to be finalized before the Iraqi budget is put together so that they can appropriately plan and budget for the projects being turned over. The Iraqi budget process begins in May.

*Question.* Have Iraqi Ministries budgeted and demonstrated capacity for this task?

Answer. Despite significant hurdles, Iraqis demonstrate interest and a willingness to implement new budgeting techniques to help compensate for ongoing problems. Low oil production and insurgency attacks have resulted in budget shortfalls, posing significant budget problems for the Iraqi Ministries. Increasing salaries for government employees also pose a budgeting challenge. According to interviews with the U.S. senior advisor to the Ministry of Finance, the capabilities of the Iraqi Ministries vary widely. The Ministries of Electricity, Health, Defense, and Communications are considered good, while Interior (the police), Transportation, and Water are perceived to have less capability. The Government of Iraq as a whole will continue to have difficulty fully budgeting for sustainment, and for needed reconstruction programs.

*Question.* What is your assessment of the Iraqis' ability to move forward on their own in reconstruction?

Answer. The Iraqi Government is facing significant budget problems, as a result of shortfalls in oil output and the increasingly rising cost of responding to insurgency attacks, among other reasons. Based on the current situation in Iraq, it is improbable that the Iraqi Government will be able to move forward in reconstruction efforts without outside assistance.

Dependence on U.S. assistance is likely to lessen over time, but for the immediate future, it will be necessary to closely monitor Iraqi management of its infrastructure and to be prepared to step in and assist in resolving problems. An upcoming SIGIR audit report will address this issue and offer recommendations.

*Question.* Recent reports reflect that sabotage, corruption, and smuggling of oil resources have had drastic effects and even funded insurgents. Iraq's economy depends on these exports. Are U.S. and Iraqi efforts unified in developing law enforcement, ending corruption, and increasing oil exports?

Answer. Iraq, the United States, and other contributing nations recognize the importance of a strong law enforcement community in controlling corruption and increasing oil exports, and are cooperating in efforts to do all three. SIGIR is planning to conduct an audit of the coordinated anticorruption efforts to address this question.

*Question.* How many people have been convicted and how much money has the government recouped based on your efforts?

Answer. There have been four arrests, and one conviction based on SIGIR's efforts to prevent, detect, and deter waste, fraud, and abuse in Iraq. More arrests are pending. SIGIR's audits, investigations, and inspections have resulted in direct and indirect benefits including the savings of \$2.6 billion through audit recommendations; our investigations have recovered over \$6.6 million in cash and seized assets. SIGIR is finalizing financial impact numbers and will be providing a formal update in its April 2006 Quarterly Report.

*Question.* Have you seen instances of mismanagement of funds since the State Department took over as the lead executive branch agency in Iraq?



Answer. Inspection reports have disclosed deficiencies in the management of more than half of the projects evaluated. Management deficiencies have included poor designs, inadequate statements of work, poor quality work, and lack of, or ineffective, quality control and assurance. Because of such deficiencies, some projects are not achieving stated objectives.

However, less than a quarter of ongoing criminal investigations date from the transition of authority from the Coalition Provisional Authority to the U.S. Department of State.

*Question.* How would you characterize the Department's accountability and the management systems that are now in place?

Answer. SIGIR has not conducted any reviews or audits specific to the Department of State's accountability and management systems. However, when deficiencies are disclosed by SIGIR, management has taken, or promised to take, satisfactory corrective action on SIGIR's recommendations to correct deficiencies.

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RESPONSES OF JOSEPH CHRISTOFF TO QUESTIONS SUBMITTED BY SENATOR RICHARD G. LUGAR

*Question.* Have funding shifts to security been offset by adjustments to reconstruction goals? To what extent do reports compensate for this significant change? Are the Iraqi Government and/or international partners prepared to fund these critical needs?

Answer. Additional security costs have been offset by cutting lower priority projects, such as the electrification of some villages. The U.S. contracting office has provided some estimates of the impact, such as the smaller number of Iraqis receiving water and electricity. Infrastructure needs will compete with Iraqi fixed budgetary expenditures (i.e., subsidies, fuel imports, salaries, and pensions) and growing costs for an expanding Iraqi security force. International donors have pledged to provide support largely in the form of loans (about 70 percent of total amount pledged).

*Question.* Could you further evaluate the 2006 Iraqi budget? Is it realistic? How do the Iraqis view budgeting in general?

Answer. The 2006 Iraqi budget assumes a 17-percent growth rate in annual oil revenues over the next 5 years. This assumption is based on oil production levels reaching 3.6 million barrels per day (bpd) by 2010, a level that was never reached in the past decade. Further, the budget assumes that fuel subsidies will be completely phased out this year, thereby eliminating the \$2.8 billion cost to import fuels in 2007. However, it is unclear whether the Iraqi Government will have the political commitment to continue to raise fuel prices to meet these budget needs. The Iraqi Government is working with the International Monetary Fund and the United States to improve current budgeting practices.

*Question.* What is your assessment of State-DOD-USAID coordination on planning and, more importantly, execution?

Answer. We are currently assessing the extent to which State has had input into DOD's campaign plan and how DOD and State are collectively implementing the President's November 2005 National Strategy for Victory in Iraq. During the fall of 2005, the Embassy and Multinational Force-Iraq initiated a number of task forces and working groups to better coordinate the planning and execution of the U.S. efforts.

*Question.* What is your assessment of the first few Provincial Reconstruction Teams (PRTs) that have been established? What adjustments are being made to the original plan? What security problems and costs do you see associated with the establishment of multiple PRTs throughout Iraq, especially as troops draw down?

Answer. GAO has not conducted an assessment of the first three PRTs. However, the Department of State and Multinational Force-Iraq (MNF-I) have identified three key issues that constrain PRT operations: Security, personnel, and funding. For example, the PRTs may not have enough personnel and security to support the proposed PRTs. In some locations, the PRTs need to be assured of direct support from MNF-I or find other ways to provide security for the teams as they move around the area. The PRTs also will rely on the USAID-funded local governance project to fund its activities. It is unclear whether this project has sufficient funds for this purpose.

*Question.* Have you seen instances of mismanagement of funds since the State Department took over as the lead executive branch agency in Iraq? How would you characterize the Department's accountability and the management systems that are now in place?

*Answer.* In its 2005 review of the water and sanitation sector, GAO found that it was difficult to determine the overall progress and impact of U.S.-funded infrastructure improvements due to limited performance data and measurements. State Department reporting focused on numbers of projects completed or underway, but this information provided little information on how U.S. efforts were improving the amount and quality of water reaching Iraqi households or their access to sanitation services. The lack of water metering and water quality measurements limited the availability of data. As a result of GAO's recommendations, the Department is reviewing its metrics for all sectors to better measure the results of U.S. reconstruction efforts.

Managing Iraq's capacity to sustain U.S.-funded facilities continues to be a challenge. GAO found that, as of June 2005, water and sanitation projects costing about \$52 million and turned over to Iraqi management were not operating as intended due to looting, unreliable electricity, or inadequate Iraqi staff or resources. In addition, Iraqi powerplant officials stated that they have not been adequately trained to operate and maintain the new gas turbine engines provided by the United States. Iraqis are using oil-based fuel to run the gas turbine engines due to the lack of natural gas, but using oil instead of gas requires three times more maintenance and significantly reduces the life of the equipment.

RESPONSES OF AMBASSADOR JAMES JEFFREY TO QUESTIONS SUBMITTED BY SENATOR  
RICHARD G. LUGAR

*Question.* Over time, several billion has been shifted away from reconstruction priorities to pay for security. The electricity and water sectors are being reduced again this month by more than \$150 million. These sectors are absolutely critical to the economy. Are these continued shifts being recommended by the State Department because: We are giving up on these priorities; someone else is doing the work; or the work is no longer needed?

*Answer.* We are not giving up on major infrastructure programs. Rather, we have made some changes and continue to do so to fund what we consider even higher priority projects and activities, while continuing with the bulk of our major infrastructure program. Those activities and goals we have deferred are, in our view, either less time sensitive, or better candidates of eventual Iraqi, private investment, or third country funding than the goals for which we have reprogrammed funds.

Specifically, the State Department's latest quarterly report to Congress on the Iraq Relief and Reconstruction Fund (IRRF) of January 2006, the Department notified Congress of \$249.3 million in reallocations between sectors of the IRRF. These changes must be viewed in the context of the aims of the IRRF. In designing the IRRF, the United States was aware that it could not "rebuild" all of Iraq's infrastructure, which had been run down by decades of mismanagement, war, and tyranny. The World Bank estimated in October 2003 that the total reconstruction bill for Iraq was at least \$56 billion. The U.S. intent, therefore, was to focus on jump starting key sectors that deliver essential services, and focus resources on government capacity, democracy programs, and other core components of reconstruction at a time when other international donors, private investors, and the Iraqis themselves could not mobilize.

Of the \$249.3 million in changes in allocations between programs cited in the January quarterly report, \$89.8 million in electricity programs will be moved to fund more urgent priorities in humanitarian demining, refugees and rule of law programs. While several water programs were canceled, no money was taken out of the water sector, since the projects which were canceled will fund other, higher priority water projects.

The electricity sector is critical to the economy. We have already largely completed our generation program, and most of our larger transmission programs. The projects which we are canceling would have added additional capacity to the national grid. While they would have improved the reliability of the overall system, in our judgment, it was more important to fund the humanitarian demining and refugee programs, which had no other source of funds to continue critical operations. We will use the majority of the money from noncritical electricity programs to fund rule of law programs, including a corrections advisor program intended to reduce instances of abuse by Iraqi corrections officers. This funding will also set up a number of these rule of law programs which will improve the ability of the Iraqi Govern-

ment to counteract the insurgency, including expanding the reach of prosecutors and improving overall operations of the Iraqi criminal justice system. We have asked for additional funds in FY 2007 to continue these programs.

*Question.* Have funding shifts to security been offset by adjustments to reconstruction goals? To what extent do your reports compensate for this significant change? Are the Iraqi Government and/or international partners prepared to fund these critical needs?

*Answer.* The Iraq Relief and Reconstruction Fund (IRRF) has changed over time, responding to the needs identified by successive Iraqi Governments, lessons learned, and events on the ground. The most prominent of these changes took place in 2004, when we shifted \$1.8 billion from water and electricity to build up the Iraqi Security Forces. To meet the urgent need to improve security in Iraq, we identified a number of lower priority projects, coordinated with the Iraqi Government, and consequently adjusted some elements of our programs. The primary vehicles for compensation at this point are foreign donors and the Iraqi Government. The Iraqi Government has asked other donors to increase funding in sectors from which we have reallocated, and some donors responded with additional projects. For example, Japan is undertaking additional work in electricity and water projects following our reallocations. The Iraqi Government has set aside \$6 billion in its FY06 budget for capital projects.

As we near the end of the IRRF program, we are focusing more resources on completing small projects, which are quicker to implement, easier to maintain and have greater participation by Iraqi contractors. We also intend to focus more on building Iraqi Government capacity, at the national and local level, to sustain existing projects and implement their own projects in the future.

*Question.* Please provide a summary of how the President's FY 2007 budget request (\$771 million) reflects strategic priorities laid out in the Plan for Victory in Iraq.

*Answer.* Our National Strategy for Victory in Iraq involves three integrated tracks—political, security, and economic—with separate objectives, but that together help Iraqis achieve the goal of a stable, prosperous, and self-reliant democratic state. Without progress on the political and economic tracks, progress on the security track will not be sustained. The FY 2007 Iraq budget request of \$771.19 million will build on the work of the Iraq Relief and Reconstruction Fund (IRRF) and support Iraq's transition to economic and political self-reliance, focusing on more traditional capacity-building tools and objectives as Iraq transitions to more Iraqi-led responsibilities in the political, economic, and security fields. Our FY 2006 Iraq supplemental request addresses more immediate emergency needs, especially in the security track of our counterinsurgency policy. The division thus is security and certain immediate emergency political and economic track initiatives in the FY06 supplemental, and more "conventional" foreign assistance to sustain the economic and political tracks in the FY07 budget. While the FY07 submission also supports the counterinsurgency strategy, it takes a longer term approach with more traditional foreign assistance tools.

The fiscal year 2007 budget includes:

- \$276.5 million in Economic Support Funds (ESF) for the Economic Track—Improving Government of Iraq capacity and maintaining key infrastructure.
  - \$154 million for infrastructure sustainment: \$20 million of that will support capacity development, training, and technical-level management to increase the Iraqis' abilities to operate and maintain essential service infrastructure; and management tools and skills for Iraqis responsible for USG-funded projects in six sectors (oil, electricity, health, water, communications, and transportation). \$134 million will support operations and maintenance of key USG-funded infrastructure in the oil, electricity, water, and other key sectors.
  - \$18.5 million will provide technical training to banks, complete automation of the stock exchange, assist the securities commission and association of securities dealers; increase the network of microfinance institutions and public education campaigns on business creation; and increase education of, and access to, capital for small and medium enterprises.
  - \$104 million for agriculture and private sector development. \$84 million will promote agriculture sector development. This program will use an enterprise-driven approach to create value chains from the farm (both crops and livestock) to the market, particularly for higher value cash crops. The intent is to develop small- and medium-scale private agro-food enterprises to produce, process, package, market, and distribute agro-food goods and services. This program will establish rural financial services, improving the ability of these

enterprises to survive. \$20 million will provide technical advisory support for Ministries and Iraqi Government institutions that regulate commerce, promote privatization, and provide lending. Funding will also support Iraq's business civil society organizations, and nonbank financial institutions to offer a broad range of financial services to meet the needs of the private sector. Iraq's universities will be equipped with the information technology resources to educate the business community.

- \$494.69 million for the Political Track—Improving national capacity, supporting civic society and human rights programs, and improving rule of law.
  - \$25 million in Economic Support Funds will continue programs to develop the capacity of the Ministry of Finance and the Central Bank of Iraq, particularly in areas related to banking supervision and budgeting.
  - \$90 million in Economic Support Funds for policy, subsidy, legal, regulatory, and transparency reforms vital to reshaping the economy from a centralized authoritarian model to a market-based transparent system integrated into the global economy.
  - \$63.27 million in Economic Support Funds to promote democracy through training and support for the development of political parties and civil society groups that support the development of democracy, free trade unions, free enterprise, anticorruption, and open media; to establish a National Institutions Fund to assist with priority projects that include parliamentary capacity-building, and seed money for associations, minority groups, and think tanks that promote democracy; and continue programs for women, human rights issues, polling, and peace-building and reconciliation activities.
  - \$254.6 million in International Narcotics Control and Law Enforcement (INCLE) will fund rule of law programs, including providing human rights training within the judicial system, supporting the integration of the Iraqi criminal justice system, fostering rule of law outreach, supporting anti-corruption programs, providing corrections advisors, and expanding the training and reach of Iraqi prosecutors. These programs will also upgrade some courthouses and jails, and conclude a program to improve protection of judges.
  - \$24 million in Economic Support Funds will continue DOJ programs through the Regime Crimes Liaison Office to work with the Iraq Special Tribunal and support further evidentiary digs.
  - \$16.63 million in Nonproliferation, Antiterrorism, Demining and Related Projects (NADR) will support programs to help Iraq interdict terrorists and fight terrorism financing, prevent the proliferation of WMD expertise, secure its borders and nonproliferation efforts, and continue humanitarian demining programs.
  - \$20 million in Migration and Refugee Assistance (MRA) will support the ongoing return of refugees and assistance to vulnerable Iraqis living under protective status in neighboring countries.
  - \$1.19 million in International Military Education and Training (IMET) funding will improve training for Iraqi military officers.

*Question.* Food and fuel subsidy reform must be extremely unpopular politically. Do Iraqi leaders understand the essential nature of these changes, and have they conveyed them to the people? In your view, will the new government have the fortitude to keep on schedule with these reforms that the IMF agreements have mandated? Are they instituting a welfare safety net?

*Answer.* The current Government (The Iraqi Transitional Government or ITG) committed to undertake subsidy reform in its IMF Stand-By Arrangement as a critical step toward rationalizing the national budget. The 2006 budget projects reduced expenditures for both fuel and food subsidies over 2005. The government implemented the first stage of fuel subsidy reform by increasing fuel prices December 18, raising some key fuel prices (premium gasoline \$.13/gallon to \$.63/gallon, kerosene \$.012/gallon to \$.06/gallon) by a factor of 500 percent. However, to have a significant impact on reducing the subsidy burden on the budget and to reduce the incentives for smuggling, the government will need to increase fuel prices further to make them comparable with prices in the region.

After the first price increases were announced, the government started to reach out to the general public to explain the need for subsidy reform through press briefings, a poster campaign, and some spot ads. It is now developing a more comprehensive public education campaign with a clear set of messages to explain to the general public the need for economic reform and the impact of subsidies on the budget and on the national economy. Reform of the food distribution system is still in the planning stage, but the allocation for food subsidy expenditures in the 2006 budget

is 25 percent less than the 2005 budget allocation. The government has also started restructuring the existing welfare system to make it more efficient and expand it to provide targeted support for the vulnerable population as the generalized subsidy programs for food and fuel are reduced. Restructuring the welfare system will take some time and is not a quick fix. The government will have to work assiduously to build public confidence in its actions and support for subsidy reform.

While we cannot predict the specific policies of the new government not yet in place on this and other issues, the Embassy's top priorities include discussing with all of the major parties the need to adhere to IMF commitments and to further pursue subsidy reduction, including safeguards for those most dependent on subsidies.

*Question.* An "Assessment of Key Ministries" chart that USAID produced as part of a National Capacity Development briefing shows 11 Ministries scoring rather poorly, and some getting worse in various capacity categories. What prospect for change do you anticipate with the installation of the "permanent" government? Are they receptive to the help we and the International community have to offer? I note that two key Ministries—Interior and Defense—are not on the list, presumably because they are under DOD purview. How would you rate their capacity?

*Answer.* Increasing the capacity of Iraq's national-level Ministries and local government bodies is a critical part of our strategy to support Iraq's transition. Iraqis ultimately must take responsibility for government performance. In fact, tens of thousands of Iraqi officials, at great personal risk and sacrifice, are at present doing a remarkable job of keeping the Iraqi Government functioning and delivering core services despite the devastation of decades of Saddam, and an insurgency targeting the Iraqi administration.

We have worked closely with the current Iraqi Government to develop an initiative to improve the capacity of national-level Ministries and the Prime Minister's office. Embassy officials are working closely with their Iraqi counterparts in Ministerial Assistance Teams to develop specific plans to identify specific needs for 11 key Ministries, and outline steps to address these needs. The aforementioned chart is part of our and the Iraqis' effort to identify those areas requiring priority attention.

The World Bank has also been working to expand Iraqi Ministry capacity over the last 2 years through two targeted programs worth \$10.6 million. In addition, the World Bank-administered International Trust Fund runs its project procurement through Iraqi Ministries, thereby increasing ministerial capacity. We expect our efforts, along with those of our partners, will lead to further progress toward building core functions within these key Ministries.

We also expect the new government's installation will lead to building core functions within these key Ministries by providing a longer term, more stable political environment which will be more conducive to implementing these technical assistance programs. We hope that other donors will also be encouraged by the prospect of working with the same leadership for a sustained period, which should improve our ability to coordinate our assistance with international donors and NGOs. The Iraqis at both senior government level and in the ministerial bureaucracies have been helpful and supportive of our and others' efforts.

Primary responsibility for advising the Ministries of Defense and Interior now lies with the subordinate element of the Multi-National Force-Iraq, the Multinational Security Transition Command Iraq (MNSTC-I), in consultation with the Embassy. MNSTC-I has placed many military and civilian advisors in key positions to improve identified capacity development needs in the areas of personnel management, contracting, logistics, and budgeting.

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RESPONSES OF USAID ASSISTANT ADMINISTRATOR JAMES KUNDER TO QUESTIONS  
SUBMITTED BY SENATOR RICHARD G. LUGAR

*Question.* You spoke in your testimony about a focused, long-term capacity-building initiative that would extend at least the next 3 years. In your view, is this being given adequate funding consideration?

*Answer.* The estimated costs of the Capacity Development Program are based on the experience of USAID in similar programs in other countries adjusted to the conditions found in Iraq. The Administrator's current funding request for FY 2006 is \$150 million (\$25 million in Reprogrammed Iraq Relief and Reconstruction Funds and \$125 million in the FY 2006 supplemental request pending in Congress) and the request for FY 2007 is \$25 million. These funds will support capacity development in the Iraqi Government by transforming and upgrading Iraqi institutes for public administration and improving the capacities of 10 key Ministries to efficiently

carry out their respective designated responsibilities. This program will also continue the work already underway to improve the functioning of the Central Bank of Iraq and the Ministry of Finance. As we engage the Iraqi Ministries in the coming year, we will have a better sense of the overall needs. We also expect that other donors will participate in this effort.

*Question.* USAID has discussed a “Strategic Cities” initiative. Can you describe what makes these cities strategic and how they fit into the Victory Plan, Provincial Reconstruction Team concept, and other strategies that have been discussed?

*Answer.* Both the Iraq and U.S. Governments have agreed that the 10 cities identified for the initiative are strategic because they are critical to the future peace and stability of the country. They have been targeted due to the high levels of insurgency activities and significant populations of unemployed and disenfranchised people that help fuel the insurgency. The likely targeted cities (and their populations) for this program include: Baghdad (6,670,000), Basrah (1,337,000), Mosul (1,160,000), Fallujah (133,000), Ramadi (255,400), Samarra (220,000), Baqubah (300,000), North Babil (845,000), Kirkuk (750,000), and Najaf (679,000).

The Strategic Cities initiative will help advance the political track set forth in the President’s National Strategy for Victory in Iraq. Strategic Cities activities will revitalize community infrastructure, provide essential services, and help mitigate conflict. These activities contribute to the political track objectives by providing the Iraqis with a stake in a viable democratic Iraq, encouraging peaceful participation of citizens, and building strong institutions that will protect the interests of the Iraqis. Strategic Cities activities will also create jobs and develop marketable skills (especially among youth) as well as provide assistance, including credit, to new and expanding businesses.

The Provincial Reconstruction Teams (PRTs) will provide assistance to the 10 strategic cities in an effort to strengthen the provincial governments’ abilities to deliver essential services. Additional activities through the PRTs will support the advocacy skills of civil society organizations and community groups so they can effectively represent the needs and rights of local citizens.

*Question.* USAID has been challenged to fulfill staffing requirements in the Baghdad mission. Can you describe how this is going?

*Answer.* As of March 31, 2006, 34 percent of USAID-Iraq positions are currently unfilled (97 of 288 positions). This is a temporary gap as USAID-Iraq reorganizes to meet the goals in the President’s National Strategy for Victory in Iraq.

As part of this transition, USAID is demobilizing select personnel, and will be hiring personnel with different skill sets, including staff for Provincial Reconstruction Teams (PRTs)—a high priority. During the transition, USAID-Iraq has requested 13 short-term or medium-term USAID employees to help fill immediate needs.

USAID-Iraq is undergoing a strategy shift—closing out of a number of programs and projects such as the Office of Transition Initiatives (OTI), infrastructure, health, and education—creating staff vacancies, while other programs are just beginning to start up—for example PRTs and National Capacity Development, which eventually will then take those onboard positions.

The new staffing plan calls for 265 total positions, down from 288. USAID is planning to bring 36 people on board in the 3rd quarter of 2006, and an additional 36 in the 4th quarter. Eleven positions are being expedited through personal services contracts, and 20 additional positions are being publicly advertised. On this timetable, we will be at 86 percent of our goal by June 30 and 99 percent by September 30.

USAID is accelerating the hiring process, particularly for technical offices, and plans to have at least one person in each of the PRTs by the end of June 2006.

*Question.* Will USAID reassume the roles that the Army Corps of Engineers (PCO) and the Department of State (IRMO) have been executing since the Coalition Provisional Authority? When?

*Answer.* USAID does not plan to assume the roles played by the Army Corps of Engineers or the Project Contracting Office (PCO). USAID will continue to implement programs in which it has unique expertise and for which funding is provided. These will include focused stabilization, good governance, and economic growth. These are areas in which the Army Corps of Engineers and the PCO have not been engaged in the past. IRMO is a U.S. Department of State interagency coordinating mechanism, and USAID has no plans to assume this role in Iraq.

*Question.* The ICAP program has, by your own accounts, achieved excellent successes in areas that have not seen a great deal of attention. At what level do you intend to fund this beyond the current cycle?

Answer. In this fiscal year, USAID has approximately \$17 million to continue the Iraq Community Action Program (CAP). The program is expected to close this July, but USAID will conduct an extensive review and look at the lessons learned and best practices of the program to help shape future CAP or related initiatives, should funding come available.

*Question.* An "Assessment of Key Ministries" chart that USAID-Baghdad produced as part of a National Capacity Development briefing, shows 11 Ministries scoring rather poorly, and some getting worse in various capacity categories. What prospect for change do you anticipate with the installation of the "permanent" government? Are they receptive to the help we and the international community have to offer? I note that two key Ministries—Interior & Defense—are not on the list, presumably because they are under DOD purview. How would you rate their capacity?

Answer. Indications received from individuals in the current government and those expected to play a role in the recently elected government have expressed support for the planned efforts by the USG and other donors in improving the operational effectiveness of the new government. Existing Ministers have shown support by providing staff for the Ministerial Assessment Teams which will be established for each of the 11 ministries.

The Department of Defense has the responsibility for the Interior and Defense Ministries. I am not in a position to comment on the current state of these Ministries.

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RESPONSES OF SPECIAL INSPECTOR GENERAL STUART BOWEN, JR., TO QUESTIONS  
SUBMITTED BY SENATOR JOSEPH R. BIDEN, JR.

Earlier this month, Robert Stein, a former CPA employee, pleaded guilty to conspiracy, bribery, money laundering, and illegal weapons charges. Incomprehensibly, Mr. Stein had been appointed to head up regional contracting efforts despite a prior federal fraud conviction. Your audits have conclusively shown, though, that the problems in the South Central Regional Office went far beyond the corruption of Mr. Stein.

*Question.* In your view, how representative are these examples of our overall managing of the Iraqi reconstruction efforts?

Answer. The problems in the South Central Regional Office were predominantly due to the large quantities of funds entrusted to a few individuals operating out of that office (almost \$120 million) and the concomitant breakdown in virtually all cash controls. Moreover, much of this criminal activity took place prior to the appointment of an inspector general for the CPA.

However, better oversight and safeguards were implemented with the Iraq Relief and Reconstruction Fund. SIGIR audits, investigations, and inspections indicate at this time fewer instances of waste, fraud, and abuse with IRRF moneys as a result of these oversight changes and safeguards. Of SIGIR's ongoing criminal investigations, 77 percent of them are historic in nature and relate to the Development Fund for Iraq.

*Question.* Was this the norm or an aberration?

Answer. Due to a lack of safeguards and early oversight, significant opportunities existed for the improper handling of DFI moneys. Of SIGIR's ongoing criminal investigations, 77 percent of them are historic in nature and relate to the Development Fund for Iraq. Therefore, while SIGIR is still in the process of providing oversight to prevent, detect, and deter waste, fraud, and abuse, it appears at this time that there were more instances of criminal activities in the use of DFI moneys than with the IRRF.

*Question.* Do you have any indications that such criminal corruption and negligence was repeated in the American management of Iraqi reconstruction funds elsewhere?

Answer. SIGIR has continued concerns regarding the management of funds used for Iraq reconstruction efforts. The records of the Comptroller's office indicated that some Division Level Agents (DLAs) and Field Paying Agents (FPAs) in all four regions were unable to reconcile all funds entrusted to them. Also, the Comptroller's office did not know the total amount of funds entrusted to others or the specific individuals to whom funds had been entrusted.

Complicating matters, even those individuals who have reconciled the funds entrusted to them may be suspect. For example, in spite of the extensive frauds committed by Mr. Stein, he cleared his accounts with the Comptroller's office.

*Question.* Have you encountered abuse on the scale that you found in your Hillah audits of American reconstruction resources elsewhere?

Answer. At this time, the levels of waste, fraud, and abuse in Hillah have not been seen elsewhere. However, SIGIR has 57 investigations, 30 audits, and 25 inspections in process. As a result of the recommendations in SIGIR's audit report on Hillah, the Comptroller's office is identifying, reviewing, and reconciling all funds that were entrusted to Division Level Agents and Field Paying Agents.

SIGIR auditors will review and verify the work performed by the Comptroller's office to ensure proper accounting for all funds.

*Question.* As you begin to focus on American taxpayer-funded efforts, do you expect to find abuses of this scale?

Answer. SIGIR audits, investigations, and inspections indicate at this time fewer instances of waste, fraud, and abuse as a result of better oversight and safeguards implemented with the Iraqi Relief and Reconstruction Fund. Of SIGIR's ongoing criminal investigations, 77 percent of them are historic in nature and relate to the Development Fund for Iraq.

*Question.* How many ongoing criminal investigations do you have?

Answer. SIGIR has 57 ongoing criminal investigations.

*Question.* How many of these investigations date from after June 28, 2004, when the State Department took over for the Coalition Provisional Authority?

Answer. Less than a quarter of ongoing criminal investigations date from the transition of authority from the Coalition Provisional Authority to the U.S. Department of State. In fact, of 91 total investigations to date, 72 involve the Development Fund for Iraq and not IRRF funds.

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RESPONSES OF AMBASSADOR JAMES JEFFREY TO QUESTIONS SUBMITTED BY SENATOR JOSEPH R. BIDEN, JR.

*Question.* In his written testimony, Inspector General Bowen raises a number of important questions:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another 3 or 4 years to complete?

Could you please address Mr. Bowen's questions?

Answer. In response to the first question, the Iraq Reconstruction Management Office (IRMO) in the Embassy coordinates all aspects of our reconstruction effort, including overseeing all projects funded by the Iraq Relief and Reconstruction Fund (IRRF). IRMO has worked closely with other Embassy-Baghdad offices, MNF-I and Washington agencies in developing the U.S. strategy for transition in Iraq in support of the President's Strategy for Victory in Iraq. As part of its oversight function, IRMO is carefully managing the transition of each of the IRRF implementing agencies.

In response to the second question, we have requested \$125 million in the FY 2006 supplemental and \$25 million in FY 2007 to improve the ability of national Ministries to carry out core functions like budgeting and personnel management. Included in these funds are programs to upgrade the ability of Iraqi training institutions, and programs to improve the capacity of the Central Bank of Iraq and the Ministry of Finance to manage the national accounts. This effort at the national level complements our efforts to improve the capacity of local governments through the \$165 million requested in the FY 2006 supplemental. We have made a similar request to address operations and maintenance issues, requesting \$355 million in the FY 2006 supplemental and \$154 million in FY 2007 to maintain U.S.-funded essential service projects we are completing. We have also requested \$287 million in



the FY 2006 supplemental to improve the security of critical oil and electricity infrastructure to reduce the ability of insurgents to damage them.

In response to the third question, we agree with SIGIR that it is important to maintain the projects funded by U.S. assistance to ensure that they benefit the Iraqi people and support Iraq's transition to self-reliance. Under the existing IRRF, we have already designed a program to procure critical spare parts and train plant management officials in the skills needed to carry out a routine maintenance program. We recognize that, to succeed over the long run, we need to improve the management of Iraq's delivery of essential services. That is why we requested the above-mentioned \$355 million in the FY 2006 supplemental and \$154 million in the FY 2007 foreign assistance budget for Iraq to continue working with Iraqi plant managers and local Ministry officials to ensure that U.S.-funded essential service projects in sectors like oil, electricity, and water will be maintained. As the capacity of Iraqi officials increases, we expect Iraq to assume greater responsibility for maintaining these projects, culminating in complete responsibility by the end of FY 2007. We are helping Iraqi Ministries craft effective, well thought-out transition plans.

In response to the fourth question, we have already completed many of the large infrastructure projects under Iraq Relief and Reconstruction Fund, and expect that most will be completed by the end of 2006. All projects will be complete, and the entire \$18.4 billion under IRRF II will be disbursed, by September 30, 2007. As IRRF sector programs wind down, we will reduce our project management staffing in Baghdad, though we expect to retain a sizable aid mission to support Iraq in the years ahead.

*Question.* In your oral testimony, Ambassador Jeffrey, you concurred with both Joseph Christoff and Stuart Bowen that the total cost for reconstructing Iraq's infrastructure would be higher than the \$56 billion that the World Bank estimated in 2003.

What is your best estimate for what this cost would be today? How much of this shortfall do you expect the Iraqi Government to be able to supply, given its budgetary problems, its sovereign debts, and its ongoing reparations?

*Answer.* The total reconstruction cost is higher than the World Bank's 2003 estimate largely because Iraq's infrastructure was far more damaged and decrepit from years of neglect than we, the World Bank, and others first thought. As reconstruction has progressed, the security environment and, to a lesser extent, inflation in the cost of raw materials have also resulted in higher costs.

The U.S. Government has not developed an independent estimate of total infrastructure reconstruction costs. We are working with the Iraqi Government, international financial institutions, and other donors to refine and further develop an international estimate with full Iraqi input.

The Government of Iraq is making progress in its ability to take the lead on rebuilding. Already, by 2006, Iraq's government budget is a major source of funds for Iraq's reconstruction. Anticipated increases in oil production and exports will help provide Iraq the wherewithal to pay for its own future economic development.

On debt, Iraq has accomplished much since it negotiated a historic 80-percent reduction of Iraq's debt to Paris Club creditors in November 2004. It has formalized agreements with 15 of 18 Paris Club creditors, with the remaining to be concluded shortly, and reached a stand-by arrangement with the IMF in December 2005. Iraq has also secured debt relief of a large percent of its commercially held debt.

On the budget, Iraq has committed to undertake subsidy reform in its IMF Stand-By Arrangement as a critical step toward rationalizing the national budget. While we cannot predict the specific policies of the new government not yet in place, we are emphasizing to Iraqi officials the need to adhere to IMF commitments and to further pursue subsidy reduction. Meanwhile, Iraq has set aside \$6 billion in its FY 2006 budget for infrastructure projects, which we believe will pick up where IRRF will leave off.

In any case, Iraq's needs continue to be enormous. The new Iraqi Government will define its national reconstruction goals and will have full responsibility for utilizing Iraq's natural resources, coordinating international assistance, servicing national debts, and managing its budget. The USG will do its part to assist the Iraqis in this process and is actively engaged with other donors to do so as well.

*Question.* Inspector Bowen spoke at Wednesday's hearing of a "reconstruction gap," whereby hundreds of projects in critical sectors will go unfinished both because of the rising security costs for contractors doing the work and because of the reprogramming that has shifted resources to the training of Iraqi security forces, but away from other sectors.

How will the U.S. Government make up this "reconstruction gap?" When will Iraq need a new infusion of assistance?

Answer. We welcome the oversight provided by the Special Inspector General for Iraq Reconstruction (SIGIR). Our overarching goals remain as initially planned in 2003: Giving strategic elements there a “jump start” until third country donors, private investors, and the Iraqis themselves could take the lead.

There are a variety of reasons for the change in the program specifics which we did make. Iraq’s infrastructure turned out to be much more dilapidated than we first thought. Successive Iraqi Governments have suggested changes in programs, which led us to switch to smaller, faster projects in water and health, for example. Over time, we have shifted funds from some IRRF sectors to security and democracy programs to match changing circumstances on the ground, specifically an upsurge in insurgent attacks in 2004. We have made very good use of the additional money in security, which has helped stand up an increasingly effective Iraqi Security Force structure. Some projects, as SIGIR points out, require higher security costs than initially estimated at a time of very low insurgent attacks. This also impacted our specific projects.

In designing the IRRF II program, initially of approximately \$15 billion for civilian reconstruction (not counting the initial security forces component of \$3 billion placed in the IRRF legislation), the United States was aware that it could not “re-build” Iraq’s infrastructure, which had been run down by decades of mismanagement, war, and tyranny. In fact, the World Bank estimated in 2003 that the total infrastructure requirement for Iraq was at least \$56 billion. Rather, the U.S. intent was to focus on getting the oil sector—the source of almost all of GDP—back on its feet, as well as jump starting government capacity, democracy programs, essential services, and other core components of the economy at a time when other international donors, private investors, and the Iraqis themselves, could not mobilize. We believe that despite the shift in allocations, the IRRF II program will accomplish this objective, paving the way for, and serving as an example to, the international community and Iraqis themselves to take over the infrastructure mission.

Meanwhile Iraq’s needs in the political, governmental, and economic capacity-building areas continue to be enormous. We have sketched out our priorities in these areas to complete transition to a secure and prosperous Iraq in our FY 2006 supplemental and FY 2007 budget proposals which better equip Iraqis to meet their own needs.

*Question.* In your testimony you said, “by and large, despite many reverses and problems, we have achieved many of our goals.” The Coalition Provisional Authority set goals of 3.0 million barrels of crude oil production per day by December 2004, 6,000 megawatts of peak electricity by the summer of 2004, and 90 percent potable water access.

By what date do you expect the entire \$18.4 billion to be expended? When the \$18.4 billion has been expended, what goals do you expect to be met and which won’t? Are the initial goals of the Coalition Provisional Authority still operative?

Answer. We expect the entire \$18.4 billion in the second Iraq Relief and Reconstruction Fund (IRRF II) to be fully obligated by September 30, 2006, as required by Public Law 108–106. We anticipate that almost all of the funds will be disbursed by the end of 2007. As of February 8, 2006, approximately \$15.6 billion of IRRF II has been obligated and \$10.7 billion disbursed.

As I stated in my testimony, the USG has provided critical assistance to help Iraq achieve many important goals. Two elections were successfully held in 2005, a new Constitution has been ratified, and a permanent Iraqi Government is being formed. In addition, the Iraqi dinar is stable, Iraq’s debt burden has been substantially reduced, and the private sector is thriving in many areas, such as consumer goods and telecommunications. Finally, USG reconstruction projects have provided critical funding to reopen airports and ports, provide communications capabilities for the Iraqi Government, rehabilitate or build water and sewage treatment plants, repair powerplants and oil infrastructure, and build government and civil society capacity at both the national and local level.

However, the early CPA reconstruction goals required change with time and different circumstances on the ground. Iraq’s infrastructure turned out to be much more decrepit than we, the World Bank, and others first thought. The security situation was much worse, and imposed much greater costs on our reconstruction efforts, than anticipated. More broadly, static goals set in early in the reconstruction effort, when information was significantly incomplete, miss one main point of the reconstruction program, which is to help Iraq develop its own goals.

Successive Iraqi Governments have suggested changes in programs, which led us to switch to smaller, faster projects in water and health, for example. Over time, we have shifted funds from some IRRF sectors to security and democracy programs to match changing circumstances on the ground. We have made very good use of

the additional money in security, which has helped stand up an increasingly effective Iraqi Security Force structure. We will continue to adapt our assistance to meet Iraqi needs, and have adjusted the goals originally set by CPA in 2003, given the vastly different security and economic environment that we face. For example, we now hope to have the IRRF program, along with Iraqi efforts, achieve peak electrical generation of 5,500 MW or more by the end of 2006 or early 2007, and have oil production climb to 2.8 million barrels/day by that same time. These tentative targets depend upon executing the current IRRF program as planned, obtaining certain additional funding for infrastructure generation and maintenance, as well as infrastructure hardening, in the FY 2006 supplemental and FY 2007 budgets, and upon the state of the insurgency.

*Question.* The most recent reporting from the Department of Defense lists 227,300 forces in the Iraqi security forces. The most recent quarterly update to Congress on the reconstruction notes that these forces “are increasingly taking the lead in performing independent combat operations.”

- How do these units break down in terms of level I, level II, level III, and level IV preparedness?
- How many of these forces can be considered fully trained and fully equipped?
- How would you evaluate the command and control capacity of the Iraqi army and police?
- Please describe the plan for embedding officers with Iraqi police officers?
- In your view, does Iraq require gendarme capability to defeat the insurgency? Does the United States have an expertise in developing such capabilities? Which countries have expertise in this area and what have we done to involve them in training gendarme forces?

*Answer.* The Iraqi Government and its coalition partners continue to develop the Iraqi Security Forces (ISF) and mark progress toward the goal of Iraqi self-reliance. As of January 23 there are 53 Ministry of Defense and 10 Ministry of Interior units “in the lead,” which means that they meet the level I or level II measures of preparedness, which you mention. Specific details of unit level readiness are updated weekly in the Defense Department’s classified Iraqi Security Forces Update, but we cannot provide the specifics in unclassified communications.

The training and equipping of these forces is an ongoing process requiring graduated levels of instruction and outfitting. The basic training and equipping of army combat battalions will be substantially complete this year. Police will require more time, as will Iraqi army combat support and combat service support units (i.e., the “tail” of the force). Eventual equipping of Iraqi army, as well as naval and air force elements with heavy weapons for the conventional (as opposed to counter-insurgency) role, will also take time. In terms of combat battalions in the counter-insurgency fight, those units “in the lead” category are essentially fully equipped and have completed training. What keeps those at level II from advancing to level I (“independent”) is usually a combination of combat enablers logistical insufficiencies and subjective weaknesses in leadership, command/control, and the like.

The focus of the Multi-National Security Transition Command-Iraq (MNSTC-I) in the “Year of the Police” is to advance the Iraqi police training through the use of field advisors and Police Transition Teams (PTTs). The desired end state includes Iraqi police forces loyal to the people of Iraq and its Constitution and committed to human rights and the rule of law. More than 500 International Police Liaison Officers (IPLOs) are deployed in Iraq. IPLOs advise, train, assess, and mentor the Iraq Police Service (IPS) from the provisional headquarters to the local police districts. The IPLOs also mentor police district and station commander management practices and through hands-on interventions advance police effectiveness at the operational level. DOD recently augmented this with direct deployment of PTTs. The Iraqi Reconstruction and Management Office (IRMO) recently placed MOI and MOD ministerial teams under the operational control of MNSTC-I to improve command and control and management of the ISF, and to develop the institutional capacity of both the MOI and MOD, including for administration and logistics. This will enable an integrated and synchronized effort on all aspects of military and police development from the individual soldier or policeman to the Minister.

The MOI employs a gendarme-like capability to meet the more challenging security requirements of Iraq. The Iraqi National Police, (formerly the Special Police—Public Order Battalions, Mechanized Battalions, Special Police Commandos, and the Emergency Response Unit) are trained and equipped to operate as cohesive units and have the capability to deploy throughout the country similar to that of a gendarme force. The Italian Carabinieri are training Iraqi Police in-theater, however, they do not conduct specific gendarme instruction. MNSTC-I is currently reviewing the possibilities of the Italians conducting gendarme training in the future. To avoid

having patchwork units of personnel trained in different tactical concepts, our focus has been on in-country training based on common operating procedures and protocols.

*Question.* At the October 2003 Madrid Conference, international donors pledged more than \$13 billion of reconstruction assistance to Iraq. But as of last December, less than a quarter of these funds had been disbursed.

- Why have international donors been so slow to make good on their promises? What is the administration doing to encourage the donors to hasten their support of Iraq reconstruction?
- Are there any countries that stand out for their willingness to contribute to the international donors' funds?
- How are international and American reconstruction efforts being coordinated?

*Answer.* As of end January 2006, over \$3.3 billion of the \$13.5 billion pledged by non-U.S. donors at Madrid over 2004–2007 had been disbursed. This comprises the bulk of the grant assistance pledged at Madrid. Most of the outstanding pledges are for loans, which take longer to negotiate and implement. Japan, for instance, has disbursed \$1.5 billion in grants, but is still finalizing \$3.5 billion in concessional loans. Additionally, several donors have been waiting for a permanent Iraqi Government with which to negotiate the loans.

The United States is in regular contact with international donors through official travel to capitals, regular meetings in Washington and international conference calls, encouraging donors to quicken the pace of aid for Iraq reconstruction. There have been four conferences since the October 2003 Madrid conference of the International Reconstruction Fund Facility for Iraq (IRFFI), plus a large conference co-sponsored by the European Union and the United States in Brussels in June 2005 to demonstrate support for Iraqi political and economic development.

Japan has pledged more assistance to Iraq than any other country save the United States. By mid-2005, Japan had entirely disbursed the \$1.5 billion of grant aid pledged at Madrid. Japan is currently finalizing with Iraq the first projects to be implemented under its \$3.5 billion concessional loan program, and plans to be implementing them in March 2006.

At Madrid, the United Kingdom pledged \$452 million for Iraq reconstruction through 2006, in addition to its previously announced humanitarian assistance and its contribution to European Commission assistance. As of December 2005, the United Kingdom had disbursed about \$300 million of its pledge.

The European Commission also deserves special notice, having pledged 200 million euros (about \$235 million) at Madrid for 2004, and another 200 million euros each for 2005 and 2006, for a total of about \$700 million. The 2004 and 2005 amounts have been fully disbursed. Other large contributors include Canada which pledged \$187 million at Madrid.

As of January 2006, total disbursements from the U.N. and World Bank-administered IRFFI trust funds totaled \$471.6 million. In addition, the World Bank Board, on November 29, approved the first loan under a \$500 million concessional loan facility to Iraq. This loan, the World Bank's first to Iraq in 30 years, is a \$90 million education project, to help alleviate school overcrowding and lay the groundwork for educational reform. In December, the IMF agreed to a stand-by arrangement (SBA) with Iraq that makes \$685 million available for balance of payments support.

*Question.* The most recent 2007 quarterly congressional report on the Iraq reconstruction introduces a new program, the Ministerial Assistance Teams, which "will work with key Ministries and provide a baseline assessment of each of the Ministries' abilities to perform basic core functions." While I applaud this program, I am also puzzled that we are only undertaking such a study now, almost 3 years after the fall of the Saddam Hussein regime.

- Why has it taken 3 years to begin a baseline assessment of the Ministries' abilities to perform basic core functions?
- How long do you expect the baseline assessment to take? How long do you then expect it to take to complete the Ministry-specific development plans?
- At this point, with a constitutionally elected Parliament in place and a government forming and most of our reconstruction funding already obligated, how much leverage do we have in building up the Iraqi Ministries?
- According to your preliminary assessments, which Ministries do you assess to be relatively more functional? Which are lagging behind? What do you base these assessments on?

*Answer.* As background, we note that increasing the capacity of Iraq's national-level Ministries and local government bodies is a critical part of our strategy to support Iraq's transition. First the Coalition Provisional Authority and then the U.S.

Embassy, in a move not undertaken in many decades, deployed hundreds of U.S. Government officials as ministerial advisors, complemented by government officials from other coalition countries. Nevertheless, Iraqis ultimately must take responsibility for government performance. In fact, tens of thousands of Iraqi officials, at great personal risk and sacrifice, are at present doing a remarkable job of keeping the Iraqi Government functioning and delivering core services despite the devastation of decades of Saddam, and an insurgency targeting the Iraqi administration.

In response to your first question, the U.S. Government performed baseline assessments of key Ministries in late 2004 (during the Iraqi Interim Government) using input from the Iraq Reconstruction Management Office senior advisor for each Ministry. Embassy Baghdad has conducted periodic assessments since then to chart each Ministry's progress.

We have worked closely with the Iraqi Transitional Government (the third government in 3 years) to develop a formal initiative to improve the capacity of national-level Ministries and the Prime Minister's office. Embassy officials are working closely with their Iraqi counterparts in newly created joint Ministerial Assistance Teams to identify specific needs in six core function areas to include leadership, strategic planning and policy development, fiscal management, personnel management, information technology, and technical skills. This phase should be completed soon. Each Ministerial Assistance Team will then support the development of ministerial action plans in coming months that are tailored to specific needs and priorities in each Ministry.

Overall Ministry assessments range from "very little capability" to perform functions to "developing capability" and making substantive efforts. The majority of the key Ministries are making progress toward developing capability in core functions. The Ministry of Finance is noted for good capability in the functional areas of leadership, strategic planning/policy, and partnerships with other Ministries and international organizations. Assessments for both the Ministry of Planning and Development and the Ministry of Water Resources show well-developed leadership and effectiveness of policies and service delivery. For those Ministries judged to have essentially no capability in certain functional areas, training is being targeted to remedy these deficiencies.

The World Bank has also been working to expand Iraqi Ministry capacity over the last 2 years through two targeted programs worth \$10.6 million. In addition, the World Bank-administered International Trust Fund runs its project procurement through Iraqi Ministries, thereby increasing ministerial capacity. Other donors have also expressed interest in working with the Iraqi Government to address specific needs. We expect our efforts, along with those of our partners, will lead to further progress toward building core functions within these key Ministries.

We also expect the new government's installation will lead to building core functions within these key Ministries by providing a longer term, more stable political environment which will be more conducive to implementing these technical assistance programs. We hope that other donors will also be encouraged by the prospect of working with the same leadership for a sustained period, which should improve our ability to coordinate our assistance with international donors and NGOs.

*Question.* In March 2003, Iraq's prewar oil capacity was 2.5 million barrels per day. Ambassador Bremer, in his testimony before this committee on September 24, 2003, told us he hoped oil production would be at 3 million barrels per day by October 2004. Unfortunately, though, in 2005 Iraqi oil production averaged only 2.1 million barrels per day. Last week, Iraq averaged less than 1.5 million barrels per day. According to GAO reporting, more than \$5 billion in U.S. and Iraqi funds has been made available to developing Iraq's crude oil production, refining, and transportation industries.

- What is the strategy for increasing Iraqi oil production?
- What explains the continuing problems in upgrading Iraq's oil infrastructure—the security situation, the decrepit nature of the infrastructure, poor planning and execution?
- What options does the Iraqi Government have to obtain private sector financing for oil production? When do we expect it to reach 3 million barrels per day?

*Answer.* Iraq's oil sector has been in decline since 1979 when Iraq reached its peak production of 3.5 million barrels per day. Both Iraq's war with Iran in the 1980s and the 1990 Gulf War damaged Iraq's oil infrastructure and diverted funds from oil sector investment to Iraq's war-making apparatus. The United Nations sanctions following Iraq's invasion of Kuwait largely prevented, for good reason, major new investments in the oil sector throughout the 1990s. In the absence of necessary capital investment and proper maintenance, Iraq's oil infrastructure deteriorated badly. By 2002, the annual crude oil production had fallen to an annual aver-

age of 2 million barrels per day. While Iraqi production reached 2.58 million barrels for a few days in February 2003, just before Operation Iraqi Freedom, this did not represent a sustained production level.

Oil production and exports resumed in the second half of 2003. Based largely on U.S. efforts using Iraqi funds (the Development Fund for Iraq) and \$1.7 billion in U.S. funds (the Iraq Relief and Reconstruction Fund, IRRF), average production was raised to 2.1 million barrels per day and average exports to approximately 1.5 million barrels per day for 2004 and most of 2005. Production and exports dipped in the last 2 months of 2005 and the first 2 months of 2006.

There are two main reasons for our inability to quickly increase oil production and exports well above immediate prewar levels, and for the recent declines. First, the lack of investment under the previous regime left the oil sector in a dilapidated state, from which it will take significant new investment to increase production significantly. Second, the system's dilapidated state makes it vulnerable to a range of factors, most notably insurgent attacks. Such attacks on the long, vulnerable northern export pipeline have shut down capacity of moving 400,000 barrels per day. Equipment failures and rough winter weather at Iraq's southern loading terminal also have reduced production and exports. While Iraq has benefited from higher oil prices, the deterioration of its refining sector has made Iraq dependent on increasingly costly fuel imports, especially to meet demand since liberation as Iraqis have bought cars and generators in record numbers.

The USG has developed a program to increase Iraq's capacity to produce and export crude oil. Current IRRF projects should be completed by the end of 2006, and will increase oil production capacity to an estimated 2.8 million barrels per day by a combination of drilling new wells in small fields and restoring pressure in large fields. International Energy Agency projections are similar. We are also improving Iraq's export infrastructure.

Concerning Iraq's options for obtaining private sector financing, this will require some legal changes. Under CPA Order No. 39 on Foreign Investment and CPA Order 64, which amended the Companies Law No. 21 of 1997, which are still in effect, foreigners can now own 100 percent of an Iraqi company and manage it exclusively—with the exception of the natural resource sector, including oil extraction and processing. Iraq needs to pass legislation that will enable and attract foreign investment to this sector.

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RESPONSES OF USAID ASSISTANT ADMINISTRATOR JAMES R. KUNDER TO QUESTIONS  
SUBMITTED BY SENATOR JOSEPH R. BIDEN, JR.

*Question.* In his written testimony, Inspector General Bowen raises a number of important questions:

- (1) Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- (2) Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- (3) Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- (4) Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another 3 or 4 years to complete?

Could you please address Mr. Bowen's questions?

Answer. I will answer your questions in order:

(1) Speaking only for USAID, a part of all our infrastructure reconstruction activities has been training of Iraqi staff in the operations and maintenance of equipment that has either been rehabilitated or constructed by our implementing partners.

(2) The estimated costs of the Capacity Development program are based on USAID experience with similar programs in other countries and adjusted to the conditions found in Iraq. The current funding request for FY 2006 is \$150 million (\$25 million in reprogrammed Iraq Relief and Reconstruction Funds and \$125 million in the FY 2006 supplemental request pending in Congress) and the request for FY 2007 is \$25 million. These funds will support capacity development in the Iraqi Government by transforming and upgrading Iraqi institutes for public administration and improving the capacities of approximately 10 key Ministries to efficiently carry out their respective designated responsibilities. This program will also continue the work already underway to improve the functioning of the Central Bank of Iraq and

the Ministry of Finance. As we engage the Ministries in the coming year, we will gain a better sense of the overall needs. We expect other donors will participate in this effort as well. The Departments of Defense and State are working closely with the Iraqi Government to address infrastructure security.

(3) The Iraqi Government prepares operating and maintenance budgets for all infrastructure, including that provided by the U.S. Government (USG). It is difficult to determine the sufficiency of these budgets and the degree to which they will be funded. I am aware that the Project and Contracting Office (PCO), which has primary responsibility for infrastructure projects, is working closely with the Iraqi Government on this issue.

(4) Speaking only for USAID, it is expected that all our infrastructure reconstruction projects will be completed and turned over to the respective Iraqi Ministries by the end of calendar year 2006.

*Question.* Joseph Christoff and Stuart Bowen agreed in their testimony that the total cost for reconstructing Iraq's infrastructure will be higher than the \$56 billion that the World Bank estimated in 2003.

Do you agree with their assessment? What is your best estimate for what this cost would be today? How much of this shortfall do you expect the Iraqi Government to be able to supply given its budgetary problems, its sovereign debts, and its reparations?

Answer. Neither the USG nor the World Bank has attempted to revisit this estimate prepared in the summer of 2003. Earlier estimates made by USAID had assumed that the donor (including USG) activities would be limited to reconstruction of damaged facilities and not the construction of new facilities. The referenced World Bank estimate was based on an abbreviated assessment of infrastructure conditions, with few or any field visits outside Baghdad. A significant portion of USAID's work in Iraq seeks to enhance Iraqi government budgetary performance and address indebtedness issues.

*Question.* Inspector Bowen spoke at Wednesday's hearing of a "reconstruction gap," whereby hundreds of projects in critical sectors will go unfinished both because of the rising security costs for contractors doing the work and because of the reprogramming that has shifted resources to the training of Iraqi security forces, but away from other sectors.

How will the U.S. Government make up this "reconstruction gap"? When will Iraq need a new infusion of assistance?

Answer. Speaking only for USAID, none of our projects will go unfinished. During the 3 years that USAID has been engaged in Iraq, there have been a number of instances in which projects planned, or underway, were cancelled at the direction of the Iraq Reconstruction Management Office in light of changing priorities. However, none of the projects for which USAID has maintained responsibility will be left unfinished when the USAID infrastructure contractor demobilizes at the end of calendar year 2006. In addition, much of USAID's work is targeted at increasing the Iraqi Government's capacity to meet reconstruction needs, which are likely to exceed funds provided by the international donor community.

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RESPONSE OF AMBASSADOR JAMES JEFFREY TO A QUESTION SUBMITTED BY SENATOR  
BILL NELSON

*Question.* Iraq has the world's second largest oil reserves and significant natural gas reserves. Due to the lack of exploration in decades, Iraq may have much more than currently estimated. According to the most recent SIGIR report, Iraq's peak production prior to the Kuwait invasion in 1990 was 3.7 million barrels per day (MBPD) and prior to the 2003 invasion it was 2.58 MBPD. The Gulf Region Division-Project and Contracting Office reported that Iraq is only producing 2.0 MBPD despite a capacity of 2.5 MBPD.

According to CRS, if Iraqi oil production returned to 1990 levels at \$50 per barrel it would yield \$64 billion per year in revenues from oil production alone. Given that the Iraqi Government budget is \$28 billion, these excess revenues could prove critical to supporting stabilization and growth of their entire economy. The American taxpayer has spent over \$300 billion to liberate the Iraqi people and rebuild their country. No doubt we will contribute more in the coming years. What is the administration's plan to offset the cost of the war to the American taxpayer with Iraqi oil revenues?

Answer. Iraq's oil sector has been in decline since 1979 when Iraq reached its peak production of 3.5 million barrels per day (MBPD). Both Iraq's war with Iran

and the 1991 gulf war caused damage to Iraq's oil infrastructure and diversion of funds from oil sector investment to Iraq's war-making apparatus. The United Nations sanctions following Iraq's invasion of Kuwait had the effect of preventing major investments in the oil sector through the 1990s. In the absence of necessary capital investment and proper maintenance, Iraq's oil infrastructure deteriorated badly. By 2002, the annual crude oil production had fallen to an annual average of 2 MBPD. While Iraqi production reached 2.58 MBPD for a few days in February 2003, just before Operation Iraqi Freedom, this did not represent a sustained production level.

Oil production and exports resumed in the second half of 2003, and, based largely on U.S. efforts and IRRF funding of \$1.7 billion, average production was raised to 2.1 MBPD and average exports to approximately 1.5 MBPD for 2004 and most of 2005. Production and exports dipped in the last 2 months of 2005 and the first 2 months of 2006.

There are two main reasons for our inability to quickly increase oil production and exports well above immediate prewar levels, and for the recent declines. First, the lack of investment under the previous regime left the oil sector in a dilapidated state, from which it will take major new investment to increase production significantly. Second, the system's dilapidated state makes it vulnerable to a range of factors, most notably insurgent attacks. Such attacks on the long, vulnerable northern export pipeline have essentially shut down that capacity capable of moving 400,000 b/d. Equipment failures and even rough weather at Iraq's southern loading terminal have reduced production and exports. While Iraq has benefited from higher oil prices, the deterioration of its refining sector has made Iraq dependent on increasingly costly fuel imports, especially since liberation as Iraqis have bought cars and generators in record numbers.

The USG has developed a program to increase Iraq's capacity to produce and export crude oil. Current IRRF projects scheduled for completion by the end of 2006 will increase oil production capacity to an estimated 2.8 million b/d by a combination of drilling new wells in small fields and restoring pressure in large fields. International Energy Agency (IEA) projections are similar, estimating average annual Iraqi production at 3.15 MBPD by 2010. We are also improving Iraq's export infrastructure.

It is true that now, 2 years after Saddam's ouster, Iraq is still struggling to redress decades of neglect in essential services like health, education, electricity, water, and oil, and that the country currently is dependent on assistance from the United States and other donors. However, already in 2006 Iraq's own government budget is a major source of funds for Iraq's reconstruction. Anticipated increases in oil production and exports mentioned above will help provide Iraq the wherewithal to pay for its own future economic development.

Our assistance programs contribute to the development of a democratic, prosperous, free-market-oriented Iraq at peace with itself and its neighbors. Such a country will be able to attract foreign commercial credit and investment to assist it in meeting its development goals. In the long term we expect American taxpayers, like the rest of the world, will benefit from our investment in the form of a more stable and democratic Middle East, increased world oil supply, and greater American export and investment opportunities (creating more American jobs).

