

Testimony of Ambassador Saloom: House Budget Committee, July 31, 2007

Mr. Chairman, Mr. Ryan, members of the Committee, ladies and gentlemen: It is a pleasure for me to appear before you today to discuss reconstruction in Iraq. I returned two and a half months ago from a year as Director of the Iraq Reconstruction Management Office where I worked on these issues on a daily basis and had the chance to brief some of you on these issues during your trips to Baghdad.

The Chairman's letter inviting me noted the Committee's interest in past and projected costs of reconstruction and what Departments were doing to identify and curb wasteful spending. The answer to the first question is that our emphasis has moved from building things to building the capacity of the Iraqi government to channel its considerable resources to meet the urgent needs of the Iraqi people in a transparent and accountable manner. We expect the Iraqis, not the U.S. taxpayer to pay for fixing the Iraqi economy, building on generous U.S. reconstruction assistance which we provided during the reconstruction phase of our assistance program to Iraq under the IRRF. As this phase winds down, we are focusing on building Iraqi capacity through the investment of a much smaller amount of U.S. funds to help Iraqi authorities to mobilize and channel their own resources to meet the needs of the Iraqi people.

The budget impact of this shift in focus is that our requests for FYs 2006, 2007 and 2008 each are an order of magnitude smaller than the IRRF funding. The Congress made available \$1.7 billion in FY 2006, \$2.2 billion in FY 2007 and our request for FY 2008 is \$1.4 billion.

On the question of wasteful spending, I am delighted to see Special Inspector General Stuart Bowen on this panel. The Department of State works closely with SIGIR and is constantly exploring ways to improve monitoring of projects to minimize waste. The record of our working with SIGIR is overwhelmingly one of acceptance and implementation of SIGIR recommendations to improve management of the resources entrusted to us by Congress.

CHANGING FOCUS

As part of the President's New Way Forward announced in January, the focus of our assistance effort in Iraq is changing. As Iraqis increasingly take the lead we have shifted our focus from large infrastructure projects to capacity development and technical assistance programs that will increase the ability of the Iraqis to better plan and execute their capital budget, increase production of essential services in vital areas such as electricity and water, and improve governance at the national and provincial levels.

To meet these objectives, we continue to boost our capacity building effort with the central government in Baghdad and are extending and expanding our reach beyond the Green Zone to help local communities and leaders transition to self-sufficiency. At the center of this latter effort is the expansion of the Provincial Reconstruction Teams (PRTs).

CURBING WASTE

One of the issues I had to grapple with in deciding whether or not to take on the challenge of the IRMO position were the questions that have been raised regarding allegations of waste and abuse of Iraq Relief and Reconstruction Fund (IRRF) monies appropriated by Congress. Secretary Rice has emphasized in testimony her complete commitment to transparency and accountability. She meets regularly with the Special Inspector General for Iraq Reconstruction (SIGIR) Stuart Bowen. The State Department and our implementing agency partners also work closely with SIGIR to support the latter's program review of our assistance. I met frequently with Mr. Bowen during his trips to Baghdad. When he found deficiencies, my goal was to have his reports read "SIGIR found this problem and it either has been or is in the process of being fixed."

CIVIL MILITARY COMMON EFFORT

The President has reinforced our own troop levels in the Baghdad area and in Anbar Province. Also, these troops are doing things differently. The mission of this enhanced force is to augment the efforts of Iraqi troops and commanders to lead in the clearing and security of neighborhoods, protect the local population, provide essential services, and create conditions necessary to spur political reconciliation and economic development. The State Department is contributing robustly to this effort by expanding our presence--including by embedding our staff with military units-- and closely coordinating with our military counterparts in and outside of Baghdad, as well as with the Iraqi government. Congress has provided additional budgetary resources for assistance programs designed to capitalize on security improvements by creating jobs and promoting economic revitalization. There must be the fullest possible civilian-military unity of effort if we are to be successful. In this vein I would like to underscore that hardly a day went by during my time in Baghdad when I did not hear or use the expression "One Team, One Mission" to describe the partnership between military and civilian elements. This ethos is also strong between Divisions and Brigade Combat Teams on the military side and the PRTs. I visited all ten of the PRTs that existed throughout Iraq at the time that I was there and found remarkable civil/military unity of purpose and team spirit. The fact that DOD has requested additional PRTs is the best indicator of the value our military colleagues place in this partnership.

To further reinforce this civil/military effort, we are deploying greater resources alongside our military in Baghdad, Anbar Province and North Babil. The centerpiece of this effort is the expansion of our Provincial Reconstruction Teams. We have doubled the number of PRTs from 10 to 20 and are adding another four in the coming months. We are adding more than 300 new personnel to the existing personnel already on the ground. The first phase of PRT expansion is complete, as the ten new interagency PRT core teams (40 personnel in total) arrived in Iraq in March. The new PRTs -- six in Baghdad, three in Anbar and one in north Babil -- are embedded in Brigade Combat Teams engaged in security operations. To demonstrate our unity of effort, on February 22 the State Department and the Defense Department signed a Memorandum of Agreement to codify this joint civilian-military effort.

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

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

PRTs use targeted assistance designed to develop provincial capacity to govern in an effective and sustainable way. PRTs will continue to play a leading role in coordinating U.S. programs funded by the Congress, including Iraqi Provincial Reconstruction Development Councils (PRDC) and USAID`s local governance, community stabilization, and community action programs.

IRAQI EFFORTS

Iraqis understand that they are in the lead and the Iraqi government is dedicated to doing its part to invest in its own economic development. The Government of Iraq is committed to spending \$10 billion for capital projects. At a conference co-hosted by U.N. Secretary General Ban Ki-Moon, on May 3, Iraq committed to implement the comprehensive economic reform programs laid out in the International Compact with Iraq. On July 20 at the U.N. in New York, Iraq reported that it is making tangible progress toward meeting more than two-thirds of its International Compact goals and benchmarks.

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

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

spending in 2006. The Iraqi Ministry of Finance also has released 25 percent of the 2007 capital budget to ministries and 16 percent to provinces and created incentives for ministries to execute their capital budgets or risk losing the funds. Ministries have committed nearly 25 percent of their funds to contracts, and provinces have committed 42 percent. Several ministries have demonstrated sufficient progress in allocating and spending their 2007 budget that the Ministry of Finance has released the second tranche of their budget funds, including the Ministries of Municipalities, Public Works and Electricity.

The PRTs are working closely with their provincial governments both to boost the capacity of provincial and local officials to execute their budgets but also to enhance communication and cooperation between provincial and central government entities. One of the most successful initiatives between the PRTs in the northern part of the country and Multinational Division North is a program that brings delegations of provincial officials to Baghdad to meet regularly with key central government officials whose cooperation is needed to move projects forward. Deputy Prime Minister Barham Salih plays a pivotal role in arranging the appropriate appointments for these provincial officials and this combined effort has removed many of the roadblocks to provincial spending. We remain cautiously optimistic that their resolve combined with our support will result in better budget execution in 2007.

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

While our focus is on the way forward, we are also determined to manage effectively the remaining funds for Iraq reconstruction. In Fiscal years 2003-4, we received \$20.9 billion in the Iraq Relief and Reconstruction Fund (IRRF). This funding was intended to kick start the Iraqi economy and focused primarily on helping to re-establish the Iraqi security forces and police; restore essential services like water, electricity and oil; and improve health and education. Despite challenges, including insurgent attacks, IRRF projects have made significant improvements in Iraq. We have added capacity to provide clean water for up to 5.9 million Iraqis and capacity to provide sewerage for 5.2 million; added or rehabilitated more than 2,500 MW of generating capacity and helped to keep an additional 2,200 MW operating through preventive maintenance; and helped Iraq maintain oil production at relatively steady levels despite deteriorating security conditions. Democracy programs also helped Iraq hold three elections and provided advisers to support the drafting of the constitution.

IRRF was never designed to completely rebuild Iraq's degraded infrastructure. The 2003 UN/World Bank estimate of medium term reconstruction needs amounted to \$56 billion based on certain assumptions about the security situation: an estimate today would certainly be higher.

We have obligated 98 percent of IRRF II, and, as of July 17, have disbursed 86%. The remaining 2% of IRRF funds "expired" on October 1, 2006 and will be used to cover

technical adjustments to existing obligations as required under law. We expect to complete most ongoing IRRF II projects during the course of 2007.

But we know that not every project has progressed as we would have wished. Some projects have deservedly attracted attention, including from the Congress and from SIGIR, with whom we work very closely. In such cases, we have taken action to get them moving back in the right direction and have moved to put in place management oversight structures to help ensure that similar problems do not reoccur.

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

There are numerous studies and reports on the evolution of the IRRF program, the various times that it was adjusted and refocused, and why certain approaches worked better than others. We have learned lessons from our experience and have reshaped the program to more effectively meet its intended goals. In early stages, IRRF managers relied heavily on "cost plus design build" contracts with large U.S. and international firms. The idea was that this was the only way to attract bidders capable of mobilizing quickly in the uncertain atmosphere of the early days of Operation Iraqi Freedom. Experience has taught us as the situation evolved that it was often more economical to move to firm fixed price contracts with Iraqi and regional firms for many projects, especially those that do not require specialized technical expertise.

ECONOMIC SUPPORT FUNDS: FY 2006 AND 2007

While IRRF was designed to start recovery of Iraq's severely degraded infrastructure, the focus of subsequent assistance efforts moved progressively away from construction of facilities and more to building capable and transparent Iraqi government structures at the central and provincial levels. Main spending categories for FY 2006 and FY 2007 were funds for use by the PRTs and USAID Local Governance Project (LGP) to train local and provincial leaders to take on the responsibility of governing in a decentralized system rather than taking orders from a central authority in Baghdad. In addition, Congress provided significant funds for the Community Stabilization Program (CSP) and the Community Action Program (CAP). The PRDC funds provided the new democratically elected provincial authorities with their first funds to program and allocate, teaching them how to use open and transparent procedures and to balance the needs of competing constituent interests. These PRDC, LGP, CSP funds all provide funds for near-term, high impact improvements in the lives of citizens after security operations created conditions for such projects to succeed.

Other major spending categories included operations and maintenance for U.S.-built projects, capacity building at plant level for operations and maintenance as well as longer term public administration training, democracy promotion, and support for rule of law, civil society, rural development and economic reform activities.

The common theme is that we are spending our money to help the Iraqis develop the capability to govern themselves in an efficient, transparent and democratic manner, and that we are not rebuilding major facilities for Iraq. The programs that actually involve construction are small, short term, high impact projects that are designed either as a capacity building tool for provincial governments or as civilian support to ongoing security operations by demonstrating that cooperating in combating insurgents and militias can bring a better life to citizens.

LOOKING FORWARD

Iraq has a significant capital budget that it must mobilize to spend on needed facilities. We have designed our assistance to foster that mobilization, not to substitute for it.

LESSONS LEARNED

Mr. Chairman, your letter noted the Committee's interest in what the departments are doing to identify and reduce wasteful spending. Beyond my testimony above, I would like to pass on some personal views of "lessons learned" for the future post-conflict operations based on my on my time working on reconstruction throughout Iraq for the past year. Some of you, including Ranking Member Ryan, have heard some of this before from me in Baghdad. Not surprisingly, many of these are similar to some of Special Inspector Bowen's recommendations in his "lessons learned" series.

I would like to stress the importance of "listening to the client" in order to have projects meet the priorities of the intended recipients: the key to local buy-in and local "ownership" of projects. This can be done relatively quickly for a small, high impact project but takes more time and consultation with a broader range of stakeholders for larger infrastructure projects. Special Inspector Bowen has noted the difficulties in the Asset Recognition and Transfer process. There are hosts of complicating factors involved with this process, including frequent changes in Ministers, but fundamentally, this process would have been easier if, from the start, the Iraqis had had a greater sense that these were projects that they had selected to meet their most important needs.

Use the local firms and workers as much as you can. This builds the local business community, the domestic economy and local employment and is likely to provide best value for money to the taxpayer. It forges a spirit of partnership with the local community. This requires a rapid survey of the capability of local firms because there will always be specialized requirements for which the local skill base is inadequate. I concur with Special Inspector Bowen's suggestion to pre-compete and pre-qualify the specialized contractors that you will need for things local firms cannot do so that we can move quickly on items beyond the capacity of local firms.

Much like in medicine, there is a “golden hour” in post-conflict reconstruction, when small, high impact projects can demonstrate in the early stages of an operation our good intentions and show rapid benefits to the population of cooperation with us. Authority and funding to furnish a small generator to power local essential service providers or other similar items should be part of the toolkit that we should be able to deploy quickly in such situations. Every military commander that I worked with in Iraq stressed the importance of having a civilian capacity to do this as a complement and enhancement to CERP. Preplanned rapid procurement, contracting and grant-making mechanisms are especially important.

Special Inspector Bowen and I have often discussed the importance of quality assurance and my people in Baghdad were sick of me using the cliché that “you don’t get what you expect, you get what you inspect.” My chief of operations in IRMO, MG Steve Abt, visited projects at every opportunity and earned a Silver Star for taking fire so often when he was out looking at ongoing reconstruction efforts. I and my other IRMO colleagues also spent significant time in the “Red Zone” monitoring project progress as did colleagues at the Gulf Regional Division of the Corps of Engineers. Special Inspector Bowen and his people added to this effort by having “eyes on” projects. This monitoring and oversight will always be more complicated and costly if the environment is non-permissive and we need to recognize and plan for security issues as a cost of doing business and as a constraint on optimal monitoring.

In post-conflict operations, there will always be complementary programs done by different agencies under different authorities and drawing on different sources of funds but there needs to be a preplanned mechanism to deconflict and coordinate efforts and share best practices from the unit level to the national level. This mechanism needs to be something that civilians and military have trained together to implement as part of civil/military contingency post-conflict exercises. There are useful lessons to be learned from the experience of IRMO, CETI, and the PRTs as we design the way forward.

It is also a cliché that no battle plan survives the first contact with the enemy but I believe that if we do the things above, more of the plan will survive.

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