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CAN IRAQ PAY FOR ITS OWN RECONSTRUCTION?

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS, HUMAN RIGHTS, AND OVERSIGHT

AND THE

SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

OF THE

COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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CAN IRAQ PAY FOR ITS OWN RECONSTRUCTION?

TUESDAY, MARCH 27, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS,
HUMAN RIGHTS, AND OVERSIGHT, AND
SUBCOMMITTEE ON THE MIDDLE EAST
AND SOUTH ASIA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittees met, pursuant to notice, at 2:35 p.m. in room 2172, Rayburn House Office Building, Hon. Bill Delahunt (chairman of the Subcommittee on International Organizations, Human Rights, and Oversight) presiding.

Mr. DELAHUNT. The subcommittees shall come to order. This is a joint hearing between the Subcommittee on International Organizations, Human Rights, and Oversight, and the Subcommittee on the Middle East and South Asia. My apologies, gentlemen, for our delay but I know that both of you have testified on numerous occasions, and are well aware that we are constantly interrupted by votes. However, I am told that we have a window here of several hours, and hopefully we will conclude well before several hours.

I am joined by my ranking member, the gentleman from California, and the gentleman from Georgia, Mr. Scott, the gentleman from New Jersey to my right, Mr. Sires, and the gentleman from California, Mr. Costa. What I will do is I shall make an opening statement. I will then turn to Mr. Rohrabacher, and then I will introduce both of you gentlemen for what I know will be interesting testimony.

Before the invasion of Iraq, the Army Chief of Staff, Eric Shinseki, predicted that hundreds of thousands of troops would be needed to pacify the country. Then Deputy Secretary of Defense, Paul Wolfowitz, dismissed Shinseki's estimates as "wildly off the mark." Well we now know that General Shinseki was correct, and it was Wolfowitz who has wildly off the mark.

That is not the only time Secretary Wolfowitz was wildly off the mark. Exactly 4 years ago today, Secretary Wolfowitz testified before Congress, and had this to say regarding the cost of rebuilding Iraq after the American invasion: "There is a lot of money to pay for this. It does not have to be U.S. taxpayer money. We are dealing with a country that can really finance its own reconstruction and relatively soon."

Well, to the contrary the United States has spent almost $20 billion of the American people's money in reconstructing Iraq or at

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least making an effort not to mention hundreds of billions of dollars fighting an insurgency that the administration was unprepared for. Furthermore, it forgave an additional $4 billion in Iraqi debt to the United States that was incurred by the Reagan-Bush administration which had loaned to Saddam Hussein during his war of aggression against Iran.

Now we hear the President requesting the Congress to appropriate almost another $4 billion for Iraqi construction. I think it is important to note that most other countries that have given assistance to Iraq have insisted that their aid be provided in the form of loans not grants but not the United States. All of our assistance is being given as grants.

In fact, when Congress voted in 2003 to require that this assistance be provided as a loan—and I should note that both Mr. Rohrabacher and Mr. Pence agreed with that proposal—President Bush threatened to veto the bill. So the then-Republican congressional leadership stripped it out, and now we have been asked to give—not to loan—that additional $4 billion while our national debt, the American national debt, is in excess of $8.8 trillion.

We are running enormous budget and trade deficits, and the White House recently announced in submitting its budget to Congress that they would be seeking $66 billion worth of cuts in Medicare. I for one am unable to comprehend the rationale for why the administration insists on providing this assistance in the form of grants instead of loans, particularly when I hear that the Iraqi Government has almost $12 billion on hand.

Now I recognize that we have a moral obligation to the Iraqi people to help repair the damage resulting from our invasion and occupation, and the President said in January that the Iraqis will commit $10 billion of their own money for reconstruction. But if the Iraqis have the resources to finally fulfill Wolfowitz' prediction and pay for their own reconstruction, why are they not using all of their money, and why is the administration committing more American tax dollars as grants to pay for what the Iraqis could pay for?

It is obvious that many here in the United States need our help. This is what we hope to address during the course of today's hearing, and with that I will now turn to my good friend and colleague from California, the ranking member of the subcommittee, Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. So Secretary Wolfowitz was wildly off the mark, and now he is at a job where being wildly off the mark will not hurt anybody I guess except the entire world economy seeing that he is the chairman of the Bank, the World Bank, is he not? Let me note that I remember very well that vote that we had right off the bat as to whether or not the reconstruction money that would be poured into Iraq after the military operations, whether that would be a loan, and I believe if my memory serves me correctly, we were using future oil revenues as a collateral for that loan, which would then be repaid by a 10 percent tax or something like that on their oil revenue until the loan was paid back.

Mr. Chairman, I do not think that we should just point fingers at Republicans. We just had a supplemental come through, now that your party is in control of the House and the process, that was

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what, $4 billion, $5 billion in that was for reconstruction. Why did we not make sure that all future money, including that money, for reconstruction is in the form of a loan using their oil revenues as collateral? And if you think that is a good idea, I would be very happy to cosponsor a piece of legislation that we could coauthor, and anyone on this panel would like to join us in saying that any future reconstruction money—or in fact any other money we give to Iraq—will be based on loan and will be based on a pay back out of 10 percent of oil revenue for as number of years as is necessary to repay the loan.

That makes all the sense in the world to me, and now that you guys are in power, let us go. Let us do it. So just an idea I thought I would bring up seeing that I have the floor now.

Let us say this. There has never been a war in American history, there has never been actually an effort in American history made by the United States Government that was not filled with corruption and with waste and with at least a 25 percent factor of wasted money, and that is not an excuse for wasting the taxpayer's money. That is a realization that goals—you know goals are what are significant. Is the goal that people are trying to achieve is it worthwhile, realizing that in trying to achieve that goal that there is going to be a waste of money and a waste of lives?

In World War II, it was beyond imagination, and it was hidden from the American people. The lives that were lost unnecessarily and the profiteering that went on during the war are just beyond belief in many cases. Same with Vietnam War. Same with World War I. In the Spanish-American War, more people died of bad meat that was sold to the government in tin cans than died at enemy hands.

During the American Revolution and during the Civil War of course, they are the same thing, during the American Revolution, Washington's army was so plagued by the political end of the supply chain that his army was starving at Valley Forge, and if it was not for—and I forget the fellow's name now—Gary Ackerman will have to tell me because he knows. That little Jewish guy that financed Washington's army, Gary? Was Hymie Solomon his name I think? Right.

And so an individual had to step up. Our system was so bad that an individual had to step up, and I understand that man was never repaid and actually died in poverty. I remember I spent a brief time in Vietnam, in 1967, doing some political work there in the summer of 1967, and I remember how overwhelmed I was at the level of corruption that was going on, and I came back, and had a discussion with my father who had been in the marines, and he told me that if you think it is bad in Vietnam, you should have seen what it was like in Korea.

And well what we have to do is decide whether or not the goals we have in mind—do our very best to come to grips with the fact that in a free society there are profit seekers who take advantage of wartime crises, and I might add national emergencies as well. We have to do our very best to cut them off, and to make sure the money is being spent wisely but realizing that this is part of what the price is going to be paid to attain those goals.

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And whether or not the Korean War—where there was all sorts of profiteering going on and corruption—was it good that we stood firm in Korea so that Korea today is a bastian of democracy? And what kind of world would it have been had we lost? Would Japan have been neutralized? Would the Cold War be over? Would all of Korea be run by some maniac trying to produce a nuclear weapon that is hostile to the United States?

Well those are the issues that are at hand. The corruption is something we have to work on to try to perfect but it does not itself negate the purpose of the mission, and I hope that as we discuss this that we are looking not at this as an attempt to undermine our mission in Iraq but instead to try to get the best use of tax dollars, to make sure that the scarce money that we have got is not being wasted by people who are being corrupt, and let me add the decision that we both backed about trying to make this a loan to begin with, that was opposed by the administration.

And if I might remind people here that this probably was not the official reason that was given but what when I dug into this and asked why are we not making this loan payable back with all this oil money they are going to have? You know what the answer was that I got from the muckity mucks on the top? It was, well the German and the French banks are very upset that if we make this a loan that the Iraqis, that they are going to just renege on all the loans that Saddam Hussein took when he was in power, and that would really destabilize the international financial situation.

So, Mr. Chairman, we did that in order to placate German and French banks. It is about time we watch out for the American taxpayer. What we have to do when we talk about economic decisions it should be based on what is good for the American people but is also consistent with having a successful mission in Iraq. Ending that conflict in a successful way is what is vitally important now, and I will have to say that anything we do today should not be hampering the achievement of that goal. In fact, by focusing on the best use of the money, we should be enhancing the ability to use this money to reach our goals in Iraq. Thank you very much, Mr. Chairman.

Mr. DELAHUNT. Thank you, Mr. Rohrabacher. Now I turn to my colleague from New York, the chairman of the Subcommittee on the Middle East and South Asia, Mr. Ackerman.

Mr. ACKERMAN. Thank you, Chairman Delahunt. I am not sure that you exercise oversight over the administration that you want. You have to exercise oversight over the administration that you have, and I do not know that we should be spending a lot of time investigating the Spanish-American War and rotten meat, and just glossing over what we have to deal with, and what we can make a difference about, and that is the war that we find ourselves in right now.

Indeed, 4 years ago when Deputy Defense Secretary Wolfowitz famously told the House Appropriations Committee that Iraq could pay for its own reconstruction, and that the United States' taxpayers would not be on the hook, 4 years to the day former Secretary Wolfowitz noted we are dealing with a country that can really finance its own reconstruction and relatively soon.

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The problem here should not be one that everybody did it or maybe they did it or perhaps they did it. Corruption has always existed but this Congress has to deal with appropriations and authorizations and policies based on a tremendous amount of reliance on the administration that we have, and whether or not what they present to us is true or whether we are being deceived or whether we are being misled or whether we are just being properly educated.

Four years and $21 billion into U.S. assistance later, reality seems more like not relatively soon but relatively never. The Government of Iraq is apparently either unable or unwilling to assume the burden of its own reconstruction, and just last week the House passed the President's supplemental. As was pointed out, it contained a portion of the additional $3.7 billion for reconstruction that the President is seeking. That is the President is seeking, not the new majority in Congress necessarily.

So while the President asks the American taxpayer—or more accurately since this is unbudgeted emergency spending—the future American taxpayer asking them to pony up yet again for Iraq, the Iraqi Government finished last year with $12 billion available but unspent for reconstruction. That is right, $12 billion sitting in the bank. The Government of Iraq has used only 20 percent of the $6 billion budgeted for overall reconstruction projects, and only 10 percent of the $3.5 billion slated specifically for improvement for Iraq's oil infrastructure.

For next year, the Iraqi Government expects to spend $2.4 billion on oil infrastructure. That sounds like a lot of money but it actually represents a 33 percent decrease from the amount available in 2006, and given that oil exports produce 94 percent of Iraq's revenue, this is not exactly the trend line in the oil sector that we would like to see.

By contrast, the United States has invested $2 billion in Iraq's oil infrastructure, an important investment I am sure, but for reconstruction to be successful we cannot want it to succeed more than do the Iraqis. While I think Congress should review our reconstruction priorities in Iraq and we should encourage the Iraqis to shoulder much more of this burden, I cannot escape the deep irony here of criticizing the Iraqis for how they spend their money.

After all, the American led CPA, the Coalition Provisional Authority, the government that we led, proved equally if not more incapable of spending Iraqi money effectively. In the view of many, myself included, the CPA lost $8.8 billion of Iraqi money. Mr. Bowen I think put it a bit more charitably by criticizing the CPA for "lax fiscal control." That was lost, not misused, not misspent, but lost.

I do not know if we are dealing here with misfeasance or malfeasance or corruption or stupidity but they actually fiscally lost $8.8 billion. In any event, it is not clear where that money went and where it is but greed is certainly something that figures heavily into the equation. Maybe it actually financed genuine valuable reconstruction projects that are invisible. Maybe the CPA burned it to generate electricity. Maybe the CPA was just handing out bundles of cash but had the CPA used the money effectively, maybe

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we could have saved the American taxpayers a third of what we have provided so far.

In the end, the United States faces the same problem on reconstruction that we face on the security situation. If we continue to do things for them, the Iraqis will not do things for themselves. If we do not intervene, however, very little gets done at all. How we square this particular circle is important because motivating Iraqis to utilize their own resources would allow us to end our involvement in Iraq that much more quickly.

The President has said that America's commitment to Iraq is not open-ended, although his own commitment might be, but America's commitment to the war is certainly not unlimited. The House has responded to the American people by adding benchmarks to the recently passed supplemental which will make American expectations on security clear to Iraqis. I think a similar sort of clarity should be applied to reconstruction funding otherwise we are just teaching the Iraqis how to enjoy other people's money. I thank you, and look forward to hearing from our witnesses.

[The prepared statement of Mr. Ackerman follows:]

PREPARED STATEMENT OF THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

Thank you, Chairman Delahunt. 4 years ago, then Deputy Defense Secretary Paul Wolfowitz famously told the House Appropriations Committee that Iraq could pay for its own reconstruction and that the United States taxpayer would not be on the hook. 4 years to the day, former Secretary Wolfowitz noted that, "We are dealing with a country that can really finance its own reconstruction, and relatively soon."

4 years and $21 Billion in U.S. assistance later, relatively soon seems more like relatively never. The government of Iraq is apparently either unable or unwilling to assume the burden of its own reconstruction. And just last week the House passed the President's supplemental request that contained a portion of the additional $3.7 Billion for reconstruction that the President is seeking. So while the President asks the American taxpayer Or, more accurately, since this is unbudgeted emergency spending, the future American taxpayer, to pony up yet again for Iraq, the Iraqi government finished last year with $12 Billion available but unspent for reconstruction. That's right, $12 Billion sitting in the bank. The government of Iraq has used only 20% of $6 Billion actually budgeted for overall reconstruction projects and only 10% of $3.5 Billion slated specifically for improvement of Iraq's oil infrastructure. For next year, the Iraqi government expects to spend $2.4 Billion on oil infrastructure. That's sounds like a lot of money but it actually represents a 33% decrease from the amount available in 2006. Given that oil exports produce 94% of Iraq's revenue this is not exactly the trend line in the oil sector that we'd like to see.

By contrast, the United States has invested $2 Billion in Iraq's oil infrastructure, an important investment, I'm sure, but for reconstruction to be successful, we can't want it to succeed more than do the Iraqis.

While I think Congress should review our reconstruction priorities in Iraq and we should encourage the Iraqi's to shoulder much more of this burden, I can't escape the deep irony here of criticizing the Iraqi's for how they spend their money. After all, the American-led Coalition Provisional Authority proved equally if not more incapable of spending Iraqi money effectively. In the view of many, myself included, the CPA lost $8.8 Billion of Iraqi money. Mr. Bowen, I think put it a bit more charitably by criticizing the CPA for "lax fiscal controls." Either way it's clear that no one is really sure where that money went. Maybe it financed genuinely valuable reconstruction projects, maybe the CPA burned it to generate electricity, maybe the CPA was just handing out bundles of cash. Had the CPA used this money effectively, maybe we could have saved the American taxpayers a third of what we've provided so far.

In the end, the United States faces the same problem on reconstruction that we face on the security situation: if we continue to do things for them, the Iraqis won't do things for themselves. If we don't intervene, however, very little gets done at all.

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Thank you and I look forward to hearing from today's witnesses.

Mr. DELAHUNT. Thank you, Mr. Ackerman, and does the gentleman from Indiana, the ranking member of the Mid East Subcommittee which to make an opening statement?

Mr. PENCE. I do, Mr. Chairman.

Mr. DELAHUNT. I yield the gentleman as much time as he may consume.

Mr. PENCE. Thank you, Mr. Chairman, and Chairman Ackerman I thank you both for calling this important hearing, and I would like to welcome our distinguished panel. I am anxious to hear your testimony and the dialogue that will follow.

Mr. Chairman I yield to no one in my frugality with the taxpayer dollars of the American people. I support offsets in spending bills, earmark reforms, spending transparency, accountability, best practices and open government are good medicine for any institution associated with government or the private economy. In fact, I believe Mr. Bowen's auditors ought to be let loose across the Federal Government based on what I have seen. No one in this body defends corruption or poor performance, neither do I offer excuses for any waste, fraud or abuse of public monies.

Where there is fraud, it should be prosecuted, as has happened in dozens of cases discovered and pursued by Mr. Bowen and his very capable team. Mr. Chairman, I should note that most of Mr. Bowen's work has focused on development fund for Iraq, DFI dollars which were not taxpayer dollars but rather were Iraqi oil revenues but some context is in order. The Government Accountability Office regularly finds agencies and departments that cannot account for billions of dollars. It is astounding to me but it is a fact.

Discrepancies identified by Mr. Bowen sadly are not unique to Iraq or operations of the nearly $3 trillion activity known as the U.S. Federal Government. As for the occupation, I would say respectfully we can all second guess Ambassador Paul Bremer's de-Baathification order or his decision to disband the Iraqi army. What we should not however question is the chaotic environment that he faced in early May 2003, and the fact that the currency, banking and government systems were all completely destroyed in the aftermath of military hostilities.

He was under intense and understandable pressure to provide basic services. He did it. However imperfectly, he did it. Mr. Chairman, I think the criticism of our Iraq efforts has been somewhat one-sided. We can all cite faulty predictions, less than ideal planning, coordination practices and tactical decisions we all might wish to revisit. Along those lines Mr. Bowen offers some provocative ideas for reform of the interagency process. Most of this commentary that will keep historians busy for the next generation I predict.

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And by way of perspective, this is not unique to Iraq either. The cover story of the June 1, 1968 *Saturday Evening Post* was entitled "We're Being Robbed By Corruption In Vietnam." Or the cover story of *Life Magazine* on January 7, 1946, read, "Americans Are Losing The Victory In Europe." What Clausewitz described as the fog of war is timeless.

What is not historical commentary is that the surge underway and its critical role in allowing the reconstruction that we all desire to succeed is taking place. Reconstruction cannot thrive if there is lawlessness and chaos in the streets of the capitol city of Iraq. Building projects cannot be safely completed in the midst of thriving insurgency. Diplomacy and a political solution are impossible of there is total mayhem. The success of the surge is critical, I believe, to our efforts there as well as to our own national security.

But, Mr. Chairman, I think there is reason for hope. Mr. Bowen testified elsewhere just last week of his, "Sense of cautious optimism about the progress in the Baghdad security plan," and "The preliminary results of this latest initiative," he said, "in the Baghdad security plan have been positive." And we all hope and pray this success continues and multiplies, and I trust Mr. Bowen will feel just as free today to share impressions he may have had from his most recent journey to that troubled place.

Mr. Chairman, thank you again for calling this important hearing, and I also want to thank Ambassador Satterfield for his extraordinary service to the country, and I look forward to both of these leaders' testimony today. Yield back.

Mr. DELAHUNT. Yes. Thank you, Mr. Pence, and unless there is a burning desire by any other members, we will proceed to introduce the witnesses and elicit their testimony but let me note for the record that Mr. Fortenberry from Nebraska has joined us along with Mr. Paul of Texas and Mr. Wilson, Mr. Joe Wilson from South Carolina has also joined.

Mr. WILSON. Mr. Chairman, I want to commend you on your new haircut. Thank you.

Mr. DELAHUNT. This is the boy's regular Joe, I can assure you of that. This is a $4 haircut, and it looks it, does it not? Trying to be positive.

Mr. ACKERMAN. I will give it to you for $2.

Mr. DELAHUNT. Enough. We are fortunate to have two distinguished public servants testifying here today. David Satterfield is the Senior Advisor and Coordinator for Iraq. Ambassador Satterfield became Senior Advisor to the Secretary of State and Coordinator for Iraq in August 2006, following his service as Deputy Chief of Mission at Embassy Baghdad from May 2005 until July 2006.

He entered the foreign service in 1980, and has served overseas in Jedda, Tunis, Beirut and Damascus. He is the recipient of the Presidential meritorious executive rank award, the Department of State distinguished honor award, and so on and so on and so on. Certainly a formidable resume.

And with us we have the Special Inspector General for Iraq whom I have said before and will repeat again has done an extraordinary service for his country. Mr. Stu Bowen has served in that capacity since October 2004. He previously served as the Inspector

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General for the CPA, Coalition Provisional Authority, to which he was appointed in January 2004. His mission includes ensuring effective oversight of the $22 billion that comprise the Iraq Relief and Reconstruction Fund.

He has served President Bush as Deputy Assistant to the President and Deputy Staff Secretary and Special Assistant to the President and Associate Counsel. He has also served 4 years on active duty as an intelligence officer in the U.S. Air Force, achieving the rank of captain. He holds a BA from the University of the South, attending Vanderbilt Law School, and received a JD from St. Mary's Law School. And with that, Ambassador Satterfield.

STATEMENT OF THE HONORABLE DAVID SATTERFIELD, SENIOR ADVISOR, COORDINATOR FOR IRAQ, U.S. DEPARTMENT OF STATE

Mr. SATTERFIELD. Chairman Delahunt, Chairman Ackerman, Congressman Rohrabacher, Congressman Pence, members of the subcommittee, I appreciate the opportunity to appear before you today to discuss Iraq's ability to manage and pay for its own reconstruction for its own future, and I would ask permission of the committee to enter my prepared remarks into the record.

Mr. DELAHUNT. Without objection.

Mr. SATTERFIELD. Thank you. We appreciate very much the committee raising this important question because a critical dimension of the President's way forward is that Iraqis must take the lead in articulating and executing the political, security and economic goals that are essential to success in that country, success for Iraqis, success for Americans.

I would like to speak a little bit today about the economic trek and how Iraqis are increasingly taking responsibility for their own development. I would like to outline what Iraqis have done and what they are poised to do, what the U.S. and the international community are doing to help them build capacity. It is vital, Mr. Chairman, that we support Iraq during this time of transition—and I underscore transition—so that Iraq develops the ability to manage and sustain its own future.

Iraqis are committed to taking the lead on reconstruction and advancing economic reform as they must be. The passage by Iraq's Council of Representatives of key economic legislation—such as a national investment law, a fuel import liberalization law, Iraq's pursuit of accession to the World Trade Organization, Iraq's debt negotiations with Saudi Arabia, Iraq's attempts to tackle corruption a very serious and pervasive problem—are all signals that Iraq is serious about economic reform.

In addition, the Government of Iraq has made serious progress on the vital hydrocarbons laws necessary to maximize the value of that sector both within Iraq and with purpose of exports. The Council of Ministers approved a draft of law on February 26. When a draft a draft revenue sharing law is approved by the Council of Ministers, we expect that shortly, the two will be submitted as a package to the Council of Representatives.

This is a very positive, very forward looking law, and frankly, Mr. Chairman, it is a reputation of the assumption often heard that on significant and difficult issues Iraqi's are incapable because

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of ethnic or sectarian divisions of coming together. On the hydrocarbons legislation, indeed Kurds and non Kurds, Shiite and Sunni, have come together, have crafted through compromise a measure which we believe is to the benefit of all Iraqis, and in that we and the people of the United States should take encouragement.

Working with Deputy Undersecretary of Defense Paul Brinkley, the Iraqis are also aiming to develop job creation, employment particularly in conflict areas by identifying Iraqi state-owned enterprises that have the potential for revitalization and ultimately privatization. Now among the most pressing challenges holding Iraq back from its potential and freeing the American taxpayer of the requirement for additional funding for that country's economic development is its inability to spend its capital investment in reconstruction budget.

Chairman Ackerman, you correctly referred to the considerable sums present in Iraqi current accounts, $12.5 billion. That is an exceptional figure, and for the administration to request almost $4 billion in civilian economic assistance for such a country, that is an extraordinary move. There is a reason for it. The reason Iraq has these substantial financial resources—they are unspent funds from the 2006 budget—to some extent they are higher than expected oil revenues but the key message here is why could not Iraq spend these monies? Why could not the oil money spend the $3.5 billion in its capital investment budget? Only some 6 percent was actually spent.

The answer is not corruption. It is not politics. It is not security. It is literally the lack of mechanisms, the lack of the experience and capacity to spend funds which exist in Iraqi hands. This is part of the legacy of 40 years of Saddam's rule in which very little in the way of meaningful capital investment was spent.

Absence of WMDs is a problem. Absence of capital infrastructure was an even greater problem, and it is a problem we and Iraqis have been coping with since 2003. Iraqis need to have the ability to spend their money because they must in the end spend their money not ours. We have focused on budget execution capacity as the highest civilian priority for our capacity efforts in the capitol. It is to make a reality the rhetorical pledge that this is a transition year.

That the monies that we are asking from the Congress are designed to achieve for us certain goals over the course of this year that put Iraqis fully in the lead, A, and that B, capitalize upon the steps being undertaken by General Petreus and his Iraqi security counterparts to provide a moment, a window of stability and security for exploitation on the political reconciliation track, on the economic development track, and for all of us—Iraqis, Americans, the region and the international community—on a broader diplomatic engagement of support for Iraq.

The Iraqis too have recognized the need to make budget execution from their resources a priority for 2007. The Iraqi Government has committed to spend $10 billion out of the budget passed last month on capital investment to provide services from water projects to schools for all Iraqis as well as to help create jobs and further national reconciliation. The government has formed a budget execution task force led by the very capable Deputy Prime Min-

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ister Barham Salih, which I believe many of the members here have met, Finance Minister Jabr and Planning Minister Ali Baban, in coordination with our Ambassador Tim Carney.

This task force held a conference in early March which officials from all of Iraq's spending ministers and provincial governments discussed new budget procedures, dispelled concerns about corruption allegations, and determined to move forward on spending their money. Ministry of Finance has made an early and very concrete step in allocating 10 percent of all capital budgets to be released immediately following the passage of the 2007 budget in February. We remain, Mr. Chairman, cautiously, guardedly optimistic that Iraqi resolve combined with technical assistance from us and from the broader donor community will result in much better budget execution in 2007.

With respect to the international dimension to all this—and there is a significant international dimension—we are pleased at developments over the last several weeks, in some cases recent days, that has shown a much more aggressive approach by both the Iraqi Government and the international community to stepping up and helping Iraq. The international compact with Iraq—a very forward looking document which contains specific Iraqi commitments on an open market, economic development and trade system, along with commitments on security and political reconciliation—was closed in New York on March 16 at a broadly attended meeting. We look forward to a ministerial launch session for the compact in the very near future.

There are detailed timelines and benchmarks in that compact that outline for Iraq citizens as well as for the world and for America's citizens what the Iraqi Government is determined to do. Many of the goals in the compact have already been achieved. Others are being worked on now but to support Iraq as it moves forward the international community needs to come forward too. It needs to provide debt relief, financial and technical assistance, private and public sector aid. The United States cannot shoulder this burden alone nor will it. The compact is a major step forward but it needs to be reciprocated by steps from the international community.

Mr. Chairman, as Iraqis take the lead in economic reform, the U.S. has shifted its focus from the large infrastructure programs funded by the $18 billion-plus URF fund to capacity development, to technical assistance programs that increase the ability of Iraq to manage its own reconstruction, to execute its own budget. We will continue to make this a priority. We will continue to work with Iraqis as well as with the Congress on a meaningful way ahead which uses United States monies to build Iraqi capacity.

We are out of reconstruction, Mr. Chairman, with a capital R. The remainder of the funds under URF will spend through in the course of calendar year 2007, the beginning of 2008. We have already moved to transition where our monies are spent, and they are not being spent on projects which Iraq could assume. They are being spent on projects which are of immediate importance and assistance to the United States. They are projects which are carefully keyed with General Petreus' efforts on the military side to make of the build part a clear, secure and build, a reality which will make our military efforts, Iraqi's military efforts sustainable.

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It is to build in those areas which were previously afflicted with conflict and violence sources of stability for the long-term, not the short-term. These are projects which help support the growth of moderates and moderation not just in the capitol, Mr. Chairman, but throughout Iraq. Our program is working on a diversified and decentralized basis. While Baghdad is critical, so are the areas outside Baghdad where 22 million of Iraq's population live. They also deserve better governance. They also deserve better services.

We are doubling the number of our provincial reconstruction teams from 10 to 20. We are significantly enhancing the specialized civilian staff who will work hand-in-hand with our military at the brigade level in those areas so that our projects—the monies which we are requesting in the 2007 supplemental from the Congress—can go to make greater stability, greater moderation in the capitol and outside.

We think these are goals, these are tools which not only enhance General Petreus' efforts, they enhance the monies that have already been spent in Iraq. This is a transitional year for us. It is a transitional year for Iraqis. As the President has said, as the American Congress has made clear, patience of the American people is correctly limited. They want to see results, and they want to see results from Iraqis, not just from our efforts.

We believe this way forward, this program and the funds we have requested in support of that program can achieve those goals and can meet that American desire. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Satterfield follows:]

Prepared Statement of the Honorable David Satterfield, Senior Advisor, Coordinator for Iraq, U.S. Department of State

Chairman Delahunt, Chairman Ackerman, Congressman Rohrabacher, Congressman Pence, members of the subcommittees, ladies and gentlemen: Thank you for the opportunity to appear before you today to discuss Iraq's ability to manage and pay for its own reconstruction. I appreciate your raising this question, as a critical dimension of the President's New Way Forward is that the Iraqis take responsibility for their future. The Government of Iraq must, with our help, take the lead in articulating and achieving the political, security and economic goals that are essential to success.

I would like to talk to you today about the economic track of reconstruction in Iraq and how the Iraqis are increasingly taking responsibility for their own reconstruction, their country, and their future. I will outline what the Iraqis have done and are poised to do, and what the US is doing to help the Iraqis build their capacity. It is vital that we support Iraq during this time of transition so that Iraq develops the ability to manage and sustain its own reconstruction.

IRAQI EFFORTS

There are tangible signs that the Iraqis are committed to taking the lead on reconstruction and doing their part to advance economic reform. The passage by Iraq's Council of Representatives of key economic legislation such as a national investment law and a fuel import liberalization law, Iraq's pursuit of accession to the World Trade Organization, Iraq's beginning debt negotiations with Saudi Arabia, and Iraq's attempts to tackle the insidious problem of corruption, all signal that the Iraqis are serious about economic reform. Admittedly, these laws still need implementing regulations. It is a work in progress.

In addition, the Government of Iraq has made serious progress on the vital hydrocarbons framework law. The Council of Ministers approved a draft of the law on February 26, and when a draft Revenue Sharing Law is also approved by the Council of Ministers, the two will be submitted as a package to the Council of Representatives.

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In conjunction with Deputy Under Secretary of Defense Paul Brinkley, the Iraqis are aiming to boost legitimate economic activity in Iraq. This strategy has three components: (1) facilitate Iraqi and DOD procurement of Iraqi-made goods, (2) promote connections between U.S. and Iraqi businesses, and (3) identify Iraqi state-owned enterprises (SOEs) that have the potential for revitalization and privatization. Revitalization of promising SOEs may then lead to positive spin-offs in the Iraqi private sector, which has in the past grown around the presence of SOEs. There is also potential for long-term privatization. The GOI has identified some initial funding for SOEs to resume production and increase employment. The State Department actively supports this initiative.

Budget Execution

Among the most pressing economic challenges holding Iraq back from its true potential, apart from the ongoing violence, is Iraq's continuing inability to fully spend its capital investment and reconstruction budget. The Government of Iraq has substantial financial resources available—the result of unspent funds that have been rolled over from the 2006 capital budget, along with higher than anticipated oil revenues. While those resources provide the Iraqi Government a golden opportunity, Iraq must develop the full means to put that money to use, not only with respect to medium-term and longer-term capital investment, but also with respect to short-term efforts in which money must be spent rapidly, as is the case with post-combat stabilization in areas such as Baghdad and Anbar Province. At present, the Iraqis have only limited capacity to execute all of these investments, particularly the short-term efforts necessary to support the new security strategy.

The Iraqis have responded by making budget execution a high priority in 2007. The Government of Iraq is committed to spending $10 billion in its 2007 budget on capital investment and reconstruction. Spending these moneys should provide services—from bridges and water projects to schools—for all of the Iraqi people. It should help create jobs and further national reconciliation.

To this end, the Government of Iraq has formed a Budget Execution Task Force, led by Deputy Prime Minister Barham Salih, Finance Minister Bayan Jabr and Planning Minister Ali Baban. In coordination with Ambassador Tim Carney and a team of experts from the U.S. Department of the Treasury, the Iraqi joint task force held a conference in early March at which officials from Iraq's spending ministries and Iraqi provincial governments discussed Iraq's new budget regulations and dispelled concerns about corruption allegations that, in part, stymied Iraqi spending in 2006.

Last week Deputy Prime Minister Salih hired a director to monitor Budget Execution. The Ministry of Finance also has made early efforts to jumpstart spending by ordering 10 percent of capital budgets to be released following passage of the 2007 Budget in February and creating powerful incentives for ministries to execute their capital budgets or risk losing the funds.

We remain cautiously optimistic that Iraqi resolve, combined with the technical assistance from the donor community, will result in better Iraqi budget execution in 2007.

International Compact

Recent developments with the International Compact with Iraq provide clear signs of Iraq increasing its responsibility for its own economic reconstruction. The Compact provides a framework for Iraq to achieve economic self-sufficiency in the medium term, including detailed timelines and benchmarks for goals covering Iraq's main economic objectives. The reforms in the Compact will lay the foundation for a strong private sector capable of attracting investment capital from within and outside Iraq. To support Iraq in these efforts, the international community will provide Iraq with debt relief and financial and technical assistance. This technical assistance is particularly crucial, since this is what is needed to build managerial and administrative capacity in the ministries and provincial governments for them to carry out reconstruction.

The International Compact was approved by Iraq's Council of Ministers on November 26, 2006. The Compact documents were finalized and presented to the international community on March 16, 2007 in New York. Iraq is ready for the next step, which is the convening of an international conference later this spring to formally sign and adopt the Compact.

US EFFORTS

As Iraqis take the lead in economic reform, the United States has shifted its focus from large infrastructure projects to capacity development and technical assistance programs that increase the ability of Iraqis to manage their own reconstruction.

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This will allow the Government of Iraq to better plan and execute its capital budget—particularly in the critical oil sector—to increase production of essential services in vital areas such as electricity and water, and to improve governance at the national and provincial levels.

Ambassador Tim Carney

To lead our efforts in this area, Secretary Rice appointed Ambassador Tim Carney as the Coordinator for Economic Transition in Iraq. On the ground in Baghdad only since February, Ambassador Carney has already forged a partnership with the Iraqis that has begun to show progress.

Ambassador Carney has been accepted by Iraqi authorities as a partner in realizing their budget execution goals. He works with Deputy Prime Minister Salih and the Ministers of Finance and Planning to synchronize efforts and ensure that U.S. assistance meets Iraqi government needs. Following an Iraqi government conference on March 7 to train officials on budget execution procedures, Ambassador Carney opened a conference for our Provincial Reconstruction Teams (PRTs) to ensure that our PRTs understand the fiscal procedures for which the provincial governments—which have limited experience with budget management—would need support. Ambassador Carney is also coordinating a broad U.S. Government effort to encourage the Government of Iraq to advance its own stalled budget execution reforms, such as raising the ceiling under which an Iraqi spending agency can issue a contract without prior approval of the Ministerial High Contracting Committee.

National Capacity Development Program

To effectively manage the country's reconstruction efforts, Iraq's mid- and senior-level managers need ongoing training to polish their skills in the core functions of public administration, as well as specialized, technical assistance specific to their areas of operation. Thus, our National Capacity Development (NCD) program is taking a two-pronged approach in building the capacity of Iraq's cadre of public administrators. We are assisting the Iraqis in developing a standardized curriculum to teach core capabilities, in such areas as personnel management and administration, strategic planning/policy development, leadership/communications, and information technology. In addition, the NCD program is placing Public Management Advisors in the ten key ministries to provide ongoing technical assistance to improve the day-to-day operations within each ministry.

This three-year, $165 million program will help foster the start of a more professional Iraqi civil service through an institutionalized, sustainable training system that will promote modern management through Iraq's public institutions.

The program will provide short-term support for key Iraqi government priorities, help Iraqis carry out medium-term activities to improve and standardize public administration, and help invigorate Iraqi government training centers to provide sustainable human resource development. To address Iraq's need for a government that promotes transparency, integrity, and accountability, the NCD program includes standardized auditing and procurement reform and other vital governance measures. It will help Iraqis establish capacity in priority ministries to directly assist in the execution of key service functions and conduct on-the-job training.

Provincial Reconstruction Teams

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

We are doubling the number of PRTs from 10 to 20, and adding more than 300 new personnel to the current 290 or so personnel already on the ground. The first phase of PRT expansion is soon to be complete, as the ten new interagency PRT core teams, 40 people in total, will arrive in Iraq by March 31. The State Department has assigned ten senior-level Team Leaders for these new PRTs. Each Team Leader will be joined by a senior USAID development advisor, as well as a civil affairs officer and a bilingual, bicultural advisor from the Department of Defense. The ten new PRTs will be embedded in Brigade Combat Teams to increase support for our counter-insurgency strategy.

One key objective of PRTs will be to build local capacity. Through both civilian and military resources, including foreign assistance and the Commanders' Emergency Response Program (CERP), PRTs will foster Iraqi self-sufficiency where we have made security gains. In the next two phases of our PRT expansion, we will add specialized technical personnel to both new and existing PRTs. Based upon ground-up evaluations, we are recruiting city planners, rule of law experts, and

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agri-business development experts, among others, to meet provincial and local needs.

PRTs will support local moderate Iraqi leaders through targeted assistance designed to develop provincial capacity to govern effectively. 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, economic development and community action programs. We intend to complete all three phases of our PRT expansion by the end of the calendar year. This will depend, however, both on the level of funding appropriated in the FY 2007 supplemental and circumstances on the ground.

Funding

Of total funding in FY 2006, both Base and Supplemental, we have obligated $1.4 billion (or 97%) for programs to advance our policy objectives in Iraq. Of this funding, more than $500 million is allocated to support programs coordinated by the PRTs to build the capacity of local and provincial governments to provide services for the Iraqi people.

We have requested $2.34 billion in Emergency Supplemental funds for FY 2007 and $1.37 billion for FY 2008. The question naturally arises as to why we need to provide assistance if Iraq's oil provides significant revenue. The answer is straightforward: Our assistance is necessary to accelerate the capacity of the Iraqi government to become self-sufficient. As described earlier, experience has shown that the Iraqis currently have significant limitations in their ability to spend their budget. While the ultimate goal is to get them to execute their budget as quickly as possible, we have to recognize reality. The reality in Iraq is that the Government of Iraq has limited institutional history of how to manage all aspects of the needed reconstruction and capital spending projects, including, but by no means exclusively, short-term projects in support of Iraq's own security.

We have increasingly shifted reconstruction contracts to Iraqi firms to inject revenue into the local Iraqi economy and build Iraqi capacity to meet Iraq's needs. Initially only 5 percent of 15,241 USG-funded contracts was awarded to Iraqi contractors. In the last six months, an average 80 percent of actions have been on contracts awarded Iraqi firms, thereby infusing local firms with capital and developing their economic ability to meet local needs.

The Supplemental and budgetary funds are essential to helping the Iraqis untangle their own bureaucratic gridlock and allowing them to manage and spend their own resources. Our assistance during this transitional year is critical to help the current Iraqi government develop the skills to manage their country's reconstruction. Delaying funding of these programs or applying conditions on this funding would undermine our ability to support our military. Without funding for our PRT expansion and programs to support economic development and assistance to moderate Iraqi leaders, we risk not achieving the unity of effort, military and civilian, needed to be successful.

DEFINING SUCCESS

The coming year in Iraq is an important one of transition that will be filled with challenges. As the Iraqis continue to make progress and increasingly assume responsibility for the stabilization and economic development of their country, our commitment to them must remain strong. The Government of Iraq should continue to foster positive relationships with its neighbors. National unity must begin to replace sectarian violence. The President's New Way Forward in Iraq seeks to empower Iraqis at the national, provincial and local levels to take the necessary steps, both politically and economically, to fulfill their commitments and realize our mutual goal of a stable, federal, democratic Iraq, at peace with its neighbors and an ally in the war on terror—an Iraq that is able to manage and pay for its own reconstruction.

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

Mr. DELAHUNT. Thank you, Mr. Secretary. Mr. Bowen.

STATEMENT OF MR. STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Mr. BOWEN. Thank you, Mr. Chairman. Chairman Delahunt, Chairman Ackerman, Ranking Member Rohrabacher and Ranking Member Pence, thank you for this opportunity to address the im-

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portant issue raised by this hearing: Can Iraq pay for its own reconstruction?

But before I undertake to provide my insights on that, let me draw attention to an important fact that is very current on the ground in Iraq right now in the green zone, and that is the challenge of performing the mission, and specifically including the oversight mission. Yesterday there was an attack on the Embassy compound. A number of individuals were hurt. Several were hurt including three of my auditors, and it just simply underscores that the mission undertaken there, the oversight mission, every aspect of the mission is unlike anything we have experienced before.

Another attack occurred today. This is an enormously challenging situation, and I just want to commend the 48 auditors, inspectors, and investigators and everyone working in the green zone in the Embassy and for multinational force Iraq for their bravery and commitment to the mission on the ground there.

I returned the week before last from my 15th trip. I will be leaving on my next trip in May, and my mission is oversight as you know, and so my remarks today in answering your question come from that perspective, not from a policy perspective. But we have looked at the issues, a number of them that Ambassador Satterfield has raised, and he and I worked closely together when he was the Deputy Chief of Mission over there for over a year, and so we have developed solutions, oversight and policy together, along the way.

The question is can Iraq pay for its own reconstruction, and it is a really rhetorical question at this point because it must. Our latest quarterly report pointed out that the watershed moment really arrived at the beginning of this year is the end of the Iraq Relief and Reconstruction Fund, 100 percent of it is under contract. Over 85 percent of it is spent. So the $21 billion very generous grant, as you pointed out, Mr. Chairman, that the Congress provided as part of our mission to aid Iraq's recovery is done as a reconstruction enterprise.

As Ambassador Satterfield just said, we are out of the reconstruction capital R business. That means we are into the foreign aid business but foreign aid plus. The mission is not done, as we well know, and the support mission is still significant. There are three components in our work as we have looked at how the Iraqis are able to execute their recovery of their country which they must sustain.

Indeed our support to them was a beginning. It was not to rebuild or reconstruct the whole country, and that mission is an extensive mission. It must be carried out by them but they need to overcome their limitations in capacity, as Ambassador Satterfield addressed, address the enormous corruption issue within their own government, and resolve the security situation that inhibits everything that is going on.

Let me put this in context. There is a chart over here—I believe you have it in front of you—that summarizes the flows of money that have moved through Iraq. Significant amount of Iraqi funds have already been allocated for reconstruction, and as our audit have shown the oversight, the accountability of that money has been limited. The United States funds, the Iraq Relief and Recon-

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struction Fund, over $21 billion, the Iraq Security Forces Fund, over $10 billion, Commanders Emergency Response Program, over $2 billion now have been much better accounted for, and let me point out that corruption within the United States program has been a relatively minor element.

The most significant corruption cases that we found we have aggressively pursued and put people in prison but they arose mostly—at least the ones we have resolved—during CPA. We have 28 cases ongoing right now at DOJ, and they largely involve post CPA but they are still in development.

But as to waste, that is a different story, and that is where we have tried to provide oversight and audits that have addressed some of the waste issues, and specifically we provided an audit in this last quarterly that addressed capacity development and underscored the need for a more coherent oversight of capacity development. Developing a baseline, better coordination, developing a detailed plan for capacity development, and coordinating with donors were just some of the recommendations we have made.

But progress is advancing in that, and most importantly on budget execution. As Chairman Delahunt and Chairman Ackerman pointed out, the Iraqis left billions of dollars in the bank at the end of last year unspent on reconstruction, and that is an untenable position. That money must move forward, and pursuant to the work of Ambassador Carney and the Embassy with the Government of Iraq and the recent agreements, as Ambassador Satterfield just pointed out, that money is starting to move. Ten percent is out, and there is a goal to spend 50 percent of it by mid year. The Iraqis understand the issue, the capacity question remains though.

Corruption, the second point I identified, is something that my office has been focused on since inception. We served as a support entity for the Iraqi inspector general system. There are 29 of them, something brand new in Iraq. The Commissioner on Public Integrity, someone I see every visit, that is their FBI director, and the Board of Supreme Audit has been there for a long time, and I meet with him each trip, and let me say that the CPI Commissioner and the President of the Board of Supreme Audit represent to me people who are serious about trying to attack this significant corruption problem.

The CPI Commissioners has 2,000 cases involving over $8 billion in allegations of fraud, and the BSA President has again emphasized to me his view that corruption afflicts every ministry, and is inhibiting progress.

On the security front, as Ranking Member Pence just noted, I returned with a new sense about progress on the Baghdad security plan, a sense that is different from what happened during Operation Forward Together last summer, and that sense is that the increasing pressure in neighborhoods that were not reached before is having a positive affect, and thus I am cautiously optimistic, and that cautious optimism is underscored by a drop in attacks in Baghdad.

The point being that it will provide Prime Minister Maliki and the Government of Iraq, which operates primarily in the green zone and lives there, breathing room, some space to concertize their leadership, so they can begin to move forward on budget execution,

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move forward on developing their own capacities to execute budgets they did not execute last year, move forward on taking the lead in paying for their own reconstruction and address the serious corruption problem.

Security problem is improving. The corruption problem, there is a lot of attention that needs to be devoted there, and I was pleased to note that one of the first things that General Petreus did when he got over there was deploy a battalion up to the Baygee Refinery. As Deputy Prime Minister Barn Sah said in January, it was the source of extensive corruption smuggling activities, perhaps $1.5 billion lost last year. That problem was addressed immediately, and I think it is having a positive affect.

The way forward must include international engagement. In October 2003, there was a conference in Madrid. Over $13 billion was pledged but only a small percentage of it has been forthcoming, about $3 billion, primarily from the United Kingdom and Japan. But there are reasons why it has not, and I have alluded to them. Security and corruption have been significant deterrents to the investment by the international community and the following up on those pledges. But those pledges still stand, and if the international compact for Iraq intends to bring them forward, and as the environment improves, hopefully in the course of this year, they will be invested in construction projects, in relief, in recovery activity across the country.

In conclusion let me say that I and my office remain committed to aggressive and wide-ranging oversight of the use of United States dollars in Iraq. I have 48 inspectors, auditors, investigators on the ground there now that are carrying out the mission you have assigned us, and I will return to join them in about 6 weeks and continue to carry out this important mission. Thank you, Mr. Chairman, for this time, and I look forward to your questions.

[The prepared statement of Mr. Bowen follows:]

PREPARED STATEMENT OF MR. STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Chairman Delahunt, Chairman Ackerman, Ranking Member Rohrabacher, Ranking Member Mike Pence, Distinguished Members of the Committee, Ladies and Gentlemen. Thank you for this opportunity to address a very important question facing the U.S. reconstruction program in Iraq.

SIGIR'S MANDATE

The Special Inspector General for Iraq Reconstruction (SIGIR) has a well defined and narrow mandate to provide oversight of the U.S. efforts in the Iraq relief and reconstruction program. In addition to our duties to promote economy, efficiency, and effectiveness, SIGIR provides Quarterly Reports to the Congress, the Secretary of State and the Secretary of Defense that update the status of relief and reconstruction programs, as well as SIGIR's oversight of these efforts. Within the context of that second part of our mission, our organization gathers and analyzes a significant amount of data that provides insight into the question posed by this Committee. Although SIGIR has no statutory authority to audit any entity of the Government of Iraq (GOI), we have interacted with the GOI, the various international organizations that assist the GOI, and the United States Government entities that engage with the GOI on these issues.

In addition, I have recently returned from my 15th trip to Iraq since I was appointed IG in January 2004. During those extended visits, I have established a dialogue with many of the leaders and implementers of this effort and will give this Committee my best estimate of progress within the historical context of this complicated and challenging endeavor.

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RECONSTRUCTION IN CONTEXT

The term "reconstruction" needs to be examined within the context of this hearing and the ongoing efforts in Iraq. Reconstruction is commonly understood to describe the rebuilding of infrastructure in Iraq that has been degraded over the last three decades by war, sanctions, and mismanagement by the Saddam Hussein regime. However, during the last three years, much of the "reconstruction" efforts undertaken with U.S., donor, and Iraqi funds—including new construction, the rehabilitation of existing facilities, the purchase of supplies and equipment, and a number of non-construction expenditures—have focused on programs, such as democracy development and building the governance capacity of both central and provincial leaders.

There is an oft-quoted report published by the World Bank early in 2004 that estimates the total cost of "reconstruction" at $60 billion. Over the last four years, the United States, foreign donors, and the GOI revenues dedicated to "reconstruction" have totaled more than $100 billion, yet there is widespread recognition that much remains to be done to stabilize the infrastructure in Iraq. I have brought a chart from our last Quarterly Report that lays out the various sources of those funds. In the past few weeks, the head of the U.S. Army Corps of Engineers, Gulf Region Division, has been quoted as saying $100 billion more is likely to be needed. Deputy Prime Minister Barham Saleh has stated publicly that it will take $200 billion. These amounts are estimates of a long-term effort and are not benchmarked or calculated based on specific plans.

To date, the most comprehensive approach for Iraq's long-term economic development is contained in the International Compact. Still awaiting final approval, the compact lays out priorities that Iraq and the international community agree are necessary for Iraq's long-term stability. But the very diversity in each of these estimates highlights an essential point: the amount of "reconstruction" said to be required has generally been driven by the amount of money available. An international development expert used the following analogy to describe the situation; the GOI may want to buy a luxury sedan, but it can function just fine with an economy car. How much reconstruction is necessary to achieve a stable, democratic Iraq is likely to remain an open question. Although the compact begins to lay that out, substantial planning and assessment of the state of Iraq's current infrastructure is necessary before a figure can be agreed on. Without the figure, it is difficult to provide a clear answer to the question, "Can Iraq pay for its own reconstruction?"

CAPACITY DEVELOPMENT

A recent SIGIR audit addresses an important component of Iraq's ability to manage and budget for its own reconstruction. SIGIR's capacity development audit completed in January 2007 focused on the U.S. efforts to support ministry capacity development. The audit found that U.S. government organizations have received $125 million and requested another $310 million for capacity development assistance through FY 2008. The audit was unable, however, to estimate how much funding overall is necessary to achieve the stated goal of a self-sufficient Iraqi government. Although some attempts have been made to measure the GOI ability to sustain itself, it remains extremely difficult to develop a credible measure of this capacity.

Our audit made several recommendations to U.S. implementing agencies:

1. Develop a baseline capacity assessment for all ministries.
2. Share information among U.S. government agencies working on capacity development.
3. Develop a detailed plan for capacity development in concert with GOI, including identifying outcomes.
4. Actively work with international donors to help plan, fund, and execute improved capacity development.
5. Assign clear responsibility for overall U.S. government capacity development efforts to one official or organization.[1]

Senator John Warner requested another SIGIR audit that touched on this question and focused on the capacity of the Iraqi Ministry of Defense and Ministry of Interior. The audit reviewed logistics, specifically focusing on U.S. efforts to support the Ministry of Defense and Ministry of Interior; however, it did not directly address GOI components. That audit, published in October 2006, found that the Iraq Ministries of Interior and Defense are not capable, in the near term, of assuming responsibility for logistics support of the Iraqi army and local and national police

[1] SIGIR 06–045 Status of Ministerial Capacity Development in Iraq, January 30, 2007

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forces. MNF–I needs to do much more if it is to meet the goal of turning over this responsibility to the Ministry of Interior and Ministry of Defense by January 1, 2008. The sustainment of logistics is critical to the turnover of full responsibility for security to the GOI; DoD recognizes this as a primary focus of its efforts in 2007.[2]

THE IRAQI BUDGET

The 2007 GOI budget is $41.3 billion, which includes $10.1 billion in capital investment. This $10 billion is not a unique item in the budget dedicated to reconstruction efforts defined by the United States. Rather, it is the tabulation of the routine capital investment items allotted to the various ministries—similar to the capital investment portion of any annual government budget. Of that amount, $2.4 billion is slated to be given to the provincial governments for regional construction projects. Most of the remaining capital funds are going to the MOI and MOD. The latest reports from Baghdad indicate that the Ministry of Finance has already begun the process of disbursing portions of that money to ministries and provinces to initiate projects.

The 2007 GOI budget is also a deficit budget: it requires $7.7 billion in carry-over money from prior years (2005–2006) to break even. The GOI allowed the surplus to build up for a variety of reasons, including the constant turnover of the GOI, which made it difficult to sustain consensus on how the capital budget should be spent. Whenever ministers have been replaced, the process for moving forward on capital expenditures has had to restart, and in many cases, interim ministers have focused on near-term priorities rather than longer-horizon capital projects. In addition, international financial organizations such as the IMF have encouraged Iraq to keep some reserve to make up for its poor credit rating (and still considerable outstanding international debt, which also tempered spending initiatives).

Another important achievement to note is the use of the Foreign Military Sales (FMS) program to facilitate expenditures of Iraqi funds on Iraqi security. At the end of 2006, knowing that the Ministries of Defense and Interior had outstanding funds that would have to be returned to the Ministry of Finance, DoD officials persuaded the GOI to move $1.9 billion into an FMS[3] account. This resulted in a two-fold benefit: first, the money was effectively "spent" in 2006, and second, the Iraqi funds then became available to pay for much needed supplies and equipment for the army and police through a well-established U.S.-managed process.

While the GOI is moving forward in spending its $41 billion 2007 budget, several factors could negatively impact the effective expenditure of Iraqi's own revenue for reconstruction efforts.

LIMITATIONS ON IRAQ'S CAPACITY TO MANAGE ITS RECONSTRUCTION

A major limitation in Iraq's ability to finance more reconstruction can be traced to the Iraqi political process and the historical distribution of funds by a strong, centrally controlled Ministry of Finance (MOF). The Iraqis need to reach consensus on where, when, and how the budget is distributed. The question is contentious not only at the national level within the line ministries and within the Council of Representatives (COR), but also in the provinces where consensus is difficult. In the provinces, the budgetary capability of local officials runs the gamut from experienced execution in the Kurdish regions, to nascent budgeting capacity in smaller provinces. There is also the question of the political will of the GOI to make hard budget choices. Finally, U.S. and other assistance may have actually created a dependence on outside help to perform the task of government, which has demotivated Iraqi officials. Thus, in the current environment in Iraq, it is very difficult to determine whether the GOI is leaning on international donors for investments that it could fund and manage on its own and to what degree sectarian or political interests distort reconstruction budgeting decisions.

BUDGET EXECUTION

Another key limitation is slow budget execution. There is a pervasive lack of understanding of complex GOI contracting regulations among new Iraqi officials who are often inexperienced. There are, for example, complicating provisions that require all procurements more than $3 million ($10 million in key agencies like electricity and oil) be approved by the High Contracting Commission, chaired by the Deputy Prime Minister. This process results in delays. The U.S. Embassy is supporting a

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[2] SIGIR 06–032 Iraqi Security Forces: Review of Plans To Implement Logistics Capabilities, October 28, 2006

[3] GAO 07–637T Preliminary Observations on Budget and Management Challenges of Iraq's Security Ministries, March 22, 2007

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GOI initiative to develop a manual that will comprehensively cover contracting regulations within the GOI. At a day-long Budget Execution Conference on March 7, hosted by the Deputy Prime Minister and the Ministers of Finance and Planning, a CD with budget execution guidelines and contracting regulations was distributed to ministries to raise the level of understanding of this complex and otherwise opaque process. On March 8 and 9, the United States hosted a follow-on conference for Provincial Reconstruction Teams (PRTs) to disseminate and review the new GOI budget execution rules at the local level.

Meanwhile, the Ministry of Oil, the key revenue producing ministry, falls under the same general contracting rules as other ministries. The nature of the oil business and its importance to the economy suggests the need for more flexible contracting procedures, including multi-year capital contracts, sole-source contracting for unique manufactured parts, and timely contracting to support urgent operations and maintenance (O&M) needs. Such flexibility was allowed under Saddam Hussein's government, but the GOI has yet to allow such flexibility for the Ministry of Oil. The Minister of Finance cites the need for tight accountability in its refusal to allow for more flexible procedures. Because the Ministry of Oil produces more than 94% of Iraq's government revenue, this issue is of critical importance.

U.S. officials working closely with the GOI believe that budget execution will improve this year. The GOI has indicated that it intends to put a significant portion of its own revenue into infrastructure and capital projects at the central government and provincial levels. To spur officials to spend their capital budgets quickly, the GOI has declared that any ministry that does not spend 75% of the portion of its capital budget it has been allotted by June will forfeit the money for reapportionment by the Ministers of Finance and Planning.[4]

One of the reasons GOI officials have been slow to move on the capital budget in 2006 is that a permanent government was not formed until half-way through the calendar year. On the other hand, the GOI record of paying salaries and pensions is more than 97%; therefore, the government is capable of spending effectively in certain categories. The slow execution of capital (12% through August 2006) and O&M budgets (22% through August 2006) is likely a result of structural factors, such as contracting procedures, the depth of capacity of the current Iraqi technocratic class, and the lack of sufficient political will.

The U.S. Embassy and other donors are working to improve the capacity of the GOI to execute its budget at all levels, including improving contracting processes and training key officials at the Ministries and in the various governorates. The U.S. Budget Execution Initiative includes an interagency task force, established in October 2006, chaired by the Deputy Chief of Mission. USAID's overall capacity development program includes a budget execution component. Individual IRMO advisors are also working on budget execution in the ministries for which they are responsible.

CORRUPTION

Extensive corruption is involved in the expenditure of GOI funds. Reports indicate that untold amounts of money that could be spent reconstructing the country are siphoned off the budget. The Commission on Public Integrity (CPI), the Iraqi version of the FBI, estimates the loss at more than $5 billion annually although that figure is difficult to confirm. The Board of Supreme Audit (BSA), the most credible and long-standing Iraqi oversight organization (akin to GAO, formed in 1927), also estimates significant losses. Its insight into GOI expenditure is probably the most comprehensive because it performs its oversight function within the GOI. Standing with the CPI and the BSA are the Iraqi inspectors general and their 2500 staff, situated in every ministry. The Coalition Provisional Authority (CPA) created this system three years ago, modeled after the U.S. Inspector General system. Although the IGs have made some progress, they continue to struggle to gain traction as a viable government function.

Although each of these entities has had some success addressing corruption, each has a long way to go to meet its basic mandate. But tempering the positive aspects of the aggressive development of the three entities is the "chilling effect" caused by the politicization of anti-corruption penalties. Some officials—both U.S. and Iraqi—have described a reluctance on the part of some GOI contracting officials to execute contracts because a political or personal rival could launch an accusation of improper acts. Under the current patchwork of laws and regulations, mere accusations can land a potentially innocent individual in jail for several months—a case sup-

[4] Translation of Final Text of the Law of the Federal Budget for Iraq for 2007, February 10, 2007

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ported by much anecdotal evidence. This has led to extensive debate over one particular corruption provision—Article 136b of the Iraqi Criminal Procedure Code, which provides ministers with the blanket authority to unilaterally overturn charges. In effect, this law provides Ministers with the power to issue "get out of jail free" cards. On the one hand, this provision can and does undercut efforts to prosecute real corruption. One report of the Anti-Corruption Working Group of the Iraq Reconstruction Management Office (IRMO) lists 48 cases involving 102 defendants from September 2006 to February 2007 in which Ministers used 136b to stop prosecution. On the other hand, Article 136b also provides a check-and-balance for a nascent system that is itself subject to misuse.[5]

These and many other complex rule-of-law challenges are well known to Iraqi and U.S. officials and are part of the ongoing efforts to assess and improve Iraq's capability to address corruption.

SIGIR has completed one audit and is currently starting a second that looks at U.S. government efforts to support anti-corruption programs in Iraq. Progress is slow, but there are hopeful signs. In the past few months, IRMO has deployed senior advisors to each of the three anti-corruption entities. In addition, there is a significant focus by both the GOI and the international community (including the U.S.) in building capacity through improved legislative authorities, expanded training programs, and the development of strengthened Iraqi support for anti-corruption initiatives.

THE WAY FORWARD

A key component in helping Iraq to prepare to shoulder more of its own reconstruction burden is the International Compact for Iraq. The draft compact document was negotiated between Iraq and the international donor community with the help of the United Nations. The document describes in detail the reforms in the economic, political, and social spheres that Iraq is prepared to undertake in exchange for clearly articulated types of support and assistance from the international community. On March 16, the U.N. hosted a meeting in New York on March 16 that moved the compact process forward; nevertheless, the signing date, originally anticipated at the end of 2006, has slipped to later this spring.

Another key to more effective budget execution is an automated Financial Management Information System (FMIS) system, which is well underway. This project, which began in 2004, is being funded by both U.S. appropriations and the GOI. The BSA President has expressed some concerns to SIGIR about the FMIS system, noting the hurdles still to be overcome, but the process is ongoing. In fact, last week, we announced an audit to assess the management and implementation of this program.

Yet another key to Iraq's ability to finance its own reconstruction is passage of the Hydrocarbon Law and the companion laws necessary to stimulate investment in Iraq's Oil Industry. While further progress in the areas of security, operations and maintenance, and capital investment are required, the Hydrocarbon Law will provide the basic legal framework needed to attract long term foreign investment in the Oil Industry. The draft law is not expected to be voted on by the COR for some months, while remaining issues are considered. One problem is the draft does not clearly address the overarching tensions between the national and regional authorities. Investors may be deterred by the absence of provisions that support contractual rights. Further, enactment of the law depends on concurrent enactment of other legislation, the status of which is not yet clear. Although there has been good progress, the end is not yet clearly in sight.

Iraq is also making progress in meeting its commitments to increase subsidies for fuels as required by the IMF Stand-By Agreement. By March, the price of gas will go up to $0.30 per gallon (it was lower than $0.10 per gallon three years ago). Price increases are key to reducing smuggling incentives and slowly correcting the economic distortions caused by heavily subsidized petroleum products.

CONCLUSION

This brief review of some of the key variables at play in determining whether Iraq will be able to fund its own reconstruction underscores the fact that it will take some time before Iraq has the resources—both technical and financial—to undertake a fast-paced reconstruction effort on its own. The difficult security situation and the increasing sectarianism within Iraqi society and its governing institutions only increase the challenge.

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[5] Memorandum from Senior Consultant to CPI to the Anti-Corruption Working Group/IRMO Director, March 11, 2007

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It is clear that without continuing U.S. and international support, the GOI will struggle to sustain existing levels of essential services and security. It is difficult to over-emphasize the degree to which security and stability are key to the GOI's ability to promote economic growth and well-being and to increase the quality of life for its people. Security is also key to enabling the remaining international funds—a significant portion of the $15 billion pledged over the last few years—to be expanded.

I thank the Committee for its interest in this important issue, and I look forward to further discussion.

Mr. DELAHUNT. Yes, thank you. Thank you, Mr. Bowen, and I should note that we had some members who came and already left. Before I turn to Mr. Rohrabacher, I just wanted to note that it was welcomed to hear that the head of the Board of—is it the Board of Supreme——

Mr. BOWEN. Board of Supreme Audit.

Mr. DELAHUNT. Supreme Audit is headed by an individual who seems to be serious about the corruption issue. Just one quick question. Has he ever come to the United States, and has he ever testified before a committee of Congress?

Mr. BOWEN. He has not testified before a committee of Congress. I know he works closely with David Walker of the Government Accountability Office, the Comptroller General, and both Comptroller General Walker and I have provided support to the President of the Board of Supreme Audit in his efforts to try and account for what happened to the development fund for Iraq money managed by CPA.

Mr. DELAHUNT. Well I would maybe recommend to Chairman Ackerman that he consider extending an invitation. It would be, I think, very informative for us to hear directly from the Iraqis. With that, I yield to Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman, and Mr. Bowen, you said you had three of your auditors who were wounded the other day?

Mr. BOWEN. They were hurt. They were sitting on chairs underneath the tree by the dining facility, and the rocket detonated in the tree and blew them out of their chairs. One of them had received some wounds in her shoulder, and the others suffered minor concussions.

Mr. ROHRABACHER. Well I want to thank you, and I hope that you will pass on from this committee and from this member, and I am sure I reflect that with my other members as well, our gratitude to the 48 auditors that you have working for you on the front lines out there, and that is the front lines. What you have just described is that people whose lives are at stake even when they walk back to where they go to sleep at night, their lives are at risk, and what you are doing is a vital component to a successful mission in Iraq, and I appreciate that. I appreciate the good words that you have said today.

Mr. BOWEN. Thank you.

Mr. ROHRABACHER. It sounds like to me that you have taken your job seriously, and that you understand that this is an important element, as I say, to success. You know and I hope that my statement in the beginning did not in any way give anyone the impression that I was in any way excusing the misuse of money. I just want to make sure that we do not come in and declare defeat

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simply because there are some corrupt people within an organization.

But with that said, let us go to the management of the money. I do appreciate that your words that you are now cautiously optimistic. In the past you have not been cautiously optimistic, is that correct?

Mr. BOWEN. That is right. Yes, sir.

Mr. ROHRABACHER. So for the record, Mr. Chairman, I think Mr. Bowen has actually been rather I would say not pessimistic I guess is probably the word about what was going on, and now he has changed his pessimism to cautious optimism, which gives me reason for cautious optimism. So I want to note that.

About the money that we are talking about here and the billions of dollars of taxpayers' dollars, first of all before I get into that, who is in charge of the reconstruction there? What individual is the person who has the responsibility of making the reconstruction decisions?

Mr. SATTERFIELD. Congressman, ultimately the Chief of Mission, the Ambassador, is responsible for these decisions but his decisions are informed and they are enabled by a process which draws upon all of the mission elements, and that means elements in and outside uniform. Baghdad is unique in the world. Our PRTs are unique in the world as constituent posts in that they are as wholly joint undertakings between the military effort, the civilian effort in Iraq and all civilian agencies I include in that civilian effort.

Mr. ROHRABACHER. I will have to admit to you I was afraid that you were going to say that the Ambassador was the man responsible.

Mr. SATTERFIELD. He is the ultimate decider but the responsibility for reconstruction lies in the head of the Iraq Reconstruction Management Office, IRMO, with contributions from the Agency for International Development, contributions from our PRT teams that integrate what we do in reconstruction with what the military is doing through its SURP projects so that we are complimentary, not doubling efforts on top of each other. It is a comprehensive undertaking.

Mr. ROHRABACHER. Yes. My experience is that when there is not just one person that ends up with the responsibility of something like this in a crisis situation—not in normal ordinary business as usual but in crisis—that usually it is chaotic because of that, and I would have to say that people have a view that there is a certain amount of chaos going on there. Now that may come for the fact that when people are walking across the courtyard they end up getting mortared and wounded but it could also be that there is not a structural situation where one person has that type of authority except the Ambassador who has many other portfolios rather than just reconstruction. I would note that.

What about money? How much did Saddam Hussein steal from that country, and where is that money?

Mr. SATTERFIELD. That is a number, Congressman, that I would have to refer back on to see what the best ranges in estimates are. Stole from Iraq in many senses virtually everything was stolen from the Iraqi people in that their money, the product of their agri-

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cultural and hydrocarbon resources did not go to benefit them. It benefitted the regime.

Mr. ROHRABACHER. Have there been any attempts to find out if Saddam Hussein or his sons had bank accounts in international banking facilities?

Mr. SATTERFIELD. Congressman, they are deep in such efforts, and I will report back to you on a summary of what they have revealed.

Mr. ROHRABACHER. We had a hearing, several hearings on the involvement by the international financial community with dictators and other nefarious characters. Mr. Chairman, I would suggest that it is likely that Saddam Hussein stole billions of dollars, and that money is in some international bank account right now, and rather than you know spending a few million dollars trying to track that down, might well be worth our while. Again, there is a lot of pressure from financial institutions for us not to look into that type of role but I would suggest that that would be something we should greatly look into.

In terms of where our money is going, I could not help but notice that there are a number of government-owned enterprises going on in Iraq. The government owns a hotel. It owns the all electric power generation. It owns all the railroad lines. It owns the telecommunications and post office. It even owns the internet system. Now, if we have a socialized central bank and a socialized oil industry and hotels and these other things, you know just from this side of the line anyway I would suggest that socialism does not work. I mean that is what America is supposed to be building a private sector. Why is it that we are moving forward and having petrochemical, sulphur fertilizer and many other things that seem to be controlled and owned by the state in Iraq?

Mr. SATTERFIELD. Congressman, you are quite correct that central statist directive economics do not work in Iraq any better than they do anywhere else around the world, and the international compact for Iraq spells out a very different vision than that for the future of that country, and it is a free market based investor friendly Iraq which built the compact and the laws already passed over this past year by the Iraqi Parliament reflect.

Now there are certainly strong vestiges, remnants of Iraq's statist background, and you know Iraq is more comparable to an eastern European state than it is to other third world models in terms of concepts of economics but they are moving away from that. But the process of moving away in the midst of a war is a difficult process but that end state is a clear one.

Mr. ROHRABACHER. Let me suggest that via your testimony in which you stated that there was a management problem with handling the budget expenditures in terms of expertise by having the government even more involved with the ownership of these various elements of the economy you have actually exacerbated that problem. You have made it 10 times worse than it would be if at least the private sector was running those other elements because they are not now dependent on this lack of expertise in central control.

Mr. Bowen, first of all, are you satisfied with what we have done to recover corrupt money that has been stolen from the Iraqi Gov-

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ernment? And number two, are we financing businesses that can be traced back to corrupt decision-making or are we financing businesses that might you know just enabling people to have small companies and at a smaller level rather than just these big state run operations?

Mr. BOWEN. First of all, addressing the problem of corruption within the Iraqi Government is an Iraqi mission. Our job is to support them. My office performed two audits of the support to the anticorruption institutions, the Board of Supreme Audit, the Iraqi IGs, and the Commission on Public Integrity. The second one will be coming out in our next quarterly, and we will show significant progress in the course of this year with respect to that support. But it is an enormous problem, and——

Mr. ROHRABACHER. Is anyone trying to trace down the money that has already been stolen?

Mr. BOWEN. As I said——

Mr. ROHRABACHER. [illegible]or example, during the Saddam Hussein years.

Mr. BOWEN. The Ir[illegible] Government is committed to doing that, and I am working in [illegible]pport with the Board of Supreme Audit in his efforts to address [illegible]hat issue, among others, and so they are pursuing that. At th[illegible]ame time we are pursuing investigations with respect to crimes [illegible]ommitted by United States citizens involving the development fund for Iraq, and so the color of money does not dissuade our jurisdiction. It is the identity of the person that is involved in the crime, and so we have a number of cases going on.

Mr. ROHRABACHER. B[illegible]re you answer the second part of my question just to note offe[illegible]ing a bounty for people who could track down Saddam Hussein's money, you know put a little advertisement in the Economist saying you know we will give you 10 percent of all the money tha[illegible] you get back for the Iraqi Government. I have got a feeling that you would get a lot of takers on that. Just a thought. And you were about to say about smaller enterprise. Are we just financing some of these larger things or are we going to give the little guys a chance there too?

Mr. BOWEN. We are giving the little guys a chance through the microenterprise loan program, and that has been an ongoing initiative within the Embassy. It is relatively small. There is Deputy Undersecretary of Defense Paul Brinkley, who is working sort of on a parallel track with respect to that, and trying to stir up both primarily Iraqi money to invest as well as some U.S. money, and he has been able to get a bus factory opened in Isgaandureea, and they are actually producing and selling buses at this point. So that is a start but there is a long way to go with respect to that.

Mr. ROHRABACHER. It would seem to me that we could have a lot of small businesses with alternative energy, et cetera, and there is a lot of opportunity there, and we should be looking to come from the bottom up rather than the top down.

Mr. SATTERFIELD. Congressman, if I could, we have put great focus, including in the monies requested in the 2007 supplemental, on exactly those kinds of programs. Quick disbursing, small and microenterprise loans to small business development and cultivation. It is part of that shift away from capital R reconstruction to

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what we think is a much more useful, much more realizable goal of building from the bottom up private enterprise.

Mr. ROHRABACHER. Well we will be looking at the actual numbers, and I hope that those numbers do reflect that commitment because creating a situation where hundreds of thousands of individuals can be out and involved in the economy is probably worth much more than one huge mega project.

Mr. SATTERFIELD. We agree, and we have shifted the projects away from the big multinational design build firms, which had about 95 percent of those projects in CPA times to 80 percent going with smaller Iraqi firms, and that is a process that will continue.

Mr. ROHRABACHER. Thank you.

Mr. DELAHUNT. Mr. Ackerman.

Mr. ACKERMAN. I think I just figured it out. We are not making great progress in Iraq because everybody is sitting around there reading their copy of the Economist. A couple of points. There seems to be $8.8 billion missing on our wat[redacted]. Eight point eight billion dollars if you boil it down to $20 bills[redacted]400 million $20 bills. I bet you if you stacked that up it is bigge[redacted]an a nuclear weapon. I bet you, and we cannot seem to find it.

And Mr. Satterfield, you mentioned with[redacted]egards to a whole host of reasons why all that money is sitting i[redacted]a bank that has gone unspent for reconstruction saying it is be[redacted]use the Iraqis do not know how to do that. I think that is the soft prejudice of low expectations. I mean some of those guys figured out how to steal 400 million bills. That is pretty resourceful.

I think if they got $8 million or $12 million or whatever it is sitting in those bank accounts we ought to just grant amnesty to whoever figured out who stole that $8.8 billion because evidently those unsophisticated people who cannot figure out how to get a thing done have stole 400 million pieces of paper. It kind of runs circles around all of our guys in being able to hide it. That is pretty resourceful to me. Just grant them amnesty. Give them 10 percent of the $12 billion that are left, and let them run things. These are guys who know how to get things done.

And I just cannot believe some of the things that we are hearing. Iraqis are very resourceful people. We are just not giving them a chance and insisting upon the fact that they develop those resources and those abilities. I mean I do not know how the first thing happened with all that money missing on our watch, and I do not know why we just give them a pass and say they do not know how to do things. They know how to do things pretty good it seems to me.

It is a lot of sophistication to steal $8.8 billion and put it in places or a place that nobody can find it with all of our resources and expertise, and I know, Mr. Bowen, you are doing a great job, and we appreciate it, and I think we have to take a look at where all of these resources—whether they were stolen from us or stolen from the Iraqis or stolen by the Iraqis or stolen by the contractors or stolen by our people—I have no idea, and I do not know if anybody else has any idea but maybe you can address that, Mr. Satterfield.

Mr. BOWEN. First of all, with respect to the audit of January 30, 2005, that addressed how the CPA managed the budgeting process

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for the interim Iraqi Government, our finding was that from October to June, October 2003 to June 2004, that the CPA did not properly follow its own rules in tracking the disbursal of approximately $8.8 billion to the Iraqi ministries. That finding, that concern was substantiated thereafter by audits done on the Iraqi side of the house within several ministries about what happened to that money.

They could not account for that, and that is currently being reviewed, as I mentioned to you earlier, by the President of the Board of Supreme Audit and his team in Baghdad, and they have just now been able to pull together the documents necessary to begin to analyze that issue, and a report will be forthcoming from them.

Mr. ACKERMAN. Help me to understand. Did they presumably buy things that they never received? Did they just give the money away? Did they just take cash?

Mr. BOWEN. It was distributed in cash pursuant to approval by the CPA, through the CPA Controller's office.

Mr. ACKERMAN. That is us.

Mr. BOWEN. That is correct, the Coalition Provisional Authority, under U.N. Security Council Resolution 1483 which made the Coalition Provisional Authority responsible for the use of the development fund for Iraq for the benefit of the Iraqi people. That money that we looked at was the money distributed for the operations of those ministries and some of their contracting, and in the course of the review we found that there were numerous instances where the CPA did not follow its own rules. That is obtaining a proper documentation for how the money was to be used, and second that some of those funds went to pay ghost employees, at least we have found a number of anecdotal incidents of that.

Mr. ACKERMAN. You have got to have a lot of ghost employees to hit anywhere near that amount of money. It just seems very distasteful. It seems to me that we did not do much better by the Iraqis than Saddam Hussein did by the Iraqis. It seems to be no accounting. I guess he did not have rules that he violated but I do not know if that makes it better or worse.

In your statement, Mr. Bowen, you point out that the U.S. and other assistance may have actually created a dependence on outside help to perform the task of government. This is the fear that many of us, both in governments and on the security side, have. How would you suggest that we break the dependence and get the Iraqis to take responsibility for more of their own reconstruction?

Mr. BOWEN. I think events are driving that. As I said, our quarterly report pointed out in January that the period wherein the United States will bear the preponderant burden of financing the recovery of Iraq is past. One hundred percent of the Iraq Relief and Reconstruction Fund is under contract. Over 85 percent is spent, 90 percent of the projects are done. Reconstruction with a capital R is done.

Mr. ACKERMAN. Are we auditing when something is under contract that the goods are actually delivered and the services were actually provided for unlike what we did with $8 billion previously?

Mr. BOWEN. That is part of my job, and that is the question that we answer in every quarterly report. There are audits and inspec-

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tions and investigations, and specifically to that end. That particular motivation has pushed me to direct my inspectors to look at projects that have been completed for 6 months or more to see whether they have been properly incorporated and sustained in the Iraqi infrastructure.

Mr. ACKERMAN. Ambassador Satterfield, your statement discusses Iraq's efforts to renegotiate with Saudi Arabia. Could you tell us how much external debt Iraq still carries from the Gulf countries and elsewhere? And I seem to recall that former Secretary Baker went to the region about 4 years ago, 2003, to deal with that question. So I would specifically ask: Why are negotiations between Iraq and Saudi Arabia beginning only now?

Mr. SATTERFIELD. The key debt holders hold approximately $100 billion in Iraq's debt. Saudi Arabia holds about $38 billion I believe, Chairman Ackerman, in that figure. There had been previous discussions at a technical level on Iraq's debt with Saudi Arabia. These discussions were at a more senior level. The head of the central bank, Governor Sh Bebe led the Iraqi delegation.

There had been two reasons why debt forgiveness has not been carried forward by Saudi Arabia. One is the technical discussions anywhere in the world on debt forgiveness, debt write-down take time. They take teams on both sides working the issues in a diligent fashion. Frankly that process had not taken place. We believe it has started now. There is a second reason which is——

Mr. ACKERMAN. So nothing was done in 2003 until today?

Mr. SATTERFIELD. I cannot speak to 2003, Chairman Ackerman.

Mr. ACKERMAN. Two thousand and four? Two thousand and five? Two thousand and six?

Mr. SATTERFIELD. But in 2005, 2006, yes, there were desultory discussions between the two sides on debt forgiveness but there is beyond a technical issue here a political question where the Saudis have made political judgments about the character of Iraqi governments that have informed their interest and the vigor with which they have pursued debt negotiations.

We are working—more importantly Iraq is working—in the context of the just initiated regional neighbors process as well as in the context of the compact on providing assurances on the nature of their governance, the nature and character of the agenda pursued by the government in Baghdad—which we hope and certainly we are supporting with Saudi Arabia and other Gulf countries—will lead to forward movement on the debt issue.

Mr. ACKERMAN. I was concerned from the very beginning that some of the functions of what traditionally should have been under the supervision of the State Department were subsumed by the Defense Department in Iraq after the major battles were fought and we presumed to tell everybody we won the war. The State Department is trained to do a lot of those functions, and the Defense Department is not. Peace is done by State and war is done by Defense. They do not go to Peace College. They go to War College, and I think things got screwed up then.

So I have been a little curious about that from the beginning but what I am curious now about why Undersecretary of Defense Brinkley is leading the economic reform efforts in Iraq. I can see on one hand why he might be responsible for facilitating the DOD

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procurement of Iraqi goods but why is Defense involved in revitalization and privatization of state-owned enterprises?

Mr. SATTERFIELD. Mr. Chairman, first——

Mr. ACKERMAN. It seems a bit out of portfolio.

Mr. SATTERFIELD. Mr. Chairman, the Defense Department and Deputy Undersecretary Brinkley are not responsible for Iraqi economic development or assistance. The State Department is responsible but that said there is a joint undertaking here. We want to see the built part of clear, secure and build work, and in conflict areas—which is where Deputy Undersecretary Brinkley has focused his efforts, particularly in Anbar province—we, the State Department, the civilian agencies of government are working very closely with our colleagues in the Defense Department in the field and here in Washington to develop any mechanisms possible that contribute to stabilization, and that includes employment generation.

The Deputy Undersecretary has identified a potential positive source of employment generation in state-owned enterprises in those provinces affected by the Sunni insurgency and al-Qaeda violence, and we are working closely with him as DOD is working with us on other projects and other undertakings. We see this as a very positive joint approach. It is not a question of who is out of whose lane at all.

Mr. ACKERMAN. It is still not clear to me why this is being done by Defense. I could understand if you are saying he is going to look into which areas are quiet enough for economic development but is he in effect then a headhunter for personnel? Is that what you are saying?

Mr. SATTERFIELD. Mr. Chairman, he is engaged—as all of our teams, civil and military are—in trying to find means of making stabilization effective as part of our counterinsurgency strategy, and it is quite appropriate for both the Deputy Undersecretary, for our brigade combat team commanders, for others in uniform and in the civilian side of DOD to explore with us what mechanisms may be of use. It happens that he has expertise in this area and has taken this project under his aegis but it is part of a joint and collective effort.

Mr. ACKERMAN. It seems like a pretty confused bureaucratic situation at least to me. I understand part of the function, and part of it I do not. Thank you.

Mr. DELAHUNT. Mr. Sires, the gentleman from New Jersey.

Mr. SIRES. Thank you, Mr. Chairman. I want to compliment you on another very interesting hearing, and thank you for having us, and thank you for being here. This is one of the things that probably bothers me more about the war, this whole reconstruction, because I think this is—and I was not hear when this whole thing was together, I am a new member—but the approach seems so unintelligent and so inconsiderate that we have asked the American public to foot this reconstruction with so many billions of dollars, and yet the Iraqi Government does not seem to participate.

I really, sir, do not buy the fact that they do not know how to do it. That they do not know how to budget. That they do not know how to put this together. I really find that very hard or they do not know how to spend the money. But to give somebody—and I

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read in the paper the other day where it is going to go up to about $100 billion for the reconstruction of Iraq—we have given them $38 billion already. Is that pretty accurate? In the next 4 years going to go up to about $100 billion.

Mr. SATTERFIELD. The World Bank has estimated needs for Iraq at about $100 billion for reconstruction. The U.S. has provided through the URF 1 and URF 2 funds about $21 billion of that. There is an additional expenditure for security costs.

Mr. DELAHUNT. Would the gentleman yield for a moment?

Mr. SIRES. Yes.

Mr. DELAHUNT. But it is true, is it not, Ambassador, that the World Bank initially estimated the cost of reconstruction at $60 billion?

Mr. SATTERFIELD. The World Bank estimate, Mr. Chairman, that I am aware of that dates back to 2003, 2004 times is in the range of $100 billion, and it was against that estimate that we projected the startup or the kick start cost that Stuart Bowen referred to as our contribution.

Mr. DELAHUNT. And again I want to get back to the gentleman, but it is my memory that the World Bank figure was $60 billion. Mr. Bowen, do you have——

Mr. BOWEN. There was a 2003 estimate of $56 billion, but I think there is collective recognition at this point that that was a much too conservative number, and indeed did not account for the severely dilapidated state of the Iraqi infrastructure.

Mr. DELAHUNT. And I think one of the prominent Iraqis in this decision-making process has indicated upwards of $200 billion. I think I might have read that in one of your—I forget. Maybe Mr. Bowen's testimony.

Mr. BOWEN. Yes.

Mr. DELAHUNT. So we are really taking a guess here.

Mr. BOWEN. That would be——

Mr. DELAHUNT. We have been guessing all along right from 2002 and on but let me yield back to my friend from New Jersey.

Mr. SIRES. But I guess the $38 billion includes part of the money for the security forces. So we have given them $38 billion thus far. Okay. I lost my train of thought. I come from a local government and part of state government, and every time that we have to give money to a state or to a municipality usually we asked them to match the funds. Is there any reason why we have not asked the Iraqi Government to match any money that we give them for reconstruction?

Condoleezza Rice was here the other day. She said they are sitting on $10 billion. Now you are saying it is $12.5 billion. To me it is perfectly logical if we ask our own States, our own municipalities, to match funds when we do a project here in the United States, why didn't someone think to ask this Government who is sitting on $10 billion to match some of the funds? I know that in the supplemental that we just voted there is $2.3 billion for infrastructure. They are sitting on $10 billion. To me it is so logical to say you are not getting this money until you take some of that money and you match it.

And the other thing that bothers me is I was at Walter Reed Hospital yesterday, and one of the soldiers told me that if we put

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up a light, we put up anything to fix the infrastructure, it is missing within a couple of days. They steal it. So where are we going with this? All this money? So I guess I would like your opinion on what do you think in terms of getting the Iraqi Government to match or at least to start with the $2.3 billion that we are giving this year?

Mr. SATTERFIELD. Congressman, the monies that we have requested in the 2007 supplemental and in the 2008 budget request are not for infrastructure projects. They are for U.S. led capacity projects, stabilization projects, which were specifically designed in conjunction with David Petreus and the military plan for clear, secure build. They are very different in character and purpose from the monies which were expended in URF 1 and URF 2. It is a completely different focus for completely different purposes.

It is quite correct your point that Iraqis must come to the fight themselves. The work we are doing with them over the course of this year, the work we began last year on budget execution skills, mechanisms, capacity, is designed to put them in the position to do that but to demand from the Iraqis this year their matching funds as a condition for a release of money for what are our projects for our stabilization efforts as part of a security plan to achieve goals which we and the Iraqis want to achieve is we believe a counterproductive strategy.

Mr. SIRES. You may call it stabilization. You may have a name for whatever it is but I do think that we should be more forceful in asking the Iraqi Government to come to the table. I do not see a reason why we cannot do that. I have sponsored what I called the Partnership for Iraqi Reconstruction Act which basically makes it for every dollar that we give Iraq for reconstruction that the Iraqi Government has to match it, along the same lines that we do here with the states and we do municipalities.

I only think it is right that if we are helping to reconstruct this country and they are sitting on this vast amount of oil that they will eventually be able to pump and that they are sitting on $10 billion, that they should participate. I just really do not see why the American public has to foot the bill for everything. We are footing the bill for the war. We are footing the bill for reconstruction, and we are going in debt as they say in the commercial up to our eyeballs.

So you know and this idea that they do not know how to spend money or they do not know how to do it, that they are sitting on this money and the treasury you mentioned earlier on, I mean they are slick enough to steal $8 billion, and if they are that slick, we can certainly teach them how to manage their money. I mean they had a country before all this happened.

Mr. SATTERFIELD. Congressman, they absolutely have to come to the table, and the American taxpayers cannot foot the bill indefinitely for security or economic development. That is exactly what our program for this year is designed to move us away from and move them into self-sufficiency but what is needed at this point is not those skills, the slickness you refer to.

It is a very different set of skills. It is one thing to do corrupt contracting. It is something else to develop and then execute in the midst of a wartime environment a capital infrastructure budget.

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That is a much more difficult challenge, and it is a challenge they did not in 2006 prove capable of doing. It is what they must be able to do in the course of this year and beyond.

Mr. ACKERMAN. Would the gentleman yield?

Mr. SIRES. I yield to the chairman.

Mr. ACKERMAN. Is there a timetable for any of this?

Mr. MEEKS. Take my question away.

Mr. ACKERMAN. I am sorry. I yield to Mr. Meeks.

Mr. SATTERFIELD. Chairman Ackerman, there is a timetable, and the timetable is as rapidly as possible. That is the course of this year has to see tangible progress.

Mr. ACKERMAN. That seems to morph into never. I mean I was a school teacher. I had to get through the Revolutionary War by April you know what I mean? Sometimes it was tough. But at least it was a timetable, and we knew we were ahead or behind. You know I cannot figure out if we are winning here. You know there seems to be—including the very beginning with the war and everything else that we are doing—there seems to be a lack of planning. A lot of praying. We prayed they were able to do this. We hoped they were able to do this. We are cheering for them.

But nobody has a plan for the security. Nobody now seems to have a plan for the economic development. There is no plan for expectations. Another 20 million troops. Another $20 billion. You know where does it end? I know that we hold people responsible when the President wants to in the real world. We hold school children responsible. If the schools do not meet standards because the kids are not passing tests and the teachers are not able to teach them, then we take their money away.

What we seem to be doing here is giving them more money. You do not know what you are doing. Here is more money. You stole the money. Here is more money. We stole the money. You do not know that we stole the money. No one knows who stole the money. Here is more money. And we are not making any more progress on this than we are on security, and it is getting a bit frustrating.

Mr. DELAHUNT. Would the gentleman yield?

Mr. ACKERMAN. It is your time.

Mr. SIRES. Yes, I yield twice.

Mr. DELAHUNT. And I am going to yield to Mr. Scott but I think the frustration you are hearing, Ambassador, is—and I am not disagreeing with the need to train and to provide the technical assistance—but it has been 4 years. It has been 4 years. I guess what I am hearing and I might even be joined by my colleague to my left, Mr. Rohrabacher, we have heard this now for 4 years. When was it first recognized that it was necessary to assist the Iraqis in developing these skills, these talents to budget and to act in a way that maximized the use of their dollars? Why now after 4 years? If that is the problem, and clearly you believe that it is.

And that the new assistance that we have appropriated under the supplemental is specifically for that. As you and both Mr. Bowen indicated, this is not about infrastructure projects anymore. But I cannot believe that over 4 years somebody in Iraq or in the administration did not recognize that the problem was this dearth, this paucity if you will of abilities that were necessary to run a more nation-state.

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Mr. SATTERFIELD. Mr. Chairman, we began from the bottom up redesigning both our mission, civil-military in Iraq, how the URF project its remaining funds were to be distributed and how we worked with the Iraqis in the late summer of 2005. It was a fundamental realignment of mission, of goals, benchmarks, monitoring mechanisms to begin to get a better handle on exactly the issues which all of the members here and your colleagues in the Senate and the House have referred to.

Over the course of 2006 with a new Iraqi Government in place, the first government under the new Constitution with an elected council of representatives, we began to realize by the spring of 2006 the magnitude of the budget execution problem, and so we responded. We responded by putting in place mechanisms which began to work in mid and late summer of last year to train in specific key ministries, and then across all budget executing ministries how you got the kinds of execution skills that would be necessary.

That work continues. It did not just start. It began in the spring of last year but its implementation—what the military call the outcomes from all of this—are going to be seen over the course of this year.

Mr. DELAHUNT. I yield to the gentleman, and I am grateful for his patience, from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman and certainly welcome, Ambassador and Mr. Bowen. You know I think that this hearing personifies just why this invasion into Iraq will go down in history as the absolute worst blunder in foreign policy in the history of this country. Just think of it, and it is wrapped in a characteristic of extreme arrogance. First, invading a country that did not attack our country, making the assumption and trying to justify it on lies, miscalculations, and I am not saying anything in any partisan way here.

The truth is out. The truth is out. When certain intelligence did not fit what our Commander In Chief wanted, he discounted it and went someplace else, even from our own legitimacy. Three different CIA directors coming with different information that did not give the answer. Somewhere now we are paying that price for this miscalculation, for this deceit.

Now, the reason I say that is that I learned a long time ago growing up as a kid that the way you get out of a problem and a mess is understanding how you got into it, and that is the fallacy here. This affect in Iraq is based upon imperialism, colonialism. We can go in here and build the kind of government, the kind of structure that we want. There is not a single Iraqi that came to this country that said, come over here, invade us, destroy this regime, and establish a democracy. Nowhere was that.

The reason we went into Iraq was for supposedly weapons of mass destruction, and some supposed connection to al-Qaeda which does not exist. We found all that out. Even in the President's early acknowledgement mission accomplished 2 years ago. In fact, on hindsight he was right. The mission was to go find weapons of mass destruction. Once that was done, the mission was accomplished. Now we have gotten into this mess but I wanted to lay that course out so we could examine this within truth and a proper perspective.

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We need to cut out all of this other stuff so that we can figure out now how to get out of this mess. The chairman, Chairman Ackerman, really put his hand on it when he asked the question and pointed us up to the most glaring flag, and I have great respect for Mr. Niebaur on the other side, and quite naturally Saddam Hussein did steal a lot of money. There is no question about that but that $8.8 billion that the chairman spoke of, the real irony of that is that we lost track of it in less than a year which magnifies this problem of a lack of management, a lack of oversight.

Finally we are getting that oversight but I believe that in a way out the first order of business to this question can the Iraqi people now pay for rebuilding their infrastructure to me is almost like we have gone in here, cut the legs out from under this nation, and then condemn it for being a cripple. Now go. We do it shock and awe, destroyed the infrastructure of this nation, now you go and build your country back.

We have got an obligation just as surely as Colin Powell said it. He said it right. You broke it. You break it, you own it. The issue now becomes how can they pay it back? And I think essential to this question is the oil revenue. Sitting under Iraq all the scientists and geologists say about 27 percent of the known oil reserves. So my question as we start a way of figuring this out is what is the status of the oil production in Iraq? And at what point are we at a point where it can be productive to assist in this restructuring, reconstruction paying for it?

Mr. SATTERFIELD. Congressman, the United States did not destroy Iraq's infrastructure. Saddam Hussein and 40 years of Ba'ath rule destroyed the country's infrastructure by failure to develop it, by putting monies into shell projects, into palaces, into expenses for the regime, not into the country's productive infrastructures either agricultural or oil but the challenge now is indeed not a rhetorical one. It is a real one. Iraq must pay for its own development not us.

How best to help them on that course in a manner which makes them self-sustaining, and indeed oil production and export is a critical element of that. It has to be developed. Oil production, oil exports have over the course of 2006 been at the highest levels since well before the 2003 invasion but they are not at high enough levels to fund all of Iraq's reconstruction needs, and very frankly, Congressman, it is more than hydrocarbon sector development that will be necessary to make Iraq a progressive, developing country.

It will require a vigorous development of the private sector in that country, its entrepreneurial class well beyond hydrocarbons. That sector alone—even if it was developed to its maximum—cannot meet the country's needs. It needs to have a business community with investments and productive economies in industry, in agriculture, in other areas beyond hydrocarbons. Now that is something the government is committed to in the international compact for Iraq.

It has laid that out as a necessary goal but it needs to move on it, but to move on it will take more than Iraqi efforts, and it will take more than the relatively small facilitating steps that we are now engaged in. It will take a stabilization of that country's security situation and political situation so that it can attract its own

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people back, can bring its own middle class and professional classes back into national life, and can attract above all private sector engagement from the broader international community.

Mr. SCOTT. Ambassador, I was in Iraq. Been to Iraq twice, and the point of your question which begs to my argument of the arrogance and the attitude of that is their problem, and let me just say something. Those bombs, those bombs from the shock and the awe were very destructive to that infrastructure, and I do not question the past from that extent.

I know what we have done, and we did, as Colin Powell said and you may differ, we broke it. We played a role in the level of the destruction of that infrastructure, and I am not here to question the fact because it was done on incomplete intelligence saying we are going in here to get weapons of mass destruction but we know all that is not true. Now that is my point. We know it is all not true.

And that is why I am saying we come clean on it but here is my point. When I was in Iraq, I pinpointed and asked General Casey when he was there, the Iraqi people, I took advantage of that trip over there, we stayed awhile, and I asked some pointed questions, and the pointed questions I asked was I asked General Casey, I said, General Casey, from our information at the time 70 percent of the Iraqis feel that we are here as occupiers. And he said, no, Congressman Scott. It is more like 85 percent view us as occupiers.

And I said, it is like 70 percent of the people agree that these attacks by the insurgents on our soldiers of Iraqis, shooting at our soldiers who were supposed to be over there helping them is justified? And he said, no. It is more like 90 percent. My whole point is that there seems to be a conflict here of how can we on the one hand move forward with America's second most important treasure, our money here, at the same time we have another approach and combat where we are sacrificing our soldiers' blood on the other hand, when it seems to me that is holding us back and the whole policy of the combat force of this is taking away from the rebuilding structure it is almost like you are going at it in a destructive nature, and then trying to rebuild in the other nature.

The people see us as occupiers. They are biting and refuting what we are doing which begs the question to the next area as to why we cannot get the oil up because when we go in there, they are ready to blow the oil wells up rather than us go in there and help, which is the means of supporting us, and then finally the next stages, as you said in your last comment, we cannot do it ourselves. We have got to find other nations to do it, and no more critical group of nations than the surrounding Arab nations themselves who feel very problematic about the violent aspects of our engagement.

My last point that I wanted to ask is that with the Arab neighboring countries having such a vested interest in this, what role do they play in aiding in your mind Iraq's reconstruction? And have they thus far lived up to their end of the bargain? And what more can we do in our diplomatic means to bring the surrounding Arab nations into help with this building restructure?

Mr. SATTERFIELD. Congressman, Iraq's neighbors have a very significant role in facilitating that country's political evolution in

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terms of sending a positive message of support for the government and a negative message to those in the Sunni community who continue to engage in self-destructive violence. They have got an even more critical role in the economic side both in terms of their debt holding and also in terms of the private sector resources those countries possess. They should be the key partners of Iraq in developing that country's resources in and beyond the hydrocarbon sector.

Now Iraq has begun a much more intense engagement of its neighbors. The most recent development in which was the March 10 preparatory meeting in Iraq of all of its neighbors plus representatives of the P5, permanent representatives of the U.N. Security Council. We participated in that session.

We look to that process to move on. The process has set up working groups on border security, on oil imports, as well as on the refugee question that involved the neighbors very directive and in a very constructive fashion. That needs to continue. The international compact will have its launch at a point in the near future, and that is another means of engaging both the neighbors and also the broader international community in support of Iraq. So we see that process, that diplomatic engagement process, led by Iraqis but with our strong support and participation moving forward. It has to.

Mr. DELAHUNT. I thank the gentleman. The gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. You know I am always baffled at times, and you know I just want to associate myself with some of the remarks by both I heard Chairman Ackerman and Mr. Scott and some of the questions that I heard from Chairman Delahunt, but it does baffle me when we say that it is now their problem, and we have put it all off on 40 years of Ba'athist regimes or Saddam Hussein, and unless my mathematics is way off, just 20-some-odd-years ago we were there with Saddam Hussein, and he was an ally.

And in fact, some of the things at the time that he was executed, some of the things that were taking place at that particular time which he was executed for we were there, and we did not criticize or say anything when the atrocities were occurring. So you know to one extent if in fact that is the case then I must admit that our hands even then was not clean or is not clean, and we too often do not want to recognize that fact, and as a result of that it does become a feel to people that live in Iraq and other areas that is an imperialistic type situation.

So to simply say in blame and say, this is because this happened to someone else, you know 40 years ago, yet we were engaged and involved at that particular time, you know gives a situation whereas I can recall talking to some of the initial individuals who were appointed to the Iraqi governing council. When I visited Iraq, they were concerned because those individuals that were basically appointed to the governing council by us they were the individuals that were targeted by the people because they looked at them as being puppets.

I had people pull me to the side form the governing council who said to me, I would like to get a chance to meet with you privately

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away from the American generals at that particular time so that they can talk to us in an honest manner, and so it disturbs me when I hear that you know we just say it is always you know we have got clean hands and someone else. I think it disturbs the individuals in those areas also.

Besides the fact when I talked to some of the neighbors particularly early on, they were telling me that they wanted to get engaged in Iraq. They wanted to be more involved in Iraq but we specifically denied them from having the opportunity. It was our rules. As basically the President said it is our way or no way. So that kind of attitude really I think gives not only me a problem but gives people a problem, and that is why you have the 85 percent of individuals in Iraq believing that we are occupiers, and they would like us to leave.

Now, let me just ask this question because there are so many things that I can remember on this committee going in. We were told that we would be treated—you know the roses would be thrown at us when we were there and everything would be great. This would be real quick peace, and there would be no problems, and that the oil revenue would pay for the reconstruction of Iraq.

My first question then is and let me just ask this simply: Do you still believe that there is enough oil in Iraq over the long haul so that it could pay for its own reconstruction?

Mr. SATTERFIELD. Congressman, the oil resources of Iraq, if that was the sole source of revenue for that country, cannot meet over any predictable period the true reconstruction and development needs of that country. It will require development of the entrepreneurial base, the industrial base of that country well beyond hydrocarbons.

Mr. MEEKS. So then what I was told at this very committee you are telling me now was not true at that time because we were told that the American dollars would not have to go there. That the oil resources alone and this very committee would pay for the reconstruction that was necessary in Iraq. So now I am finding out that you know that may not be completely accurate.

Let me ask this question. At some point we do believe that Iraq would be able to with the oil revenues and other economic involvement that you indicated that they will be on their feet and be able to have a thriving economy as many of the other nations that have a lot of oil revenues, is that correct? Then my question then is: Why are we giving them grants as opposed to loans where we, the American taxpayers, can get some of their money back? We are just giving this money away to individuals who will be in the capacity——

You know I can think of several African nations, undeveloped nations who have no money, and we gave them loans not grants, and then I will stop because they do not have—and you know begging for debt relief. Why can we not give loans here?

Mr. SATTERFIELD. Congressman, I am speaking here today on the current 2007 program in Iraq, not on the history of what happened in 2002, 2003 or 2004. That is a separate issue which I will not speak to but the programs we are asking the Congress to fund in the 2007 supplemental and in the 2008 regular and global war on

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terror budget request are United States programs. They are not grants to the Iraqi Government.

They are programs we are executing in direct support of our security and stabilization plan and to build Iraqi capacity to spend their own monies. Because Iraq does not have the ability in this urgent budget year to execute with the same efficacy those same monies, we are taking this challenge on working with them so that in subsequent years we will not have to do this funding. Iraqis will be funding their own development and their own project. This is a very different kind of undertaking than the U.S. has made with our taxpayer resources in years past.

Mr. MEEKS. So are you telling me that this is the equivalent to you know what we try to do trade capacity dollars? And how are we getting a checks and balance to show that the individuals are being trained so that they can handle their own money and develop that capacity so that we do not have to continually use the taxpayers' dollars in that regard?

Mr. SATTERFIELD. Congressman——

Mr. MEEKS. I am sorry, Mr. Bowen. I know that we have not addressed you very well but you know when you have the Ambassador here, I have to take advantage of that.

Mr. SATTERFIELD. No. Congressman, your point is a very important one. There have to be no only benchmarks and goals. There have to be ways of monitoring those goals so that we know is what we are doing now succeeding or not, and not at the end of things but as we go along. We believe we have those indicators of success. We know what we need to see from the Iraqis, what they need to see, and we have mechanisms in place to brief you, brief the American people on how that process is going but we need the tools in our hands. We do not have them at this moment. That is why the supplemental request is as urgent as it is.

Mr. MEEKS. And then I would just go back to where I said and lastly where Chairman Ackerman I said that he took the question I had then. If in fact you realize that, why do we not set a goal? Why do we not have timetables? Are we going to figure that this should be done? Why can we not project or have certain benchmarks that we continue to work and stuff, and if it is not done by X period of time then we have got to do something. We have got to stop. We have got to change. We have got to leave them to do it on their own. Why is it open-ended?

Mr. SATTERFIELD. Congressman, the process is not open-ended, and there are very clear goals, and in closed briefings which the Secretary of State and the Secretary of Defense have provided, that have pledged to continue to provide, we have given some of those goals, discussed some of them. We are prepared to do so in the future but to set an absolute temporal deadline, midnight July 3 for this, three a.m. August 15 for that——

Mr. MEEKS. Give me an approximate deadline.

Mr. SATTERFIELD [continuing]. We believe undercuts the work in a dynamic, changing environment fraught with security challenges that hurts our efforts to achieve stability.

Mr. MEEKS. A year? Two years? Five years? Give me an approximate.

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Mr. SATTERFIELD. Congressman, on the economic side Iraq needs to move on budget execution capacity over the course of this year, this year, to an ability to spend its own resources. On other issues the process is going to take longer. Security is working this year but it is going to take time for security to become fully developed in Iraqi hands but on the capacity issues we focused on, budget execution this year has to see those significant changes take place.

Mr. MEEKS. Or else?

Mr. SATTERFIELD. Very frankly, Congressman, I think the patience of this Congress and the American people in continuing to fund in the presence of Iraqi capital resources projects in Iraq is going to be very limited indeed.

Mr. DELAHUNT. Mr. Ackerman.

Mr. ACKERMAN. So we should stop you before you spend again?

Mr. SATTERFIELD. Congressman, we are trying to reach orbit here because of reasons which we have not discussed in this hearing today that are of vital importance we believe to the American people. We do not believe the tools to get us there should be taken away before that goal has a reasonable chance at being reached.

Mr. DELAHUNT. Would the gentleman yield?

Mr. ACKERMAN. I think the concern of the Congress and the concern of the American people is frankly this—and forgive me for being blunt—we are losing confidence in the ability of the administration to take us there. We seem to have wrapped ourselves in flypaper. We cannot get unstuck. From the very beginning of this whole thing so many of us were believers. We believed what we were told. We believed what our leaders said. We believed what we were shown. We believed everything, and we questioned, and we questioned, and we questioned, and in the end we believed, and what we were told was wrong.

The whole thing is built on flim-flam is the conclusion that so many of us are beginning to come to. You stated before, Ambassador, that since whatever the date you said we have a new objective, that is the problem. You go to war for an objective not for something that shifts underneath you and keeps changing. I mean we voted for war. Some of us disdained doing that.

We voted for war to stop Saddam Hussein from using nuclear weapons. So it was nuclear weapons. It was weapons of mass destruction. There were no weapons of mass destruction. So we went to war instead to have a regime change. So we had a regime change. Now there is a regime change. That regime cannot even get itself together.

Now we went to war to have a Constitution. You had a Constitution. It was not the right mix of people. The right people were not balanced. They were not represented in the cabinet. You know so now there is a Constitution. So then the reason changes again, and the justification is we are here to bring democracy. That does not seem to be working today, and when are we going to have democracy? Well we have democracy. We have a legislature that has been elected there. There is an executive branch. There is a court.

Have not read anything in the paper lately about the Parliament meeting in Iraq. You know why? Because more than a majority of them are overseas on the Riviera and in Europe. They do not have a quorum to meet in Iraq. They are drawing salaries larger than

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ours in some cases. The whole thing is absurd, and now it is no longer to bring democracy. Now you are telling us today it is to bring bureaucracy.

The problem here is we do not have enough bureaucracy in Iraq. They cannot build anything. They cannot do anything. The infrastructure, we did not ruin it. They ruined it. It does not matter. The do not have it. I mean the whole thing is becoming rather absurd. I just recall—you are too young—but in my childhood they had a comedy team that were rather vaudeville and slapstick, Laurel and Hardy, where somewhere near two-thirds to the end one would look to the other and say, find kettle of fish you have gotten us into, Ollie. And I think that is where we are. We are in a mess.

Mr. DELAHUNT. Would the gentleman yield?

Mr. ACKERMAN. I would but in the middle of that diatribe I just wanted to say that, Ambassador Satterfield, you are one of the finer example of public officials that I have seen, and Mr. Bowen, thank God that you are there, and thank God that the Congress made enough of an uprising when some suggested that your position be abolished. We need more people like yourself and Ambassador Satterfield but we are defending now the indefensible, and I think that is where the problem is. The sands keep shifting. There will never be enough bureaucracy to get done the things that we want to get done.

Mr. DELAHUNT. I just have a few questions. Let me echo the sentiments expressed by Chairman Ackerman, and I think very highly of both of you. I know Mr. Bowen's work and it is outstanding, and Ambassador Satterfield, I am sure you are sincere but we do not believe you not because you are misleading or you are lying or you are exaggerating but we have heard this so often before, and as we look back over the past 4 years, again and again and again the reality has been different than the hope, and that is why the administration has a credibility gap, and it is difficult.

I know you are working hard. Nation building is a tough job. And this was something that of course this administration prior to the invasion of Iraq would never acknowledge embracing as an aspect of our foreign policy. We all have lessons to learn from this tragic experience. Let me just ask a few questions. You referred to the international compact. Has the United Nations played a constructive role?

Mr. SATTERFIELD. The United Nations has played the key role outside of Iraq in moving this forward. The compact is a joint United Nations-Iraqi undertaking.

Mr. DELAHUNT. Thank you. I asked that question for the benefit of my dear friend from California, Mr. Rohrabacher. I would like to just go back with a little bit of history. We all remember that famous photograph of former Secretary Rumsfeld shaking hands with Saddam Hussein. I think it was Mr. Meeks that referenced our support for Saddam during the 1980 to 1988 war. Between grants and credits, there was about $4 billion that was owed to the United States' taxpayer. Did we forgive that?

Mr. SATTERFIELD. Mr. Chairman, I will have to get back to you with an answer to that question.

Mr. DELAHUNT. Do you know, Mr. Bowen?

Mr. BOWEN. I do not.

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Mr. DELAHUNT. Okay. Mr. Bowen, Ambassador Satterfield, you referred to it is not about corruption. I would ask you to maybe amplify on that because as I looked at Mr. Bowen's testimony and heard him testify, there is a significant piece here about corruption. There is an agency—and Mr. Bowen you can reference it—that estimates out of a $40 billion budget $5 billion is set aside in the corruption account. That is about 12 percent. That is a pretty good whack. But again let me just go back to Ambassador Satterfield. Mr. Bowen, do you have any disagreement with my numbers?

Mr. BOWEN. No. Corruption continues to be a very serious problem, and much needs to be done before the Iraqi people themselves can begin to feel confident about how their government is stewarding Iraqi dollars.

Mr. SATTERFIELD. Mr. Chairman, corruption is a tremendously significant problem particularly in the oil sector. The Iraqi people have literally been robbed of much of the wealth that should have come to that country, particularly from northern oil sector production and the lack or the absence of northern sector oil exports because of attacks on that infrastructure which have come in large measure not from insurgents but from criminal elements because of thorough corruption in the oil sector in the north.

My comments about corruption not being a dominant factor were addressed specifically to the question of why Iraq had not spent the $12.5 billion that exist in its budget accounts. Corruption is not a major factor there I believe. The major factor in that nonspending of monies—the monies are all accounted for. They are there in the budget. They have not been lost to anyone. They were not spent because of an absence of ability to spend, to be able to draw up something which for Iraqis is very complex. It is a capital infrastructure budget and then move it forward.

Mr. DELAHUNT. I asked you earlier, Why did it take so long for us to recognize the lack of skills?, if you will. Chairman Ackerman talked about creating a bureaucracy. Let me quote from Mr. Bowen's report. It was reported in the *Boston Globe* on February 1 of this year:

> "The Iraqi Government's transitions have led to the continuous removal of experienced civil servants and officials who have been trained with U.S. funds," the audit said.
>
> "With each temporary government, senior officials not only are purged, the remaining skilled ministerial staff but replaced them with persons hired more for the ethnic loyalty and often familial relationship than their qualifications."

We did not see that happening? You talked about in late 2005 the beginning awareness of what was happening as far as capacity. Budget execution you call it.

What I find particularly disturbing is that we did not act more quickly, more expeditiously in terms of recommending to those in power that our funds would be stopped unless this mess was cleaned up or unless there was an orderly sequence, and there was a civil service that was protected from political influence.

Mr. SATTERFIELD. Congressman, your points are very well taken. In 2003 and 2004, beginning of 2005, the issues you just discussed were frankly not the focus of our efforts. That focus began to shift

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dramatically as we approached the conclusion of the constitutional review process, the setting up in the beginning of 2006 of a new not transitional but permanent Iraqi Government. Then the focus changed, and perhaps it should have changed sooner. I certainly acknowledge that point to how to make of that permanent government a set of permanent institutions, a functional bureaucracy, a civil service that would be able to carry forward Iraq's needs.

That was a focus that began to develop during that summer of 2005, and the budget execution issue did not begin to emerge until spring of 2006 as that new permanent government stepped in.

Mr. DELAHUNT. But let me then express my disappointment that that was not recognized earlier, and that goes to the comments and the observations of Chairman Ackerman about you know our patience running thin. Well it is less than thin. There is no patience left in my opinion, in my judgment from what I hear from my colleagues on both sides. On both sides of the aisle.

Now, I want to ask you in terms of have you heard of any evidence whatsoever that the decision by the administration to seek grants as opposed to loans or to resist congressional desire as expressed both by myself and Mr. Rohrabacher to secure the monies, the American taxpayer dollars by loans was somehow influence by German and/or French banks.

Mr. SATTERFIELD. I defer to Special Inspector. I have never heard such an argument, and I have nothing to comment on that.

Mr. DELAHUNT. Mr. Bowen?

Mr. BOWEN. I have not heard that argument. I think it is a notable fact though that the $18.4 billion that was the U.S. pledge at Madrid in October 2003 was entirely grants. There was $32 billion pledged. The other $14 billion, of that $10 billion were loans. Only $4 billion were grants. Thus we chose a path that completely diverged from what the other donor nations selected, and I think you may recall I believe that Ambassador Bremer, Administrator Bremer came to the Congress and specifically addressed this and urged the Congress not to appropriate or to appropriation in loans but to do it exclusively in grants and his argument prevailed.

Mr. DELAHUNT. I believe that was another mistake that created a welfare dependency, if you will. I mean before I arrived here in Congress there was a welfare to work program that was enacted that had broad bipartisan support. I think that the possibility that we have created this dependency much to our detriment and to the detriment in the long-term of the Iraqi people is very real and tangible.

You know I think it was you, Mr. Bowen, we had this conference in Madrid. Thirteen point five was pledged. Some by other donor nations. And I think it was your testimony that some $3 billion of that has been forthcoming. Am I accurate?

Mr. BOWEN. That is right. Primarily from Japan and the United Kingdom.

Mr. DELAHUNT. Where is everybody else?

Mr. BOWEN. Those pledges are now part of the international compact process, and they are expected to be brought forward once the compact is executed.

Mr. SATTERFIELD. And, Mr. Chairman——

Mr. DELAHUNT. Ambassador.

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Mr. SATTERFIELD. A large amount of that unspent pledged money from Madrid are not only part of the compact they were in the form of soft credit guarantees and offers which have not been taken advantage of by the Iraqi Government. They still exist. They are credit facilities extended but which have not been taken by the Iraqis.

Mr. DELAHUNT. Let me go to another issue. Obviously oil is very significant, and yet there is testimony that under—I think it is your testimony, Mr. Bowen—that under Saddam Hussein at least the oil ministry worked more effectively and more efficiently because of flexibility that was inherent.

Mr. BOWEN. Well let me put a few facts on the table about the oil industry.

Mr. DELAHUNT. Okay.

Mr. BOWEN. First of all, 94 percent of Iraq's income is derived from the sale of oil and gas assets. Second, their annual budget this year is $41 billion, I think up $10 from last year. Third, of the Iraq Relief and Reconstruction Fund, the United States invested just 9 percent into the oil sector. It was a little bit higher, and it was cut because of security issues. Also, the assumption was that the Iraqis would be generating their own income to invest in their own sector, and I have talked to the contractors over there, KBR and they have described the overall oil program as pots and pans one called it.

I mean little projects that have been done but frankly there are two huge issues that need to be addressed within the oil industry and one is refining capacity. Their refineries are old and decrepit. And two is their offshore export capacity. Al Basrah offshore terminal and Kbaht, which is barely operating, are both the primary points of export. The metering issue, in other words keeping track of how much oil is being exported from there, is another important matter to be resolved so that corruption can be fought.

The point is while I agree with Ambassador Satterfield that more needs to be done beyond oil and indeed agriculture, it is the most fertile land in the region, the oil engine will drive the economy forward in the near term if the hydrocarbon laws get passed and investment can begin because it has been under invested over the last 4 years.

Mr. DELAHUNT. Thank you. Let me go to the economic relationship between Iran and Iraq.

Mr. MEEKS. Mr. Chairman, before you move to that, can you just yield for one question?

Mr. DELAHUNT. Of course.

Mr. MEEKS. On that area there was mention about the Madrid conference and the money that was either made as a grant or a loan. I am wondering subsequent thereto and/or, Ambassador Satterfield, with the focus now on giving capacity whether or not the coalition of the willing has pledged or continued to give money in that aspect or not.

Mr. SATTERFIELD. Many of the coalition members are members of the European Union. The European Union has contributed very generously to Iraq in terms of fulfillment of its pledges. Other countries, including Italy, in the coalition have also made individual national pledges that had been carried forward quite successfully.

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Mr. MEEKS. I am just concerned about your program that you are talking about what USAID monies going in to give capacity so that the Iraqis can control their own money. I am wondering if there are any other donor nations or part of the coalition that are also giving money in that.

Mr. SATTERFIELD. Yes. There has been an international effort to build cross ministerial training on budget execution, budget capacity issues, and that has been underway for some time. Building a financial network so that the government can talk to itself across ministries. That has been underway for some time, and there have been meaningful participants beyond the United States in that effort.

Mr. DELAHUNT. Ambassador Satterfield, is it true that the Iranian Government has contracted with the Iraqi Government to build a pipeline between the two nations?

Mr. SATTERFIELD. Congressman, the issue of both pipelines for crude, one of the reports from some time ago was Iraqi crude to be shipped to Iran for refining and then product to be brought back in, as well as discussion or reports on electrical power to be wield across the border, one way or the other, have been circulating for some time. Very frankly, Mr. Chairman, it is not clear to us based on our exchanges with the Iraqi Government or objective understanding that any of this has reached the level of what we would consider an agreement or actual implementation.

Mr. DELAHUNT. Mr. Bowen, do you have any comment on that?

Mr. BOWEN. No, sir, not on that issue.

Mr. DELAHUNT. Okay. Are you aware of a $1 billion line of credit extended by Iran to the private sector in Iraq?

Mr. SATTERFIELD. Mr. Chairman, again we have seen those reports but I will make a generic comment here.

Mr. DELAHUNT. You do not know?

Mr. SATTERFIELD. We want to see and encourage a constructive economic relationship, financial relationship between Iraq and all of its neighbors including Iran but that relationship should not come without a broader understanding that you cannot have an intrusive and negative set of actions on the security side where Iran, for example, is engaging in destabilizing activities, threats to our forces, threats to innocent Iraqis, promulgation of violence, while at the same time expecting to have a profitable and productive economic relationship. Constructive means constructive on all fronts.

Mr. DELAHUNT. But you would agree that that is a decision to be made by the Iraqi Government?

Mr. SATTERFIELD. It is absolutely a decision for the Iraqi Government.

Mr. DELAHUNT. Exclusively by the Iraqi Government?

Mr. SATTERFIELD. With respect to its economic relationships, exclusively by the Iraqi Government.

Mr. DELAHUNT. Are you aware of a bilateral military cooperation agreement between Iraq and Iran that was referenced in a CRS report that that agreement was dated in July 2005?

Mr. SATTERFIELD. Mr. Chairman, our understanding from the Iraqi Government was that there is no such agreement in the sense that that is meaningfully made. That whatever discussions may have taken place both on that occasion and the occasion of other

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visits to Tehran did not produce an implementable or executable agreement or agreements.

Mr. DELAHUNT. Are you confident in those representations?

Mr. SATTERFIELD. Mr. Chairman, every indication we have had and we have discussed this issue would back up what I said that there is no agreement as we would understand agreement that is being implemented in any meaningful sense.

Mr. DELAHUNT. You have many caveats to your response, Ambassador.

Mr. SATTERFIELD. I am not trying to overly caveat. I am trying to say that announcements were made which Iraqi officials then clarified did not really constitute agreement, and we have seen no signs of implementation.

Mr. DELAHUNT. Are you aware of any offer by the Iranians in an agreement to build an international airport near Najaf?

Mr. SATTERFIELD. Yes, we are aware of such discussions.

Mr. DELAHUNT. How are those discussions proceeding?

Mr. SATTERFIELD. There has been no execution.

Mr. DELAHUNT. There has been no execution. You referenced earlier that we need the tools for our security plan or our plan for security and stabilization. What are you referring to in terms of our security plan and stabilization? The so-called surge?

Mr. SATTERFIELD. Mr. Chairman, the so-called surge on the security side was developed in conjunction with the Iraqi Government, Prime Minister Maliki and Iraqi security forces to achieve a sustainable level of stability in Baghdad, a better level of security in Anbar province and beyond. That surge requires several things. First, United States and Iraqi military assets to be applied. We have——

Mr. DELAHUNT. Ambassador, let me interrupt you.

Mr. SATTERFIELD. Yes.

Mr. DELAHUNT. I am going to yield for a moment to Mr. Payne but before I do, just to inform you that during her testimony before the committee—I am referring to Secretary Rice—she was very clear in responding to I think a question from myself that this was not an American plan but this was an Iraqi plan. Now I presume that we should go by her statement rather than accept your description.

Mr. SATTERFIELD. No. Mr. Chairman, if you will permit me.

Mr. DELAHUNT. Sure.

Mr. SATTERFIELD. What I was in the process of laying out was the plan that was developed was developed in conjunction with the Iraqi Government and Iraqi security forces. It is a joint plan. It requires joint commitment of assets, Iraqi and American, and those assets are being moved. It is not a U.S. plan. It is a joint plan jointly developed and is being jointly executed but the plan on the security side has other elements, on the economic side and on the political reconciliation side that also need to move forward.

On the economic side, the plan requires the kind of dedication of assets that we have requested, have justified on the basis of that approach to the Congress in the 2007 supplement.

Mr. DELAHUNT. I clearly received a starkly different impression from the Secretary but in terms of the genesis of the plan. She indicated that Prime Minister Maliki had come with the plan, and

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that it was tweaked, and then obviously supported by the administration. But let us let that sit there. Let me ask the gentleman from New Jersey, Mr. Payne, if he has any questions, and I am going to ask Chairman Ackerman to take the chair.

Mr. PAYNE. Thank you very much. I am sorry I missed the testimony but I do have a question about the overall reconstruction. Prior to the U.S. going in with the shock and awe, I guess Baghdad was a pretty functioning city. The infrastructure of course was intact. When I visited there on my first trip after extensive bombing, there was of course the destruction of the sewer system that had just overflowed into much of the suburban part of Baghdad, just dealing with that city.

And it just seemed like much of the basic infrastructure was just destroyed. And let me just ask you we have been able to rebuild the basic sewer system and water system that seem to have been destroyed. I mean there would be six or eight inches of water just stagnated on the lawns in front of the houses. How is the situation now? They have been able to have a city plan and construction that has gone on to repair at least the sewage system.

Mr. SATTERFIELD. Congressman, Baghdad prior to March 2003, was a city where services were provided neighborhood-by-neighborhood depending on who lived there, their affiliation with the regime, their sect, whether that sect was viewed as close or hostile to Saddam, his family and the Ba'ath regime. There was certainly no effective or even provision of services.

Outside Baghdad there was very little in the way of meaningful provision of services save to favored Sunni provinces or Sunni cities. The major problem with sewerage that you refer to existed in Sadr City which is a Shi'a enclave where very little in the way of municipal services were available.

We have made, the U.S. has made, taxpayer dollars have made major strides in Sadr City in providing for a correction to those years of neglect by Saddam. In the city as a whole though and indeed in Iraq as a whole, it was never our purpose or intent to completely meet the essential service needs in water, electricity or sewerage of Iraq as a nation. Those needs were far beyond our capacity to address, and they were not the consequence of the events of March 2003. They were the collective consequence of nearly 40 years of selective neglect and selective development.

The World Bank estimates, which were referred to earlier in this hearing, are in the tens of billions for the real development of Iraq. All we could do was make a start on these efforts with the expectation that Iraqis themselves and the international community would address those other pieces of the puzzle.

Mr. PAYNE. Well the area that I saw, I do not know whether it was Sadr City or not, but it was an area where they did not have the problem of sewerage that had happened after the bombing, and so the main concern at that time and evidently it was an area where this was not a problem prior to that, and this was 7 or 8 months after the bombing had gone on, that it was a very serious problem. So whatever sector it was, I just wonder whether they were pro Saddam or anti Saddam, had that particular problem been corrected.

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Mr. SATTERFIELD. Congressman, I would need to know the specific area of the city. We can certainly look into that.

Mr. PAYNE. Okay. Well let me ask you about the electricity grid. There was the question about the unreliability of electricity so maybe you could run through how it was under Saddam's area because I know when we were there it was once again the grids were broken down. It was not, you are saying, a system that was city wide. It was only in select areas that electricity too was provided?

Mr. SATTERFIELD. Congressman, electricity is an interesting issue. Under Saddam, Baghdad had close to 24 hours electricity. The rest of the country did not. The electrical grid was built by Saddam so that all of the productive areas of the country had to feed electricity into Baghdad, then electricity was shed back out from Baghdad to the rest of the country. That was a deliberate regime control mechanism.

That structure was destroyed in March 2003. Today the majority of Iraq has a higher level of power than before the war outside Iraq. I am sorry. Outside Baghdad. Baghdad does not, and there are reasons why Baghdad does not. In Baghdad insurgents have deliberately targeted and have targeted for some years the electrical supply network and the fuel supply network that feed the electrical plants both within the city and from areas outside the city in.

The intent here is very deliberate and very calculated. It is to deny to any government in Baghdad the ability to show the citizens of Baghdad—and more broadly the citizens of Iraq—that they are capable of governing. There the insurgents have been successful to the detriment of the citizens of that city. That is something that we have worked to address by changing the way power is produced, working with Iraqis to focus efforts in more defensible areas. It has not been a wholly successful effort. It is under constant assault by the insurgents.

Mr. PAYNE. Thank you. In regard to before the shock and awe, when I was there I saw that there was a postal system that they were trying to set up. Did Iraq have a postal system before or was that something that the United States was just trying to implement?

Mr. SATTERFIELD. There was postal service before the war.

Mr. PAYNE. How is that? Has that been able to progress?

Mr. SATTERFIELD. Yes. There is a functioning postal service in Iraq.

Mr. PAYNE. Just quickly, according to information that was made available to us, last year the Iraqis were unable—and I do not know if anyone asked you the question—or unwilling to spend a reported 12 or $13 billion of their own funds for reconstruction purposes. I know at the beginning we were told that the oil funds would be enough to of course take care of all the costs, not only you know reconstruction but I think the military cost was alluded to.

What about that? If you have already answered, maybe just spend a second on it, that 12 or $13 billion of their own money for reconstruction purposes, and one, is the number correct, and number two, is the city government, their city council or however their municipal government function been able to allocate public works

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funds and secondly, are Iraqi companies in the process of doing any of the services? As you know, we have heard about the United States companies, the large companies that do that sort of stuff, and whether it is our companies with our contractors or whether the local population and business people are involved.

Mr. SATTERFIELD. Congressman, your first question, Iraq has $12.5 billion of unspent monies in its current account balance. Those monies are in that balance as a result of two different factors. In order of magnitude, the first is literally an inability to expend capital infrastructure budget funds. The second is unexpected windfall profits from the price of oil.

We are focused quite intently on developing the capacity, the budget execution capacity to ensure that Iraq is able to spend for its own benefit its own monies rather than United States monies. The second question you had asked was?

Mr. PAYNE. About the construction. Whether Iraqi companies were brought in or whether we had international corporations or were they United States led?

Mr. SATTERFIELD. Congressman, we have moved dramatically from about 5 to 6 percent of contracting being done by Iraqi firms in the 2003 to early 2005 period to about 80 percent of all contracting being done by Iraqi firms today, and I believe you had asked one other question about the role of local governments.

Mr. PAYNE. Right.

Mr. SATTERFIELD. Whether it is municipal or provincial governments. Under Saddam there was essentially no role for local government or local decision-making. There was a nominal provincial council. They were appointed by Baghdad. They were under the domination of directors general appointed by each of the ministries in Baghdad who dictated what would happen at a local level.

We have worked very aggressively, particularly since 2005, in helping to build local capacity. We are literally doubling that effort now in terms of decentralizing and diversifying the approach to how you build civil society, moderation, support for a democratic Iraq outside the capitol.

Mr. PAYNE. I guess just finally, Mr. Chairman, you know we started to hear about some of the plans you know the future of Iraq. I think this sort of Federal system. One, when will the question be brought to the governing body where they will have to come up with some Federal system or you know state system or what kind, and secondly, with the Kurds there in that possibility of Federal system there would of course be—and there may already be a Kurdish stand—knowing about our probably strongest ally in the region, Turkey, and Turkey's history with the Kurds—as a matter of fact, it was unusual that we had the no-fly zone protecting the Kurds very effectively in Iraq.

However, you know Turkey or strong ally had attacked the Kurds but we did not involve ourselves too much. That is another kind of puzzling question that I had. But if indeed there is a greater Kurdish stand, how do you feel that is going to play out say with Turkey as an example?

Mr. SATTERFIELD. Well, Congressman, Iraq is already a Federal state because the three provinces of the north that form the Kurdish regional government are recognized formally in the Iraqi Con-

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stitution as a Federal region. The Kurdish regional government has a strong relationship not just with the government in Baghdad but at a political and an economic level and a commercial level with the Government of Turkey.

There are direct talks. There are direct contacts. Turkey is the major trading partner of the Kurdish regional government areas. There is a significant Turkish investment in those areas. There are areas of concern. The activities of the PKK who have killed hundreds of Turks inside Turkish borders over the course of the last year is a major issue between the two.

The disposition of areas outside the Kurdish regional government boundaries, including Kirkuk, are an issue of concern to the Turkish Government, and these are issues which are discussed with the government in Baghdad as well as the Kurdish regional government. With respect to the future of Iraq beyond the extant Kurdish regional government Federal unit, the Iraqi Constitution already provides the mechanism for additional provinces to either become Federal regions in and of themselves or to join with other provinces to become an accreted Federal region.

There has been an agreed moratorium on that process moving forward until late fall of this year at which time, unless that moratorium is by decision of the Council of Representatives extended, provinces are free according to a specific set of procedures to make or to start in place such a process. Whether any province will and what direction that process will take remains for Iraqis to decide but the mechanism exists in the Constitution.

Mr. PAYNE. What about the revenue sharing? I guess the big question then is where is the oil, and how does that get disbursed? We have seen some countries feel that for example in the Ngono region of Nigeria the Ngone people feel that oil comes from their region, and therefore they should have the majority of its benefit, whereas that is not what happened. Is the question of resources been—other than these physical lines being drawn—been worked out?

Mr. SATTERFIELD. Congressman, the issue of hydrocarbon exploitation, development and revenue sharing has been perhaps the most intensely debated issue outside of the security field in Iraq over the last many months. The Council of Ministers earlier this year approved a hydrocarbon framework law which we believe—and more importantly Iraqis, Kurds and Sunnis and Shi'a believe—offers an equitable and agreed way to manage that country's resources.

The law requires several additional pieces. One piece is a specific legislative measure on revenue sharing which is contemplated in the framework law is the subject in principle of an agreed side letter to that framework law but the draft legislation itself remains to be fully agreed. We looked to that coming to closure literally within the next very few weeks for submittal to the Council of Representatives.

We see the hydrocarbon debate, discussion and resolutions reached so far as a very positive indicator of how different communities in Iraq can come together on very difficult issues in a manner that serves the broader interests of all the country.

Mr. PAYNE. Thank you very much.

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Mr. DELAHUNT. Thank you very much. Mr. Bowen, in your written testimony you cite a point that is separate from the $8.8 billion that has gone AWOL from the American taxpayers under our watch. You cite that, "Extensive corruption is involved in the expenditure of Government of Iraq funds. Reports indicate that untold amounts of money that could be spent on reconstructing the country are siphoned off the budget." I think that means stolen. The Commission on Public Integrity, you say, the CPI, "the Iraqi inversion of the FBI, estimates the loss at more than $5 billion annually." Now that is $5 billion every year ongoing in addition to that money that was ours.

I would like to know if, in your review of all this, have the Iraqis done everything that they can to try to stem that corruption, and have you formulated any recommendations that you might be able to share with us?

Mr. BOWEN. Yes. First off, to the $8.8 billion that was not properly accounted for by the Coalition Provisional Authority, that was development fund for Iraqi money for which under U.N. Security Council Resolution 1483 the CPA had a fiduciary duty to manage.

Mr. DELAHUNT. I stand corrected but the point I was trying to make is the $8.8 is different than the $5 that is ongoing now?

Mr. BOWEN. That is correct, and Judge Radi al Radi, who is the Commissioner on Public Integrity, I meet with him every trip. He is their FBI director for Iraq effectively.

Mr. DELAHUNT. What is his name?

Mr. BOWEN. His name is Judge Radi al Radi. He is in charge of pushing forward all these 2,000 cases of allegations of corruption by Iraqi senior officials and others as well as moving forward rule of law and reform, and a central component to further progress on the corruption issue. My office has conducted two audits of the anticorruption system, the process by which the United States has provided support to the Iraqis' inspector general, the Commission on Public Integrity and the Board of Supreme Audit.

The first one which came out a year ago was critical of shortfalls in both funding and emphasis. Our next report will be coming out in the next quarterly, and I do not want to prestige it too much except to say that our review these past 3 months has indicated significant progress, specifically the appointment of a full-time advisor to the Iraqi inspectors general, a full-time advisor to the Board of Supreme Audit to complement the full-time advisor to the CPI as well as a doubling of the personnel supporting the program.

That said, during my last visit, as I said earlier during this testimony, corruption is a very, very serious problem. Indeed as bad as it has been, and the cases need to be prosecuted to send a signal to the Iraqis that their system, their system of government is capable of pushing back this tide of corruption.

For example, Article 136(b) in the Iraqi criminal code allows any minister by fiat to bar any employee of that minister from prosecution. That is obviously incompatible with the functioning of an equitable democracy and needs reform. It is one example of rule of law form that must occur for progress to be made on this very serious issue.

Mr. DELAHUNT. That is a pretty extensive get-out-of-jail-free card.

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Mr. BOWEN. I am sorry?

Mr. DELAHUNT. I said that is a pretty big get-out-of-jail-free card.

Mr. BOWEN. That is how I describe it.

Mr. DELAHUNT. Ambassador Satterfield, what is your understanding of the $10 billion that has been pledged by the Iraqi Government for their own reconstruction projects? Are we looking at new money that they have pledged in addition to what they would normally have in their budget or is this just the regular money that they were going to have for reconstruction that they just reannounced?

Mr. SATTERFIELD. Mr. Chairman, this is new money.

Mr. DELAHUNT. New money.

Mr. SATTERFIELD. The increase in the Iraqi budget 2007 over 2006 primarily reflects this $10 billion. It is for reconstruction and development monies. It ranges from water projects to schools. It is essential services money. It is very much reflective of this transition to Iraqi lead in capital R reconstruction and capital I infrastructure from the United States lead of 2003 to 2006.

Mr. DELAHUNT. What was it before the $10 billion?

Mr. SATTERFIELD. There was a capital investment budget of significantly smaller level. I can get you the exact figure of the prior investment budget relative to this. This is an order of magnitude greater than monies committed to these projects in previous Iraqi budgets.

Mr. DELAHUNT. Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much. Just a few things for the record, and I will just close with this. The mess that was in Iraq was not caused by the United States of America. I mean there are a lot of people that blame the United States for everything that goes on. Saddam Hussein was not our ally. During the Cold War, Saddam Hussein's army was totally equipped by the United States' enemy, the Soviet Union. All of their tanks, all of their rifles, all of their artillery pieces, all of them came from the Soviet Union.

Saddam Hussein was not an ally of the United States or the Soviet Government would not have provided those weapons, and in fact, Saddam Hussein was somewhat hostile to the United States, and we tried to work with him during my time in the White House. It was we were trying to work with him because of the incredible events that were going on in Iran, and that the holding hostages of American personnel and basically the declaration of war that had been made upon us by the Government of Iran at that time.

And thus we helped a little bit, a little bit Saddam Hussein's war with the Iranians but every one of his weapons systems were Soviet weapons, and I remember that era very well. We did not create Saddam Hussein. We were not his friend. We aided him a little bit as I say when at that moment the Iranian Government had declared its war upon us.

Furthermore, the mess that exists in Iraq existed there before we came there, and I appreciate the testimony, Mr. Bowen, in particular and the Ambassador who basically set the record straight as to what the condition of living was in Iraq prior to the invasion that took place and our dispatch of Saddam Hussein's regime. It was horrendous. There are hundreds of thousands of people who had been murdered by the regime. We have found mass graves—

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which everyone wants to forget now—that were part of their daily life. That was anyone who would disagree with the regime.

That level of violence that exists today is heartbreaking, and it makes news, and there are headlines but during Saddam Hussein's regime, just as many people were losing their lives, only it was being done by an arrogant, fascistic government which now has been replaced. At least now the people have an alternative, a chance perhaps to work their way out of this, and that is our goal.

We did not destroy the infrastructure of Iraq. The infrastructure itself as we have heard in this testimony was destroyed by 20 years of Saddam Hussein spending his money on all of those Russian weapons that I talked about. He financed a huge army. He financed it, and then bought sophisticated weapons from the Soviet Union at the expense of their infrastructure.

So these are problems that we now have to deal with because we are there trying to do our best to eliminate the Saddam Hussein regime and leave that country with something that is at least something that would be a pro-Western and yet perhaps even somewhat democratic government as compared to what those people have had to live with for the last 20 and 30 years.

I do not believe—although mistakes have been made and let me note roses were thrown at our troops when they arrived in Baghdad. We were welcomed by the population with roses and flowers, and the people did pull down the statute of Saddam Hussein, whether or not you know after 2 years of chaos and confusion and perhaps incompetence in the terms of the rebuilding end of this whole venture I am sure the people there are suffering and how they feel about it now I am not sure exactly how they feel about it.

But I would imagine even now that a large percentage of the people, if not the majority, would rather have had the United States come in and eliminate the Saddam Hussein regime rather than not to have done that. So with those things let me also note we are not being motivated by imperialism or any other idea that we want to permanently occupy Iraq.

It is one thing to say that we have not been competent in the way we handled this war. It is another thing to say that our goals were corrupt from the beginning and that we actually had evil in motives and evil intent. I do not believe this President—even though I have major disagreements with this administration—I do not believe he had evil intent, and I think there can be some complaint with the argumentation that the President made to justify our liberation of Iraq from Saddam Hussein's regime.

I think there is totally legitimate criticism that the President was not using the type of argumentation when he talked about weapons of mass destruction. I believe all along we should have talked about offering the Muslim world a democratic alternative but that is where we are at. We are at war. We are at war with radical Islam, and like it or not what we do in Iraq will have a huge impact on that war with radical Islam.

I totally disagree with this notion let us get out of Iraq so we can win the war on terror. What we do in Iraq will affect the morale and the willingness of those people who are engaged in the war on terror to continue their efforts to attack the United States and

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other Western countries. We will either demoralize our enemies by outlasting them and by winning the hearts and minds and doing a good job in Iraq or we will not, and if we do not, whether we leave this year or whether we leave 2 years or 3 or 4 years from now, our enemies will be embolden if we are not successful.

So I needed to put those things on the record, and all of this does go back not just to military force but to our ability to do the job after our military has come in. That is what this hearing is about. I want to congratulate our chairman for coming to focus on that important issue. I was afraid when I came in that we might be talking about a poll of the Iraqi people, and so we got this——

Mr. DELAHUNT. Well we can.

Mr. ROHRABACHER. So we would understand extensive views of the Iraqi people. But let me just note that I think that we came to grips with some very important issues today, and as I say, I spent some time in South Vietnam, and I was a young man, and I was totally dismayed by the corruption that I saw there, and to this day I would suggest that of the many reasons why we were unsuccessful in Vietnam, which led to a huge retreat of the Western world after we got out of Vietnam which was only reversed in the 1980s, and I saw for example a currency manipulation by South Vietnamese officials, who where our allies, who were taking piasters from South Vietnam and going to Hong Kong and making millions of dollars with currency schemes but it was undermining their own ability to win the war against the communist guerrillas and the communist army of the south.

So that corruption, we were not able to fix the corruption in South Vietnam, and in the end, I think we paid a price for that. Mr. Bowen, I am very happy that you are cautiously optimistic, and that means a lot to me, and it means a lot to me that you have 48 accountants who are honest people trying to fight that front of this war because your success in bringing about accountability and honest government to the degree that we can there and building the infrastructure of that country, that is going to be whether or not this will be one of the battles in the war against radical Islam and the war on terror.

Whether or not this is going to be a lost battle within that war or whether this is going to be a successful battle and help us and lead us on to a time maybe where we will have more peaceful world. So thank you very much.

Mr. DELAHUNT. Mr. Chairman, if I may.

Mr. ROHRABACHER. You are the chairman.

Mr. DELAHUNT. No, I am not right now. But I will try to be brief.

Mr. ACKERMAN. Let me just have a minute, and then I will turn it over to you, Mr. Chairman.

Mr. DELAHUNT. Sure.

Mr. ACKERMAN. Allow me to say that I did not quite hear anybody in the room say that the President's motives for getting into this war were either evil or sinister. I do not know that anybody really believes that. I certainly do not believe that. I think what I did hear said and I might have even said it myself is that there was a lot of misinformation about the reasons for getting into the war, and a lot of the justification certainly was misleading, and

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other people might put another term on that, but people were misled as to the reasons, and the reasons kept changing.

But I think the President did get in for reasons that he thought were legitimate but they certainly were not necessarily sound. That being said, I do think that the hearing has shed a lot of light. We have gotten a lot of good information from both Ambassador Satterfield and Mr. Bowen, who we greatly appreciate for their service, and appreciate you as well, Mr. Chairman, for shepherding us through this joint hearing of our two committees, and we will leave it to you to conclude.

Mr. DELAHUNT. Well thank you. And just some brief questions, and I will address them to both. What is the current Iraqi debt, if you are aware, in the aggregate? I quoted the American debt as being $8.8 trillion.

Mr. SATTERFIELD. Mr. Chairman, I will get you the specific numbers on private and public debt by Iraq.

Mr. DELAHUNT. And Mr. Bowen, do you have any knowledge?

Mr. BOWEN. I do not have a sense of their current debt.

Mr. DELAHUNT. Okay. Why not—even in this particular request from the administration—why not make it in the form of a loan as opposed to a grant, Ambassador?

Mr. SATTERFIELD. Mr. Chairman, as I have commented on before, these are programs which are U.S. programs. They are not infrastructure or reconstruction projects. We are the ones implementing these, executing these projects, not Iraqis.

Mr. DELAHUNT. Ambassador, I understand that but these are done for the benefit for Iraq. I have no doubt that there is sufficient talent in the Department of State to explain to the Iraqi people that this is being done for their benefit at the cost of the American taxpayer, and that the American taxpayer deserves to be repaid at this point in time, given the absolute incredible fiscal pressures that are on the American taxpayer.

Mr. SATTERFIELD. Mr. Chairman, I would just make two additional comments. They obviously are programs we believe are of benefit to Iraqis but they are first and foremost of benefit to us, to our military commanders, and to the execution of their strategy on the ground. The second point is this money is needed for programs now. It is the reason why we cannot wait for Iraq to develop an executing capacity to move their monies into the field. As areas are secured, these monies need to flow. We cannot wait for a negotiation on loans.

Mr. DELAHUNT. Ambassador, I am not talking evėn lengthy negotiations. I am talking very favorable terms. I am talking conditions that would be you know most auspicious for the Iraqi people but it is time the American taxpayer does not stand alone carrying this entire burden, and you can cut it any way you want but we have been carrying the burden both militarily and financially, and I would expect and hope that my colleague, Mr. Rohrabacher and I will make an effort to see whether the American taxpayers can be repaid even for this request at some time in the future not to impede the flow.

Mr. PAYNE. Mr. Chairman, would you yield for a second?

Mr. DELAHUNT. Of course.

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Mr. PAYNE. As you may recall, in the recent Katrina situation, the administration was making the region, the state and the college students put up their share on a number of items that we said that we cannot wave it. I mean these are Americans. These are New Orleans. People in Louisiana, and was fought by the administration that this money cannot be given as a grant. This is going to be a loan. The city is going to be responsible for repaying it back, and that is I guess only in America.

Mr. DELAHUNT. I thank you for the point. I think it is well taken. I am sure there are ways to be creative here but I have to assure you, Ambassador, that there will be resistance, and I believe it will be bipartisan. We cannot afford to entertain budgets on the domestic side that cut Medicare by $66 billion over 5 years and focus all of our treasure, both in terms of our blood and our financial resources in Iraq. That is something that the American people will no longer accept in my judgment. I always have one out there.

Ambassador, I am going to have to respond to my good friend from California. It is very, very clear that in the Iranian-Iraq war from 1980 to 1988—and I invite you to comment if you so choose—that we, the United States, delivered dual use technology to Saddam Hussein. That we delivered ingredients that were later used in terms of the development of chemical weapons, and in the course of the attack in Halabja that after that attack was made known to members of the U.S. Congress they pursued and recommended to the then administration to seek a United Nations resolution condemning Saddam Hussein, and that was blocked at the United Nations.

Our record is one of not having clean hands, and that is a lesson that we should learn as we proceed in terms of our foreign policy objectives.

Mr. SATTERFIELD. Congressman, I was not involved in Iraq affairs at that time. My focus was elsewhere but we certainly can clarify the points you made for the record.

Mr. ACKERMAN. If there are no other questions, let me thank the panel on behalf of all of us, and Bill, why do you not rap the gavel?

Mr. DELAHUNT. This hearing is now adjourned.

[Whereupon, at 5:33 p.m., the subcommittees were adjourned.]

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