

Economic Reconstruction in Iraq

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Chairman Hagel, Senator Bayh and distinguished members of the Subcommittee, thank you for the opportunity to testify on recent developments on the economic reconstruction of Iraq.

Since I appeared before Senator Hagel and other Senators on the Senate Foreign Relations Committee on June 4, there have been several major developments affecting Iraq's reconstruction.

On August 14, the U.N. passed Security Council Resolution 1500 to deal with two specific issues: the new Governing Council of Iraq and the United Nations Assistance Mission in that country. In its action, the Security Council made it clear that the international community would work with the Governing Council as a broadly representative partner with whom the United Nations and the international community can engage to support them in their efforts to build a better Iraq. The resolution also endorsed the Secretary General's recommendation to create a United Nations Assistance Mission for Iraq to better enable the United Nations to fulfill its important responsibilities under Resolution 1483. You may recall that UNSCR 1483 had facilitated the participation of the international community, including the international financial institutions, in Iraq's reconstruction.

On September 7, President Bush delivered a major speech to the Nation in which he announced that he would send a supplemental budget request to the Congress of \$87 billion, of which \$20 billion would be used to help secure Iraq's transition to self-government by establishing the conditions needed for economic investment and prosperity. After decades of misrule and corruption by the Saddam Hussein regime, the needs in Iraq are urgent and enormous. Based on initial estimates from the Coalition Provisional Authority (CPA) and the World Bank, we believe Iraq will need \$50-75 billion in the next few years to rebuild a viable economy and allow it to become a vital member of the world economy once again. The President's proposal envisages that roughly \$5 billion would be devoted to improving security by training border guards, civilian police, the new Iraqi army, and supporting a judicial and penal system. The remaining \$15 billion in the request would be used to repair crucial infrastructure that has suffered from many years of neglect and abuse as well as war damage. These would include medical and educational facilities, electricity, transportation and telecommunications networks, water and sanitation and the oil industry. The re-

establishment of safe, modern, reliable and efficient services will have an immediate and positive impact on security and on sectors critical to stability and growth.

Since the President's speech, there has been concern expressed at the size of the task we are undertaking in Iraq, its difficulties, and how much it will cost. I won't deny those concerns. We are talking about a huge amount of money. But our strong engagement in Iraq's reconstruction will give that long-suffering nation a chance that it has never had before -- to become a decent and democratic society at the heart of the Middle East. President Bush was quite clear as to why this was in America's vital interest: "The Middle East will either become a place of progress and peace, or it will be an exporter of violence and terror that takes more lives in America and in other free nations. The triumph of democracy and tolerance in Iraq ... would be a grave setback for international terrorism." A free, democratic and prosperous Iraq will remove an island of hatred that long threatened its neighbors and the United States. If we move hard and fast on Iraq's reconstruction now, it will ultimately lower the cost of this undertaking and hasten the day that our troops can come home. We cannot fail to meet this challenge.

Though Iraq will provide important resources for its reconstruction, its needs over the next few years far outweigh its current ability to meet those needs. The magnitude of the task is such that it cannot be done by the United States alone, either. We urge the international community join us and move quickly to invest substantial funds to ensure success. Thus, a third positive development has been our collaborative work over the last several months with other countries and the international community on how we together can help Iraqis fix their economy. We believe that other countries -- both individually and through international organizations such as the United Nations -- should make major contributions commensurate with the importance and urgency of the task. The UN, the World Bank, and the IMF are conducting needs assessments in various sectors in Iraq to help determine that country's future needs. This information will be used by the Iraq Reconstruction Donors Conference to be hosted by the Spanish Government in Madrid on October 23-24 where they will discuss pledges for the final quarter of 2003 and all of 2004. While some countries may prefer to make their reconstruction pledges directly to Iraq, we are working on establishing a Multi-donor Trust Fund as another way for countries to provide reconstruction support to Iraq. This follows a similar model organized to facilitate Afghan assistance. I'll talk more about our international outreach effort later in my testimony.

A fourth milestone has been the efforts that Ambassador Bremer, the CPA, and representative Iraqis are undertaking in a process to transfer political authority to Iraqi institutions and establish a process leading to the establishment of an internationally recognized representative government. As Secretary Powell said on September 8, "We have a common goal: to restore sovereignty to the Iraq people as fast as is possible, as fast as is practicable."

The first steps have already been taken. Early this summer we saw the creation of the principal organ of the interim Iraqi administration, the Governing Council, whose members have been drawn from a broad spectrum of Iraq's ethnic and sectarian

groupings. The Governing Council has significant authorities, such as naming and overseeing interim Ministers, formulating national budgets, and appointing Iraqi representatives to international organizations and bilateral missions. The Governing Council is assisting the CPA in developing policy on the full range of issues facing Iraq, including security, economic issues and reconstruction.

Another step already taken was the creation of the Constitutional Preparatory Committee to make recommendations to the Governing Council on writing an Iraqi Constitution. Iraqis will write their country's Constitution, and it will be subject to approval of the Iraqi people.

The Iraqis are playing an ever-increasing role in making the decisions that affect their country. The Governing Council on September 1 selected the members of an Interim Cabinet, who are responsible for the day-to-day management of their respective ministries and who are working now on their 2004 budgets. The new Cabinet will have real responsibility.

We envisage several more steps to advance the objective that everyone shares: the establishment of an internationally recognized representative Government of Iraq. On September 15, the Constitutional Preparatory Commission will report to the Governing Council its recommendations on writing a Constitution. We anticipate a Constitutional Convention, which will draft a new Constitution that would be ratified by a vote of all adult Iraqis. The establishment of an elected Iraqi government will follow. Once the new government is in place and prepared to assume full control, the coalition will depart. Iraqis are responsible for the timetable of these next steps. The coalition and international community will advise and assist them, and encourage them to proceed deliberatively.

Finally, the U.S. is in the midst of negotiations with the members of the Security Council on a new resolution that would reaffirm and outline the many areas where we see the United Nations playing a vital role in Iraq, including in reconstruction and humanitarian efforts. We also want the UN to work with the CPA, Ambassador Bremer and the Governing Council to implement the political transition toward a representative government. A new resolution would give a broader mandate for the international community to come together over Iraq.

THE CURRENT SITUATION

Despite continuing paramilitary and terrorist activity, the situation on the ground throughout most of Iraq is improving. The bombing of UN headquarters in Baghdad on August 19 was tragic. We pay tribute to UN Envoy to Iraq, Sergio Vieira de Mello, and the other courageous and committed UN, World Bank, and IMF officials who were killed or wounded in that attack. Those who attacked the UN were attacking the hopes of the Iraqi people for a better future.

As Secretary Powell made clear last week, we take seriously the challenge that security poses and are taking actions. To augment the Coalition troops providing security, we are organizing an Iraqi national civilian police force within existing structures. About 46,000 Iraqi police have been re-hired and most are patrolling with U.S. military forces. About 8,700 guards are on duty in the recently established Facilities Protection Services to guard fixed sites, such as banks, universities or ministry facilities. But more needs to be done. The CPA has assessed that a minimum of 65,000 officers are necessary, a goal Ambassador Bremer hopes to reach by the end of 2004. We eventually hope to have strength of 17,000 guards in the Facilities Protection Services. Until the security situation stabilizes, it will be difficult for genuine development and transformation of the Iraqi economy to gather the necessary momentum.

Fortunately, there are many things upon which to build Iraq's future. Iraq has a large cadre of talented, dedicated technocrats anxious to return to work. And we have offers from many countries ready to provide technical assistance and to do business in Iraq.

We are making real progress. Under the leadership of the CPA and the Governing Council:

- the food situation is stable and improving. Working with the UN, we arranged for the local purchase of this year's wheat and barley crop and restarted the public distribution system;
- all universities and most secondary schools are open;
- all major hospitals and 95% of local clinics are open;
- power generation is now over 75% of prewar levels;
- oil production (1.44 million barrels a day in August) and oil exports (709,000 barrels a day in August) are increasing;
- Iraq's civil service are being paid regularly, bringing money into the local economy;
- USAID partners is awarding Iraqi firms contracts worth millions of dollars;
- Iraqis have been hired to rebuild Iraqi municipal services and infrastructure;
- oil infrastructure, airports, ports, telecommunications networks, highway systems, electrical networks and water and sewage systems are being repaired;
- an Iraq Central Bank has been created, and the banking system is operating once again;
- millions of dollars stolen by the Hussein regime has been returned by the coalition so that they can be used for the benefit of the Iraqi people.

THE JOB AHEAD: KEY CHALLENGES OF RECONSTRUCTION

My testimony speaks about the “reconstruction” of Iraq, but that word can be misleading. In one sense, we are looking not at reconstruction, but at construction, not at rebuilding, but at building. The Iraqi people must overcome the damage of almost 30 years of misrule and mismanagement by a corrupt and vicious tyrant to build their society into a democratic and prosperous center in the Middle East.

Under decades of Saddam Hussein's misrule, Iraq's economy deteriorated significantly. GDP fell from \$128 billion in purchasing power parity terms when Saddam took power in 1979 to around \$40 billion in 2001. Twenty-five years ago, per capita income was approximately \$17,000 – on a par with Italy – based on purchasing power. Today, per capita income is around \$2,000. Moreover, the United Nations Development Programme's Arab Development Report 2002 ranked Iraq in 110th place among 111 countries on its Alternative Human Development Index, which measures such things as life expectancy at birth, educational attainment and enjoyment of civil and political liberties.

Iraq's economy today not only has shrunk, it has become distorted in the way that the economies of Eastern Europe and the Soviet Union once were. Central control removed incentives for rational production. Overcoming the legacy of state planning and controlled prices will be arduous and time consuming.

TASKS IN KEY SECTORS

I'd like to briefly describe the challenges Iraq faces in several key sectors.

Oil

The oil sector was stagnant in Saddam Hussein's Iraq. The infrastructure suffered from years of neglect, forcing Iraqi engineers to exercise ingenuity and find creative solutions to keep oil production levels as high as possible. The technologies applied to boosting production have in some cases damaged the oil fields. The lack of maintenance, equipment, and spare parts also affected the infrastructure throughout the production chain – from the wellhead to the gas-oil separation plants, to the pipelines, to the pumping stations, and to the refineries.

Since the liberation, Iraqi and U.S. engineers have worked continuously to restore production so that Iraq will be able to meet domestic needs and begin earning revenues through exports. The Iraqi State Oil Marketing Organization (SOMO) has successfully sold crude at spot tenders and signed long-term export contracts.

Key future tasks include upgrades to oil facilities to protect the environment, to enhance efficiency, and to meet commercial and safety standards, both upstream and downstream.

Food and Agriculture

The complexity of the task of reconstruction and reintroduction of market principles is well illustrated in the food and agriculture sector.

Under Saddam, agricultural productivity suffered from low investment, input shortages, poor agricultural and irrigation practices, droughts and soil salinity. Returning Iraqi agriculture to productivity and competitiveness is a major challenge we face.

Iraq has not been food-self sufficient, traditionally importing 60-70 percent of its caloric needs. Thus, as Iraq rebuilds agricultural production to be competitive, it will also need to ensure that a vibrant trading environment exists.

The government procurement system provided most Iraqis with essential food and medicines. The government controlled procurement of and inputs to production of staples such as grains. Neither production nor consumption costs reflected market prices.

Winding down the UN mandated Oil for Food (OFF) program does not mean the end of the need to feed the Iraqi people, the majority of whom received virtually all their food through the public distribution system over the last 12 years. That system has been re-activated to meet the immediate needs of the population. Operational responsibility for buying, transporting, and distributing food and medicines will be transferred from the UN to the CPA on November 22 in accordance with UNSCR 1483. As of September 5, the UN in consultation with CPA has "prioritized" humanitarian and oil services contracts under the OFF program, valued at \$7 billion.

While the food distribution is continuing, consideration must be given to how best to move the Iraqi economy from a highly centralized, subsidized system to a market-driven system with cash salaries better reflect productivity and people are free to make their open choices in the purchase of food and items.

When freed of government control, the agricultural sector is one of the most responsive to market forces. Locally produced products such as fruits and vegetables are now freely traded in open markets. The challenge will be to expand this rapidly to grains such as wheat and rice, which are the staples of the Iraqi diet.

The U.S. Department of Agriculture and USAID are putting in place a project to assist agricultural production and develop agricultural enterprise, credit availability and infrastructure. In the 1980s, the United States was Iraq's largest supplier of agricultural products. We now look forward to rebuilding cooperation between Iraqi and U.S. agricultural sectors. Key future tasks include rehabilitation of irrigation and drainage systems, food production facilities, and services for pest management and animal health; providing farm inputs such as seed, feed, and fertilizers; and public food distribution.

Transport

Critical to Iraq's reconstruction will be the transportation sector, which faces numerous challenges. Basic transportation infrastructure is sound, but has not received proper maintenance for years. Rehabilitation priorities being carried out include port administration buildings, new lighting and fencing, utilities, security fences, grain elevators, silos and port dredging to allow bulk cargo vessels access to grain elevators and deepwater berths at the port of Umm Qasr, which re-opened to commercial traffic on June 17. Repair of the adjoining railroad system is underway to allow onward shipment of the large amount of cargo arriving through the port. Major roadways have also sustained conflict-related damage and are being repaired or rebuilt.

Baghdad International Airport has received repairs of its tarmac, runway lights, plumbing, communications, and security access control systems. The Coalition Provisional Authority is assuming civil aviation responsibility to oversee airport security and flight safety and the administration of civil air services. The repairs that have been completed at Baghdad International Airport have rendered it capable of hosting civilian air services since the beginning of August. In addition, rehabilitation has been undertaken on Basrah International Airport including airport striping, perimeter fence service, and land radio requirements. However, continuing security concerns have prevented these two airports from being re-opened to commercial service for the time being.

CPA is coordinating with the State and Transportation Departments, the Federal Aviation Administration, Transportation Security Administration, other U.S. government agencies, and with the International Civil Aviation Organization on procedures to initiate commercial aviation. CPA has completed solicitations for service for Baghdad and Basrah, and announced the carrier selections for Basra in order to expedite the initiation of commercial aviation once the security situation is adequate. We foresee that with the improvement of Iraq's transport system, trade and investment relations with its neighbors will also improve. Key future tasks include rehabilitation of roads, bridges, airports, ports, railways and public transport.

Telecommunications

Telecommunications remains a critical requirement for the reconstruction effort. Expanding telephone access is a key step to improving Iraqis' lives and essential for the efficient functioning of basic services, including the electricity and oil industries and security. In prosecuting the conflict, command and control systems and telecommunications centers were targeted. The war destroyed almost 50 percent of the telephone switches in Baghdad, and severed many intercity and all international links. Thus, even though about three-quarters of the 1.1 million lines in country remained serviceable, many of them connected only with phones in their local exchanges.

At this time, telecommunications reconstruction is progressing steadily. There is telecommunications construction work underway on 12 switches, restoration of fiber connectivity between major cities, and the re-establishment of an international satellite telephone gateway. The completion of these projects will put Iraq at pre-war levels of telecommunications. We have a target date of January 2004 for the completion of this work. The State Department and USAID have worked closely with CPA to expedite the telecommunication effort. CPA's selection process for the three regional wireless licenses is continuing due to the great volume of license applications. Granting of the licenses will ensure private sector participation in the telecommunications sector. Key future tasks include rehabilitation of switches, local access, international connectivity equipment, and the postal system.

Electricity

Restoring and expanding Iraq's electricity generation capacity and the power distribution grid is critical to Iraqi citizens' well-being as well as to the rapid restoration of economic recovery, particularly in the oil sector. Despite sabotage and criminal activity, Iraqi electricity generation has been steadily improving and reached its highest point, 3,715 MW, on August 27, or roughly 84% of pre-conflict levels. CPA and USAID are working to repair power stations and transmission lines as part of a plan to increase power to 4,400 MW by September 30 and 6,000 MW before the summer of 2004. Iraq's Commission of Electricity (COE) has implemented a power sharing policy that provides a predictable "3 hours on, 3 hours off" power schedule throughout the country. Bechtel is providing technical personnel at key power stations to assist the COE and is converting units at the Bayji and Al Qudas power plants to burn crude oil until refined fuels are more widely available. USAID is replacing air conditioning systems and clogged heat exchangers at four southern power-generating stations and is purchasing new turbines for the Kirkuk power station. CPA and COE are analyzing maintenance and inspection schedules to reduce the potential for power outages during the fall and winter. Key future tasks include rehabilitation of generation, transmission, and distribution equipment and providing greater security to protect these facilities.

Water and Sewage

Iraq is blessed with abundant water resources, but saddled with decrepit and neglected infrastructure to assure clean water to citizens and industry. We are working hard to improve the situation. USAID support to water and sanitation projects has already benefited over 14.5 million Iraqis. We have repaired over 1,700 critical breaks in Baghdad's water network, increasing water flow by 200,000 cubic meters per day. USAID has begun to expand Baghdad's Saba Nissan water plant, which will add 225,000 cubic meters of water a day by May 2004. We have rehabilitated 70 of Baghdad's 90 non-functioning wastewater-pumping stations and begun restoring Iraq's largest wastewater treatment facility, the Rustimiyah plant, which is southeast of Baghdad. USAID is dredging Basrah's Sweet Water Canal and partly completed restoration of the Safwan water pumping station in Khor az Zubayr, benefiting 40,000 people. USAID is also working to rehabilitate the An Najaf and Al Hillah sewage treatment plants, which serve 194,000 Iraqis. USAID has provided funds for the purchase of 100 MW generators for Baghdad's water system, thereby ensuring continuous water supply. Existing USAID projects will implement plans to increase potable water flow to east Baghdad by 45%, helping 2.5 million people and restore sewage treatment plants and the Baghdad pump station, serving over 5.5 million Iraqis. Key future tasks include the repair and rehabilitation of water pumping stations, wastewater treatment plants and associated distribution systems.

Health

While there has been no health crisis thanks to the efforts of USAID and other agencies, building Iraq's health infrastructure remains a high priority. USAID has rehabilitated delivery rooms in hospitals and primary care centers serving 300,000 residents in Basra. Three million sachets of oral re-hydration salts are being distributed to children with

diarrhea. With USAID funding, UNICEF has provided more than 100,000 pregnant and nursing mothers and malnourished children under 5 years old with supplementary rations of high protein biscuits. 1.4 million children have been vaccinated to date during monthly vaccination days. USAID has rehabilitated delivery rooms in hospitals and primary care centers service 300,000 residents in Basrah and 500,000 in Nassirya. More than 60 primary health clinics are being renovated and over 6000 re-equipped to provide life saving health services at a local level throughout Iraq. We will also train thousands of health care providers in the most important life saving techniques. We will continue to rehabilitate hospitals, public health centers, and delivery rooms in the Baghdad area and nationwide. In addition, a hospital burn ward, and dentistry and allergy/asthma centers in Basrah, Mosul and Kirkuk are being repaired. USAID and Iraq's Health Ministry are developing a health strategy for the country that has been supported by all health donors in Iraq. Key future tasks include the rehabilitation and construction of hospitals and health clinics.

Education

Iraq's children are among its greatest resources for a better future. Their education has been severely disrupted during and after the recent conflict. A top priority is to get the education system up and running again as soon as possible. USAID inventoried all of Iraq's 3,900 secondary schools in permissive areas and is on target to equip and open all secondary schools by the opening of school in early October. UNICEF accessed 1,000 primary schools in Iraq. With USAID funding, UNESCO has completed revision of 45 math and science textbooks. USAID has ordered student/school kits for 1.5 million students and 3,900 schools, including furniture and teaching materials. USAID also provided supplies for final exams to At Tamim Directorate of Public Education, Technical Institute of Kirkuk, Technical College of Kirkuk, Kirkuk University and Basra University. We are working with Ministry of Education (MOE) to create a plan for the national exam process, including an exam schedule and security requirements. USAID also conducted a competition for U.S. universities to partner with Iraqi Universities under a \$20 million grant program. USAID will rehabilitate at least 1,000 primary and secondary schools before the start of the new school year in early October. UNESCO will print and distribute 5 million math and science textbooks during the month of October. Key future tasks include the rehabilitation and construction of school facilities.

PAYING FOR RECONSTRUCTION

Experts from the CPA, Iraqis in various Ministries, and the international organizations are fine-tuning detailed estimates for Iraqi needs in preparation for the Madrid Donors Conference in late October. The analysis that has been accomplished thus far is that they will be substantial, as high as \$50-75 billion over the next several years. The Iraqi people and the broad international community must now share this cost of redeveloping Iraq's economy with the Coalition.

CPA issued a 2003 budget for Iraq on July 7 of \$6.1 billion, a huge step in a country where budgets historically were closely guarded state secrets and it had been a crime to

reveal them. The Governing Council, in close consultation with individual Iraqi ministries and budget experts from the U.S. Government are coordinating work on a budget for 2004. This budget should be ready in advance of the October Iraqi Donors Conference in Madrid in order to help international donors identify funding priorities.

There are several primary sources of revenue for Iraqi reconstruction: revenue of the Iraqi government, including from oil sales; unfrozen Iraqi assets; funds from the Oil-for-Food program; contributions from the United States, including \$20 billion request the President is making to the Congress; and contributions from foreign governments and international organizations.

IRAQ: REVENUE FROM PETROLEUM PRODUCTION AND OTHER LOCAL REVENUE

Iraq itself will bear an important share of the cost of reconstruction as its oil proceeds are used for the first time in 30 years for the benefit of the Iraqi people. UN Security Council Resolution 1483 directs that 95% of all oil export proceeds be deposited in the Development Fund for Iraq to be used for the humanitarian needs of the Iraqi people, for rebuilding the economy and infrastructure, for continued disarmament, for the costs of civilian administration, and for other purposes benefiting the people of Iraq. (The other 5% are applied to a special account for the United Nations Compensation Commission.)

To ensure transparency Ambassador Bremer has created a senior-level Project Review Board to approve projects and allocate funding sources and has issued procurement rules consistent with U.S. Government rules. Moreover, U.S. Government agencies are working with CPA to initiate the International Advisory and Monitoring Board (IAMB), created under UNSCR 1483. The IAMB, composed of representatives of the UN, the Arab Fund for Social and Economic Development and international financial institutions, will ensure transparency with respect to expenditures from the Development Fund for Iraq and to verify that its export sales are consistent with prevailing international best market practices.

Oil sales are far and away the biggest potential source of revenue for the new Iraq, as they were for the old, but this time Iraq's oil revenues will benefit the Iraqi people. A top priority is to bring the industry on line and to repair and rehabilitate the existing infrastructure. A highly qualified team has taken on this work. The Governing Council has named Ibrahim al-Uloun the new Minister for Petroleum. Al-Uloun is an oil engineer with international private sector experience. Thamir Ghadhbani, a highly dedicated and competent career Oil Ministry executive, remains in place as CEO. Iraq has in place a team of experienced and well-qualified Iraqi managers and engineers at the Oil Ministry, the State Oil Marketing Organization (SOMO), and the South and North Oil Companies; they have technical support from the Army Corps of Engineers. Steps are being taken every day by Iraqis, working with the U.S. Army, to assess the condition of wells, pipelines, pumping stations, gas-oil separation plants, associated power grids, and refineries, and to make repairs.

In July, SOMO signed Iraq's first term contracts since the war, for exports of Basra Light oil from Iraq's southern fields. Iraq's Mina al-Bakr oil terminal is operational and SOMO is successfully exporting oil from it. SOMO recently reported that oil exports averaged about 700,000 barrels a day in August.

There obviously is considerable uncertainty surrounding all production and export projections for Iraq. Raising oil production will require more rehabilitation of fields and production chains. Since the security situation is improving slowly, it is difficult to project the likelihood of success or the likely costs associated with this work. Estimates of future oil production vary considerably. Domestic needs are expected to stay in the 500-600,000 barrels a day range. The following chart provides mid-range estimates of oil export levels and revenue for the next two years:

Estimated Oil Exports and Revenue		
	2004	2005
exports	1.5 million b/d	2 million b/d
revenues	\$12 billion	\$19 billion

ASSETS OF THE FORMER IRAQI REGIME

In addition to oil, existing Iraqi state assets and the assets acquired by Saddam Hussein and other senior officials of his regime are to be used for the benefit of the Iraqi people to reconstruct the country.

After Saddam Hussein's invasion of Kuwait in 1990, the United States acted to deprive the Iraqi regime of the means and materials to continue its regional aggression and to further develop its weapons of mass destruction programs. Consistent with UNSC Resolution 661, the United States blocked all Iraqi state assets within its jurisdiction, i.e., in the United States, or held by U.S. persons wherever located.

The President has vested \$1.7 billion in Iraqi government assets in the United States, almost all of which have been transferred to the CPA to meet the immediate humanitarian needs of the Iraqi people. These funds have been used to pay Iraqis' salaries and pensions, as well as for humanitarian projects such as replacing hospital generators.

The State Department and other government agencies have also reached out to many countries that have frozen Iraqi state assets. Under UNSCR 1483, countries have an obligation to freeze without delay and immediately transfer Iraqi state assets to the Development Fund for Iraq. Japan, for instance, turned over \$98 million in frozen assets to the Development Fund for Iraq on August 29.

We continue to have extensive bilateral and multilateral discussions with key countries, with Treasury and State officials contacting their counterparts. We have stressed the need for all countries to search their financial institutions for the assets of Saddam Hussein and his senior leadership, as well as their family members, in both face-to-face

meetings and in messages delivered by our embassies overseas. Our efforts are leading to the identification of funds. Over \$1 billion has already been frozen. We are urging that these funds be transferred to the Development Fund for Iraq so that they are used for the benefit of the Iraqi people.

MOBILIZING RESOURCES FROM THE INTERNATIONAL COMMUNITY

In my opening remarks, I referred to our ongoing work with the international community on Iraqi reconstruction. Many countries have already come forward with offers of assistance – either monetary or in-kind contributions. To date these have been offers nearing \$2 billion from third countries -- much of this pledged through the \$2.2 billion UN humanitarian "flash" appeal. There have also been many pledges of in kind contributions -- from Albania's 70 peacekeeping troops to Jordan's field hospital to a medical team from Lithuania. Much more will be needed.

We moved immediately after the end of Operation Iraqi Freedom to start the work of coordinating and increasing donor efforts in Iraq. Technical consultations among key donors held at the United Nations on June 24 in New York confirmed that there was widespread recognition that repairing the damage of decades of misrule in Iraq must be an international undertaking. These consultations led to the formation of a Core Group consisting of the EU (Presidency and the European Commission), Japan, the United Arab Emirates, and the United States along with the cooperation of the United Nations Development Group, World Bank, IMF, and CPA. The Core group is charged with laying the groundwork for an international donors' conference, to be hosted by Spain on October 23-24 in Madrid, and provides regular briefings on progress to over 50 other countries that are also interested in the success of Iraq reconstruction. At that meeting, we will be looking for foreign pledges for Iraqi reconstruction commensurate with the importance and urgency of the task for the remainder of 2003 and all of 2004.

The governments represented at the June 24 meeting in New York asked the World Bank, the IMF and the UN to undertake a series of needs assessments in Iraq. In response, the World Bank is doing sectoral studies on education, economic management, investment climate, banking, transportation, and telecommunications; the International Monetary Fund led a study on the macroeconomic situation and the overall budget requirements that would be faced by Iraq and the United Nations Development Group led tasks forces on health, agriculture, mine action, water supply, electricity, housing, and institutional capacity building. The fourteen needs assessments are designed to ensure that the best experts available internationally take a look at the situation in Iraq. They have gone into Iraq to assess the situation, identify needs, begin to put a price tag, begin to establish priorities.

The results of these assessments are being fed into the 2004 budget process, being undertaken by the Coalition, working with the interim Iraqi cabinet and the new Iraqi ministries. Both the international organizations, as well as the authorities in Baghdad, agree that the budget should be the coherent planning tool that guides not only how operating funds are spent, but also what reconstruction priorities should be. We are

aiming to get a fusion of what reconstruction needs are between the budget being prepared in Baghdad, on the one hand, and the results of the needs assessments being done by the international organizations, on the other.

The Core Group and other donors are also consulting with the World Bank and UN to develop ideas for a multi-donor trust fund into which donors could make contributions. A technical meeting on the multi-donor trust fund was held in Washington in late August, and that work is moving forward.

Running in parallel with the Core Group process are meetings of the Liaison Group at the UN, which is the larger group of countries that first met in New York in June. About 60 countries as well as several international organizations are members of the Liaison Group. On September 5, this Group met in New York to learn about the results of the Brussels and to invite their input to the issues discussed, including the governance structure of the trust fund, and the process of refining of the World Bank, IMF, and UN assessments. The Group generally made sure that everyone that is likely to participate in the donor's conference is having a voice in its organization.

PRIVATE SECTOR

Iraq's financing needs for the coming months will need to come principally from international donors. However, in the longer run Iraq's development will depend on expanding trade and investment and the growth of the private sector. Iraq's re-establishment of trading ties to its neighbors and beyond will generate employment opportunities, diversify and increase exports, raise revenues, and facilitate regional re-integration of its economy. The State, Treasury and Commerce Departments, the Office of the U.S. Trade Representative, the Ex-Im Bank, OPIC and other agencies are working with CPA and the Iraqis on measures to establish an environment that is conducive to business, including:

- establishment of a new, open trade regime;
- encouragement of foreign investment through a more open investment regime and loosening of restrictions against foreign and domestic ownership of private property;
- creation of an effective banking system, and other financial services;
- transformation of substantial means of production and development currently in the hands of the state;
- replacing existing currencies with a single new currency;
- establishing credit facilities for small businesses;
- reviewing and revising commercial laws and regulations to support a market-driven economic framework.

To help facilitate trade, the CPA is creating the Trade Bank of Iraq, which was announced in July 2003 and will be established soon. President Merrill of the Ex-Im Bank is here today to discuss the Trade Bank during his testimony. Finally, OPIC and

the Trade Development Administration are taking steps that would permit them to operate in Iraq in support of U.S. investors in Iraq.

Mr. Chairman, you can see from my summary of the economic reconstruction of Iraq that this is an issue that is getting the highest priority within the U.S. Government. It is an immensely complicated effort involving not only the United States, but also the whole international community and major international institutions, including the United Nations, the World Bank and the IMF. I have outlined the considerable progress we have made over recent months, but the formidable challenge of restoring Iraq to economic vitality will continue to require major resources from the United States and the international community as well as from the Iraqis themselves. The task will take years to complete. It is an effort that we cannot afford to lose. We welcome the strong support of Congress as we confront this challenge.

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