

Prepared Statement
of
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Introduction

Through the provision of expert policy and technical assistance the Agency for International Development (USAID) is helping to promote U.S. foreign policy goals in the reconstruction of Iraq. USAID activities in Iraq are fully coordinated with the Coalition Provisional Authority and its Administrator, Ambassador Jerry Bremer.

Currently, USAID has 16 direct hire staff, 54 contract staff, and 60 Iraqi staff in Iraq. Ten of our expatriates are located in regional offices outside of Baghdad. Contractors and grantees funded by USAID have an additional 700 expatriate and 3,000 Iraqi staff, and have a presence in every province.

Overview

USAID began its reconstruction activities in January 2003 under the Office of Reconstruction and Humanitarian Assistance (ORHA), the predecessor agency to the Coalition Provisional Authority. The first phase of USAID programs aimed to repair the most essential infrastructure and restore the most important social and governmental functions. These efforts are to be completed in June 2004 and are on schedule to achieve their planned objectives.

With the advent of the Coalition Provisional Authority in July 2003, USAID prepared a two-year program to extend the reconstruction program beyond post-conflict triage. USAID is presently working in four areas of concentration:

- Infrastructure repair: primarily electricity, water, and transportation sectors (including capital-intensive major projects and community-based small projects).

- Education and health: primary and secondary schools, university partnerships, primary health care, and reduction of childhood deaths.
- Governance: introduction of viable, legitimated provincial and city governments that represent their constituents, promotion of a vibrant civil society, support the political transition at the national level.
- Economic growth: macroeconomics, government finance, banking, private sector development, trade, rural economics, and food security.

During the six months immediately following the war, USAID strongly supported public health activities and emergency food delivery to avoid a potential humanitarian disaster. For example, USAID assisted the World Food Program to deliver 516,000 tons of grain to ensure that the population was fed, and enough medical supplies and equipment for 1 million persons.

USAID was tasked by the Administration to manage \$2.4 billion of the April 2003 Supplemental appropriation. USAID is currently coordinating with CPA on planning activities it will manage with the FY 2004 supplemental. Presently, the CPA has directed \$1.7 billion of these new resources to USAID. USAID is coordinating closely with CPA on how to implement these funds and on the issue of whether USAID will receive and manage further funds from the FY 2004 supplemental.

USAID has eleven contracts for reconstruction through April, but will be scaling back to nine contracts over the summer. (The airport and seaport management contracts will not be renewed, as Iraqi ministries take over operation of the ports.) We have grants to the United Nations (UNICEF, WHO, UNESCO, and WFP), to five U.S. universities, and nine international non-governmental organizations. As conditions improve in Iraq, CPA and USAID would like to see a greater number of non-governmental organizations become active with U.S. funding. Through USAID contractors and grantees, USAID have provided financial support to over 600 Iraqi nongovernmental organizations.

Economic Development in Post Conflict Situations

As the lead development agency for the U.S., USAID has considerable practical and policy experience in dealing with post-conflict situations. In Iraq, we are applying the economic reform lessons learned in the early 1990s from the former Soviet Union and Eastern Europe. One example of this direct application was a conference held in Baghdad in October, which brought together Eastern European economic leaders, who had a hand in their countries' transition to market economies, with Iraqi economic leaders.

Reform programs in conflict areas require special handling, and USAID brings years of experience from numerous countries: El Salvador, southern Mexico, Guatemala, Colombia, Peru, Bolivia, Angola, Sudan, Congo, Afghanistan, Philippines, Nepal, West Bank, Sri Lanka, Bosnia and Kosovo.

There are five common themes in all these experiences:

- 1. Avoid a humanitarian disaster.** The United States has done that.
- 2. Reactivate food production and markets.** We are assisting the Ministry of Trade to maintain the public ration distribution system, smoothing the importation of food, and working with the Ministry of Agriculture on grain and other food production. Private food markets are functioning.
- 3. Involve the private sector early on.** Economic growth is good for the poor, and agricultural growth is even better for them.
- 4. Link economic development with democratic governance.** Good economic governance boosts economic growth. We are reforming the legal and regulatory framework and promoting a transparent tax system.
- 5. Transparency in government finance and procurements.** Successful introduction of democracy will require the confidence in the probity of public officials and faith in the equity of public investment.

Macroeconomics

At the Central Bank of Iraq, USAID in coordination with Treasury advisors and CPA staff has helped reinforce the

independence of this key financial institution. To unify the national currency and reissue banknotes, the Central Bank used a model developed by USAID in Afghanistan. USAID experts managed the logistics of the banknote exchange, helped set up daily currency auctions to maintain control of the exchange rate, and are training the bank staff. At the Central Statistics Office, USAID-financed experts are creating a consumer price index for inflation measurement, setting up national income accounts, and gathering employment information. All of these activities assist in enabling the International Monetary Fund to promptly re-engage in Iraq, which will ultimately benefit Iraqi reconstruction.

Government Finance and Procurement

Working with the Ministry of Finance, USAID is putting a financial management information system in place to allow tracking of public funds through the national ministries. This system is also a condition for assistance from the IMF and the World Bank. USAID-financed experts are assisting the Ministry of Finance and provincial authorities to prepare and roll up executive branch budgets that are consistent with the Governing Council's priorities. Our experts are working with the Iraqis on an equitable tax policy - presently a tax called the Reconstruction Levy - as well as options for a variety of income and use taxes and customs duties. We want the tax system to be transparent to the public, so that tax cheats will be identified more easily.

The Ministry of Finance is being prepared to share national revenue with governorates and municipalities. USAID is also financing the introduction of international accounting standards, reliable property inventories, and a public procurement law.

Banking

Iraqi banks have little recent experience with modern practices in financial systems. To help commercial banks function more efficiently, USAID-financed experts are developing a mechanism for interbank funds transfers. The state-owned banks are receiving improved systems in accounting, cash flow management, interest accrual, and computerization. USAID coordinates its work in the banking sector with technical assistance provided by the Treasury.

Private sector development

Together with other Federal agencies, USAID is assisting the CPA, the Governing Council, Ministries, and business groups to establish a legal and regulatory framework for the new Iraqi economy. This framework includes a commercial code, a labor law, and foreign and domestic company registration. Leasing, contracts, insurance, and mediation laws also are planned.

For electricity, USAID is helping the Ministry of Electricity estimate growth in demand, costs of providing service, and possible user tariffs to finance electricity. In addition, we are advising on accounting, internal controls, billing, and staffing.

Iraqi banks are not structured to successfully lend to private enterprise. To finance private businesses, USAID has begun a substantial reform of bank lending processes, staff training, and lending policy aimed at micro, small and medium sized enterprises. USAID partners manage two microenterprise loan programs that have made over 2,000 loans.

To deal with state-owned enterprises, CPA tasked USAID experts to assess the financial and commercial viability of numerous enterprises. CPA is still considering when and if to restructure these enterprises. USAID also provided analyses of best practices implemented by national oil and refining companies around the world - including several in the Gulf Region - to assist the Iraqi Oil Ministry in evaluation the present structure of its petroleum sector.

Trade and Competitiveness

Among the lessons from other post-conflict countries is the need to avoid dependence on a single export commodity. While oil will continue to dominate export earnings, Iraq can become competitive in at least two agricultural crops. Northern Iraq produces high quality durum wheat, poorly suited for bread but excellent for noodles, that in the past has been exported to Turkey and Iran. Southern Iraq has 16 million date palms. USAID is assisting the Ministry of Agriculture to increase the quality and quantity of the *bahri* date, which is the most valuable.

Food security

Iraq needs a sustainable way of ensuring that its people have secure access to affordable food. Presently, the Iraqi Public Distribution System, managed by the Ministry of Trade, attempts to feed the entire nation. To visualize the complexity of this task, imagine the US Department of Agriculture issuing ration cards, and then providing subsidized food, to everyone in the United States. As many as 10 million Iraqis do not depend on the basket of publicly supplied foods.

Reform of the food subsidy will have political ramifications. For instance, continued importation and distribution of subsidized grains will continue to stunt rural employment and drive down rural incomes. A stable, financially sustainable safety net ought to remain under the truly needy, and could incorporate a substantial role for private sector purchases in lieu of 100% government procurement. It is important for Iraqis begin discussion of alternatives to an open-ended subsidy during the transitional administration, to avoid the perpetuation of a costly entitlement program.

Agriculture and the Rural Economy

Agriculture can absorb a substantial amount of labor, while increasing food production and incomes for the poor at the same time. Rural jobs are particularly important when they help keep young men employed in the villages. There, they remain under the moderating influence of family, mullahs, and others. When unemployed young men migrate to cities in search of work, these influences are lost and the youth can gravitate towards gangs and militant groups. Stimulating the rural economy will stem this urban migration and keep men in the rural areas. USAID's agriculture program aims to improve farm production, support business development, and rehabilitate irrigation systems.

Title to land and water define the property rights in rural Iraq. A family's investment in house and production depend on clear land title. Irrigation water lies under the control of Ministries that own the pumps and village elders that control distribution. Poorly maintained irrigation systems concentrate natural salts in

agricultural soils, rendering them too saline for cultivation.

The October 2004 goals for USAID's agricultural assistance include increased grain and horticultural crop production, vaccination of dairy cattle for hoof and mouth disease, 1,000 loans to small agricultural businesses, and a 25% increase in irrigated land through repaired equipment.

Conclusion

USAID is helping Iraqi Ministries apply the lessons of numerous post-conflict states to the Iraqi economy. Timely but judicious reforms can be expected to generate jobs, both in cities and on farms. These reforms underlie the conditions that attract donor and private investment as well as providing the conditions for a private sector to flourish. Transformation of the Iraqi economy will be one of the lasting benefits of the post-war reconstruction.

