

# CRS Report for Congress

## Iraq: Reconstruction Assistance

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# Report Documentation Page

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# Iraq: Reconstruction Assistance

## Summary

A large-scale assistance program has been undertaken by the United States in Iraq since mid-2003. To date, nearly \$42 billion has been appropriated for Iraq reconstruction. On February 5, 2007, the Administration presented an FY2007 Supplemental request for Iraq reconstruction of about \$6.6 billion, a regular FY2008 request of \$391.8 million, and an Emergency FY2008 request of \$3.5 billion. The FY2007 Supplemental (H.R. 2206, P.L. 110-28), signed into law on May 25, 2007, provides a total of \$6.3 billion in Iraq reconstruction assistance, \$316 million less than the Administration request. Of this amount, about \$1.6 billion appropriated to the Economic Support Fund (ESF) account is subject to a presidential certification of Iraqi progress in 18 benchmarks. On June 21, 2007, the House approved H.R. 2764, the FY2008 State/Foreign Operations regular appropriations bill, rejecting requested regular FY2008 funding for Iraq.

Contributions pledged by other donors at the October 2003 Madrid donor conference and in subsequent meetings have amounted to roughly \$15.2 billion in grants and loans, of which about \$3.8 billion had been disbursed.

On June 28, 2004, the entity implementing assistance programs, the Coalition Provisional Authority (CPA), dissolved, and sovereignty was returned to Iraq. U.N. Security Council Resolution 1546 of June 8, 2004, returned control of assets held in the Development Fund for Iraq to the government of Iraq. U.S. economic assistance is now provided through the U.S. embassy while security aid is chiefly managed by the Pentagon.

Many reconstruction efforts on the ground are completed or ongoing, but security concerns have slowed progress. Reconstruction programs include the training and equipping of Iraqi security forces; construction of road, sanitation, electric power, oil production, and other infrastructure; and a range of programs to offer expert advice to the Iraqi government, establish business centers, provide school books and vaccinations, finance village development projects, and promote civil society, etc.

The report will be updated as events warrant. For discussion of the Iraq political situation, see CRS Report RL31339, *Iraq: Post-Saddam Governance and Security*, by Kenneth Katzman.

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# Iraq: Reconstruction Assistance

## Most Recent Developments

On June 21, 2007, the House approved H.R. 2764, the FY2008 regular State/Foreign Operations appropriations bill. In view of the recently passed FY2007 supplemental appropriations and pending FY2008 emergency proposal, the House chose to delete requested FY2008 regular funding for Iraq.

The FY2007 Supplemental (H.R. 2206, P.L. 110-28), signed into law on May 25, 2007, provides a total of \$6.3 billion in Iraq reconstruction assistance, \$316 million less than the Administration request of about \$6.6 billion. Roughly \$1.6 billion in Economic Support Fund (ESF) funds are withheld pending a certification of Iraqi progress in 18 benchmarks.

On February 5, 2007, the Administration presented three budget requests to fund Iraq reconstruction: an FY2007 Supplemental request (see above), a regular FY2008 request of \$391.8 million, and an Emergency FY2008 request of \$3.5 billion.

## Introduction

Following years of authoritarian rule and economic sanctions, the United States and the international community agreed in the spring of 2003 that efforts should be made to rehabilitate economic infrastructure and introduce representative government to post-war Iraq, among other objectives.<sup>1</sup> To meet these ends, a large-scale assistance program has been undertaken by the United States in Iraq. This program, funded through a mix of appropriations accounts, is undergoing increased scrutiny in the 110<sup>th</sup> Congress. This report describes recent developments in this assistance effort and key issues of potential interest to Congress.<sup>2</sup>

## Funding for Reconstruction

The first formal estimate of the possible cost of Iraq reconstruction amounted to \$55 billion over the four years from 2003 through 2007. This figure was the sum total of an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy — \$36 billion —

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<sup>1</sup> U.N. Security Council Resolution 1483, May 22, 2003.

<sup>2</sup> For detailed discussion of the Iraq political situation, see CRS Report RL31339, *Iraq: Post-Saddam Governance and Security*, by Kenneth Katzman.

combined with a \$19.4 billion Coalition Provisional Authority (CPA) projection for security, oil, and other sectors not covered by the Bank/U.N. assessment.<sup>3</sup> These amounts, calculated in mid-2003, did not take into account the significant costs of instability and security needs that have emerged since then.

In the succeeding years, several “spigots” have been available to fund Iraq reconstruction. U.S. foreign aid appropriations for Iraq have been provided mostly in annual emergency supplemental bills beginning in FY2003. International donors have also made aid contributions. Iraqi funds, largely derived from oil export profits, have been employed to cover the “normal” operating costs of the Iraqi government, and, when sufficient amounts are available, have been used to address reconstruction needs. Additionally, the reduction or rescheduling of Iraqi debt repayments has made further resources available. These sources of reconstruction funding are discussed below.

## **U.S. Assistance**

In the first several years of the U.S. effort in Iraq, the bulk of U.S. assistance was provided through a special Iraq Relief and Reconstruction Fund (IRRF) supporting aid efforts in a wide range of sectors, including water and sanitation, food, electricity, training and equipping of Iraqi security forces, education, and rule of law. The Fund was established in the FY2003 Emergency Supplemental (P.L. 108-11, H.R. 1559/H.Rept. 108-76), signed on April 16, 2003, with an appropriation of \$2.5 billion. A subsequent FY2004 Emergency Supplemental (P.L. 108-106, H.R. 3289/H.Rept. 108-337), signed on November 6, 2003, added \$18.4 billion to the IRRF. The Fund was placed under the direct control of the President.

In addition to the IRRF, funds drawn from other accounts have been used for similar purposes. Department of Defense appropriations have gone to pay part of the costs for repair of Iraq’s oil infrastructure, for training of the Iraqi army, and toward the Commanders Emergency Response Program (CERP). In addition to drawing from the IRRF, the U.S. Agency for International Development (USAID) has used its own funds to pay for humanitarian and other programs in Iraq.

The FY2005 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept.109-72), signed on May 11, 2005, provided \$5.4 billion for a new DOD account, the Iraq Security Forces Fund (ISFF), supporting the training and equipping of Iraqi security forces. Previously, most security training funds had been provided out of the IRRF. Policy responsibility for the IRRF, originally delegated to the CPA (under DOD authority), had, since the end of the occupation in June 2004, belonged to the State Department as a result of a Presidential directive (NSPD 36, May 11, 2004), which, nonetheless, continued to give DOD the main role in directing security aid. Putting funding for security assistance entirely under DOD, however, is a sharp departure from historic practice. Under most military assistance programs — Foreign Military Financing (FMF) and the International Military Education and Training Program (IMET) — State makes broad policy and DOD implements the programs. The

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<sup>3</sup> For the full text of the report online, see the World Bank website at [<http://siteresources.worldbank.org/INTIRAQ/Overview/20147568/Joint%20Needs%20Assessment.pdf>].

conference report on the supplemental adopted the President's formula for the new account but required that the Iraq Security Forces Fund be made available "with the concurrence of the Secretary of State." The FY2006 Emergency Supplemental (P.L. 109-234) added \$3 billion to the ISFF, the FY2007 regular Defense appropriations (P.L. 109-289) added another \$1.7 billion, and the FY2007 Supplemental (P.L. 110-28) added \$3.8 billion.

For the regular FY2006 foreign operations appropriations, the Administration departed from previous practice by requesting \$414 million in Iraq reconstruction funds under traditional foreign aid accounts instead of funneling requests exclusively through emergency supplementals and for the IRRF. However, some Members felt that sufficient funds remained unobligated in the IRRF — at the time, \$3-\$5 billion — from which the Administration could draw to pay for continuing reconstruction. As a result, Congress provided (P.L. 109-102, H.R. 3057) only \$61 million in funds for Iraq (\$60.4 million after rescission) — \$5 million for the Marla Ruzicka Iraqi War Victims Fund and \$28 million each for the democratization activities of the International Republican Institute and the National Democratic Institute.

In the FY2006 Emergency Supplemental Appropriations (P.L. 109-234), signed into law on June 15, 2006, Congress approved (H.R. 4939; H.Rept. 109-494) roughly \$5 billion for Iraq reconstruction activities — \$3 billion for the ISFF; \$378 million for the CERP; and \$1.6 billion in so-called "stabilization" assistance for Iraq to be provided largely under the ESF account (\$1.485 billion).<sup>4</sup>

FY2007 regular foreign operations funding for Iraq is provided under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289 Division B, as amended by H.J.Res. 20, P.L. 110-5, on February 15, 2007). It sets funding levels for major aid accounts. Country allocations based on those levels have not yet been formally released. When it proposed its FY2007 budget in February 2006, the Administration had requested nearly \$773 million in funding for Iraq under several accounts, including \$478.8 million in ESF to continue programs to sustain U.S.-funded infrastructure and to support democracy, governance, civil society, economic policy reform, private sector, and agriculture programs; \$254.6 million in the International Narcotics and Law Enforcement (INCLE) account aimed at rule of law programs.

**The FY2007 Supplemental Appropriations.** The FY2007 Supplemental (H.R. 2206, P.L. 110-28), signed into law on May 25, 2007, is meant in part to address the President's new strategy for Iraq, announced on January 10, 2007. The strategy, seeking to deal with increasing instability, especially in Baghdad, proposed the introduction of about 26,200 more U.S. troops and other efforts to create a more secure environment for successful political and economic development. New reconstruction efforts would include a doubling in the number of Provincial Reconstruction Teams (PRTs) from 10 to 20 and an increase in the number of U.S. civilian staff for them from 250 to at least 400.

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<sup>4</sup> The conference report also provided funding for operational and security costs — \$220.8 million for the PRTs, \$101 million for USAID, and \$24 million for the SIGIR.

**Table 1. U.S. Assistance to Iraq**  
(appropriations in \$ millions)

| Fiscal Year                                   | 2003                 | 2004                  | 2005           | 2006           | 2007 Regular       | 2007 Supp.     | Total           | 2008 Regular (req.) | 2008 Emerg. (req.) |
|---|----------------------|-----------------------|----------------|----------------|--------------------|----------------|-----------------|---------------------|--------------------|
| Iraq Relief and Reconstruction Fund (IRRF)    | 2,232.3 <sup>a</sup> | 17,797.9 <sup>a</sup> | —              | 10.0           | —                  | —              | <b>20,040.2</b> | —                   | —                  |
| DOD - Iraq Security Forces Fund (ISFF)        | —                    | —                     | 5,700.0        | 3,007.0        | 1,700.0            | 3,842.3        | <b>14,249.3</b> | —                   | 2,000.0            |
| DOD - Iraq Army                               | 51.2                 | —                     | —              | —              | —                  | —              | <b>51.2</b>     | —                   | —                  |
| DOD - CERP                                    | —                    | 140.0                 | 718.0          | 753.0          | 375.0              | 350.4          | <b>2,336.4</b>  | —                   | 977.4 <sup>b</sup> |
| DOD - Oil Repair                              | 802.0                | —                     | —              | —              | —                  | —              | <b>802.0</b>    | —                   | —                  |
| DOD - Iraq Freedom Fund                       | —                    | —                     | —              | —              | —                  | 50.0           | <b>50.0</b>     | —                   | —                  |
| Other USAID Funds                             | 469.9                | —                     | —              | —              | —                  | —              | <b>469.9</b>    | —                   | —                  |
| Economic Support Fund (ESF)                   | —                    | —                     | —              | 1,534.6        | 182.8 <sup>d</sup> | 1,574.0        | <b>3,291.4</b>  | 298.0               | 772.0              |
| Democracy Fund                                | —                    | —                     | —              | —              | —                  | 250.0          | <b>250.0</b>    | —                   | —                  |
| INCLE (Int'l Narcotics & Law Enforcement)     | —                    | —                     | —              | 91.4           | 20.0 <sup>d</sup>  | 150.0          | <b>261.4</b>    | 75.8                | 159.0              |
| IFTA (Treasury Dept. Tech Asst.) <sup>c</sup> | —                    | —                     | —              | 13.0           | —                  | 2.75           | <b>15.8</b>     | —                   | —                  |
| MRA (Migration & Refugee Asst.)               | —                    | —                     | —              | —              | —                  | 45.0           | <b>45.0</b>     | —                   | 35.0               |
| <b>Total U.S. Reconstruction Assistance</b>   | <b>3,555.4</b>       | <b>17,937.9</b>       | <b>6,418.0</b> | <b>5,409.0</b> | <b>2,277.8</b>     | <b>6,264.5</b> | <b>41,862.6</b> | <b>373.8</b>        | <b>6,920.8</b>     |

**Sources:** *Section 2207 Report to Congress*, April 2007; SIGIR Report to Congress, April 2007; Department of State, *Iraq Weekly Status Report*, June 13, 2007; and CRS calculations.  
**Notes:** This table is not comprehensive. It omits several smaller accounts: Nonproliferation, Anti-Terrorism, and Demining (NADR), International Disaster and Famine Assistance (IDFA), and the International Military Education and Training Program (IMET). The table does not contain agency operational costs, except where these are embedded in the larger reconstruction accounts.

a. The IRRF was originally appropriated \$2,475 million for FY2003 and \$18,439 million for FY2004. Amounts shown above are those available for use after appropriations expired at end FY2006.

b. FY2008 Emergency request is for both Iraq and Afghanistan.

c. Assistance may have been provided in unmarked years; amounts not reported.

d. Based on preliminary estimates. Actual regular FY2007 country allocations not yet available.



The enacted version of the FY2007 Supplemental provides a total of \$6.3 billion in Iraq reconstruction assistance, \$316 million less than the Administration request of about \$6.6 billion. The bill matches the Administration request for both the ISFF (\$3.8 billion) and the CERP (\$350 million), but cuts by half, to \$50 million, support for a plan funded under the Iraq Freedom Fund account to rehabilitate more than 140 of the nearly 200 state-owned enterprises that composed a large portion of the Iraqi economy prior to the U.S. occupation.

The INCLE account, supporting rule of law programs, is decreased by \$50 million to a level of \$150 million — \$50 million was cut from prison construction. The Migration and Refugee account (MRA) is increased by \$30 million to a level of \$45 million in view of the recent increases in displaced people.

Perhaps the most significant difference between the request and the final legislation is a cut of roughly \$248 million from proposed political, social, and economic assistance programs that would be solely funded in the Administration proposal under ESF at \$2.1 billion. H.R. 2206 addresses these types of activities under two accounts totaling \$1.8 billion — ESF at \$1.6 billion and the Democracy Fund at \$250 million. Programs within these accounts are funded as follows:

#### **Economic Support Fund**

- PRTs: \$620 million
- Community Action Program (CAP): \$95 million
- Community Stabilization Program (CSP): \$354 million
- Local Governance Program: \$90 million
- Private Sector Agribusiness Development: \$70 million
- Strengthening Financial Markets: \$10 million
- Financial Market Development: \$10 million
- Targeted Development Programs: \$57.4 million
- National Capacity Development: \$140 million
- Policy, Subsidy, Legal and Regulatory Reform: \$60 million
- Civil Society Development: \$67.6 million

#### **Democracy Fund**

- Continuation of Democracy Programs: \$200 million
- Human Rights: \$40 million
- Women's Programs: \$10 million

The enacted FY2007 Supplemental would impose conditions on the availability of the nearly \$1.6 billion in appropriated Iraq reconstruction funds under the ESF account. Funds would be withheld until the President certified in reports to be submitted before July 15 and September 15, 2007, that the government of Iraq had made progress in 18 benchmarks, including whether it enacted the hydro-carbon law, taken specific steps toward provincial and local elections, reformed de-Baathification laws, and begun expenditure of the promised \$10 billion Iraqi funds for reconstruction. The benchmark certification requirements can be waived by the President.

With regard to operational costs (not included in **Table 1**), H.R. 2206 cuts the Administration's request for DOD Iraq Freedom Fund support for PRTs by \$50

million to a level of \$100 million. It cuts the overall State operational request for the embassy and PRTs by \$74 million but does not earmark a portion of the \$750 million total to set apart funds available for the PRTs. It fully funds operational costs for the SIGIR at \$35 million. The legislation would also extend the life-span of the SIGIR by including, for the purpose of calculating its termination date, FY2007 reconstruction funds from any account in the definition of the IRRF. Previously, the SIGIR terminated 10 months after 80% of the IRRF and FY2006 funds are expended.

**Administration Request for FY2008 and Congressional Action.** On February 5, 2007, at the same time that it presented its FY2007 Supplemental request, the Administration requested regular FY2008 and FY2008 Emergency appropriations for Iraq (see **Table 1**). The FY2008 regular request under the State/Foreign Operations appropriations was \$391.8 million, mostly in ESF, for the kinds of community, small-scale activities that are undertaken by the PRTs, such as improvements to community infrastructure, job training, vocational education, and micro-loans. In addition to PRT assistance, the request would provide support at the national level for Ministerial capacity development, agriculture and private sector reform, and strengthening of the judicial process and democratization efforts.

The FY2008 emergency request for ESF was \$966 million. The request also includes funding under DOD appropriations for the CERP and the ISFF. The ISFF would receive \$2 billion in FY2008 emergency appropriations. The CERP would receive probably at least half of a \$977.4 million FY2008 emergency request that includes Afghanistan. FY2008 emergency funds were also requested for operational costs (not included in **Table 1**) for staffing and administering reconstruction programs: \$679 million for PRT and \$45.8 million for USAID operations.

On June 12, 2007, the House Appropriations Committee marked up H.R. 2764, the FY2008 State/Foreign Operations regular appropriations bill (H.Rept. 110-197). In view of the recently passed FY2007 supplemental appropriations and pending FY2008 emergency proposal, the committee did not include requested FY2008 regular funding for Iraq. On June 21, the House approved the measure, after rejecting amendments to restore \$158 million (Wolf) and another (Shays) to shift \$50 million to Iraq.

## Oil Resources

Oil revenues have been a critical element in reconstruction funding. Prior to the war, the Administration had expected that Iraq's oil reserves would help it "shoulder much of the burden for [its] own reconstruction."<sup>5</sup> The May 22, 2003, U.N. Resolution 1483 which ended sanctions permitted the occupying coalition to use oil reserves for more long-term reconstruction purposes. The resolution shifted responsibility for oil profits and their disbursal from the U.N. to the United States and

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<sup>5</sup> Press briefing by Ari Fleisher, White House, February 18, 2003; *Sec. 1506 Report to Congress*, July 14, 2003, p. 4.

its allies by establishing a Development Fund for Iraq (DFI) held by the Central Bank of Iraq and into which oil profits and other Iraqi assets would be deposited.<sup>6</sup>

During the occupation, DFI funds available to the CPA — \$20.7 billion by June 28, 2004 — were used to support a wide range of reconstruction activities, including the currency exchange program, oil and electricity infrastructure repair, purchase of firefighting equipment, the Iraqi operating budget, and the Oil for Food Program's monthly food baskets, responsibility for which was transferred from the U.N. to the CPA in November 2003. Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq obtained control over use of DFI funds, which continue to be replenished with oil revenue.

Oil production accounts for more than 90% of the Iraqi government revenue. Recognizing the importance of oil revenue to Iraq reconstruction, more than \$2.5 billion of total U.S. reconstruction funding has been devoted to efforts to restore and expand oil production infrastructure. Oil exporting resumed in mid-June 2003, but oil production was slowed by sabotage and corruption. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with an estimated pre-war rate of 2.5 million barrels/day (MBD), but rates have fallen since then and, as of early June 2007, stand at 2.0 MBD. The CPA target had been 2.8-3.0 MBD by end of 2004. The Iraqi government had hoped to raise production to at least 2.5 MBD in 2006, but its current goal for 2007 is 2.1 MBD.<sup>7</sup>

After paying for operating budget expenses and a variety of government social programs, very little of Iraq's oil revenue has been left for reconstruction. Fuel and food subsidies as well as support for state-owned enterprises are said to account for as much as \$11 billion annually. Because these practices divert funds from needed reconstruction for which the United States might have to compensate, Administration officials have repeatedly pressured the Iraqi transition government to face the need to address the subsidy issue. As part of its agreement with the IMF pursuant to a debt reduction with the Paris Club, Iraq in mid-December 2005 began to take steps to end its subsidy of gasoline, increasing the price of fuel from 5 cents to its current roughly 30 cents a gallon. There is speculation that Iraq will end the fuel subsidy entirely in the next year.<sup>8</sup>

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<sup>6</sup> On March 20, 2003, President Bush issued an executive order confiscating non-diplomatic Iraqi assets held in the United States, an estimated \$1.74 billion worth available for reconstruction purposes. Another \$927 million in assets located by the United States in Iraq were also used for these purposes. In addition, foreign governments were reported to hold an estimated \$3.7 billion in seized or frozen assets, of which \$847 million had been deposited in the DFI by June 28, 2004. Security Council Resolution 1511 urged member states to deposit seized assets in the DFI.

<sup>7</sup> Department of State, *Iraq Weekly Status Report*, June 13, 2007. "Iraqis Look to Raise Oil Output Next Year," *Financial Times*, December 29, 2005.

<sup>8</sup> Country Report Iraq Updater Fiscal Policy, *Economist Intelligence Unit*, May 15, 2007; "Iraqi Economy Adds to Tensions with U.S.," *Financial Times*, July 7, 2005; "Iraqis Reluctant to End Love Affair with Fuel Subsidies," *Financial Times*, June 13, 2005.

A further concern regarding the amount of oil income available for reconstruction is the extent of corruption and mismanagement in the Iraqi government. An audit of the DFI undertaken on behalf of the International Advisory and Monitoring Board (IAMB) found that controls over export earnings are ineffective and funds are improperly accounted for by government staff. The Comptroller General of the GAO has also suggested that there is “massive corruption” in the Oil Ministry. Iraq ranks next to the bottom on Transparency International’s corruption index.<sup>9</sup>

Finally, it appears that Iraqi ministries are having difficulty spending the revenue on capital projects such as roads, schools, and oil production. According to U.S. officials, only about 40 percent of the 2006 capital budget of about \$6 billion was utilized, and one U.S. government official has noted that only ten percent of a \$3.5 billion capital budget available to the Oil Ministry was spent in 2006. Among the reasons for this situation has been a rapid turnover in personnel, security concerns, lack of skills in contracting and managing projects, and a fear of being accused of corrupt practices.<sup>10</sup> Complementing the Administration’s new strategy for Iraq, the Iraqi government has approved a 2007 budget containing \$10.5 billion for capital investment, of which \$2.4 billion is expected to go to provincial governments. PRT assistance is partly aimed at helping the government at the local level develop the capacity to efficiently utilize these Iraqi-owned resources. The 2007 Iraq budget also includes \$2.4 billion for investments in oil production and another \$3 billion for the construction of new oil refineries to reduce oil product imports.

## **Iraqi Debt**

At the time of the invasion, Iraq’s debt, both public and private, was estimated at \$125 billion.<sup>11</sup> Since then, the United States has argued that any new Iraqi government should not be burdened with debts associated with the policies of its previous ruler and has supported a near total forgiveness of debt. Some large holders of Iraqi debt — France, Germany, and Russia for instance — were more inclined to reschedule debt than to forgive it, arguing that, as an oil rich country, Iraq could afford someday to pay its debts.<sup>12</sup>

Several steps led to a partial resolution of the debt issue. A series of meetings in early 2004 between the President’s personal envoy for Iraq debt reduction, former

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<sup>9</sup> “Iraq Rated Amongst Most Corrupt,” *International Herald Tribune*, November 6, 2006; “Corruption Cited in Iraq’s Oil Industry,” *Washington Post*, July 17, 2006; “An Audit Sharply Criticizes Iraq’s Bookkeeping,” *New York Times*, August 12, 2006.

<sup>10</sup> “Oil Revenues are in the Billions, but Iraq is Failing to Spend Them,” *New York Times*, December 11, 2006; Ambassador Joseph Saloom, DOD News Briefing, March 1, 2007; Ambassador David Satterfield, State Department Teleconference, February 7, 2007.

<sup>11</sup> Based on Paris Club data. Does not include \$29 billion in unpaid Gulf War reparations. International Monetary Fund, *Iraq: Use of Fund Resources — Request for Emergency Post-Conflict Assistance*, September 24, 2004.

<sup>12</sup> G-7 Agrees That Iraq Needs Help with Debt,” *Washington Post*, April 13, 2003; “Restructuring, Not Forgiveness,” *Financial Times*, April 15, 2003.

Secretary of State James Baker III, and the leaders of debt-holding countries led to statements of support, but no firm commitment, for varying levels of relief. By September 2004, Iraq had both assumed sovereignty and cleared its overdue financial obligations to the IMF, making it easier for Iraq to negotiate an agreement with private and government creditors. Further, Congress authorized \$360 million (P.L. 108-309) to cover the costs of cancelling the roughly \$4 billion Iraqi debt obligation owed the United States. These factors culminated in an agreement by the 19 Paris Club government creditors on November 20, 2004, to write off roughly \$32 billion in Iraqi debt, 80% of what it owed to this group. In addition to Paris Club creditors, Iraq owes about \$67 billion in other bilateral debt (mostly to Gulf States countries) and \$20 billion in commercial debt. Of the latter, about \$16 billion is expected to be forgiven in the near future.<sup>13</sup> In May 2007, several nations forgave a portion of Iraqi debt as part of their participation in the International Compact with Iraq. Saudi Arabia, for example, reportedly is negotiating to forgive 80% of Iraq's estimated \$15 billion debt.

## Other Donors

Immediately following the U.S. intervention in Iraq, U.N. appeals for postwar humanitarian relief to Iraq met with \$849 million in grant donations from non-U.S. donors.<sup>14</sup> Additionally, the Madrid donor conference, held on October 23-24, 2003, produced a minimum total of \$13.6 billion in reconstruction aid pledges from more than forty other donors. Later pledges have raised the total non-U.S. reconstruction aid offer to \$15.2 billion as of end March 2007.<sup>15</sup>

Of this reconstruction assistance, grant aid pledges from other donors total roughly \$5.1 billion. These include \$1.5 billion by Japan, \$642 million by the United Kingdom, \$222 million by Spain, \$905 million by the European Commission, \$200 million by South Korea, and \$236 million by Italy. About \$10.1 billion in loans have been offered, including by Japan (\$3.5 billion), the World Bank (\$3.0 billion), the IMF (\$2.6 billion), and the Islamic Development Bank (\$500 million). Of all these pledges, as much as \$3.8 billion has been disbursed, much of it as a contribution to the IRFFI (see below).<sup>16</sup>

Japan and Britain have been notably active in providing bilateral assistance. Japan, the second largest donor after the United States, has already spent most of the \$1.5 billion in grant aid it pledged and has developed projects for use of \$1.6 billion of a \$3.5 billion concessional loan. Among other things, it has provided significant funding for electrical power station rehabilitation, water treatment units and tankers,

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<sup>13</sup> State Department, *2207 Report to Congress*, January 2007, Appendix II-14. See CRS Report RL33376, *Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief*, by Martin A. Weiss for further details.

<sup>14</sup> Includes appeal and outside-appeal aid from all donor countries, except the United States. U.N. Office for the Coordination of Humanitarian Affairs. *Total Humanitarian Assistance for Iraq Crisis 2003*. April 5, 2004.

<sup>15</sup> SIGIR, *Report to Congress*, April 30, 2007, pp. 112-113.

<sup>16</sup> SIGIR, *Report to Congress*, April 30, 2007, p. 111.

medical equipment, and firetrucks and police vehicles. The loan is funding port and power plant rehabilitation and irrigation improvements. Britain has offered considerable technical assistance and related support for improvements in the justice system, governance, and economic policy.

Among multilateral contributions, the IMF continues to offer a \$297 million Emergency Post-conflict Assistance package and a \$475 million Standby Arrangement on which Iraq can draw, but has yet to do so. The World Bank has allocated \$399 million of a \$500 million concessional loan program, including a \$100 million education project, \$135 million road project, and \$124 million electric power project.<sup>17</sup>

**Iraq Trust Fund.** During much of the occupation, donors had been reluctant to contribute to reconstruction because they had no say in where the funds are to be allocated.<sup>18</sup> To deal with this concern, a multi-donor trust fund, the International Reconstruction Fund Facility for Iraq (IRFFI), was established on December 11, 2003. It encourages contributions by keeping them outside the control of the United States, but supports needs identified in the World Bank needs assessment and approved by the Iraqi government. The Facility has two windows, one run by the Bank (the World Bank Iraq Trust Fund) and one by the United Nations (UNDG Iraq Trust Fund). As of March 31, 2007, donors had deposited about \$1.6 billion to the Facility. The World Bank Fund (\$456 million deposited) has financed textbooks, school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund (\$1.1 billion deposited) is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>19</sup>

**United Nations.** In addition to the above donor projects, the United Nations, since its return to Iraq in early 2004, has been largely responsible for providing assistance and guidance to assist the democratization of Iraq, including support to the transitional government and the Iraqi Electoral Commission. U.N. envoy Lakhdar Brahimi helped negotiate the transition to sovereignty, and a U.N. team headed by Carina Perelli assisted the implementation of elections for the National Assembly, successfully held on January 30, 2005. With U.N. assistance the electoral law was drafted, thousands of registrars were trained, 540 registration centers were set up around the country, millions of ballots were printed, 5,300 voting centers established, and thousands of poll watchers trained. Much of the U.N. election work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities. Subsequently, the U.N. helped with the constitution-writing process, the constitutional referendum, and the December 2005 parliamentary election. With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects. There are

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<sup>17</sup> SIGIR, *Report to Congress*, April 30, 2007.

<sup>18</sup> "U.S. Seeks Help With Iraq Costs, But Donors Want a Larger Say," *New York Times*, July 14, 2003; "Bush's Plea for Iraq Aid Falls on Deaf Ears," *Financial Times*, September 25, 2003.

<sup>19</sup> IRFFI website [<http://www.irffi.org>].

about 800 U.N. international and local staff in Iraq.<sup>20</sup> U.N. Security Council Resolution 1700, approved August 10, 2006, extended the U.N. Mission for Iraq (UNAMI) another year and called on the U.N. to continue to play a leading role in assisting Iraq.

In response to a continuing U.S. effort to encourage greater levels of donor contributions, the U.N. and Iraq, on July 27, 2006, launched an International Compact with Iraq. Under this initiative, participating donor countries would pledge a certain threshold of funds. In return, Iraq would promise a five-year program of specific reforms and actions leading to long-term economic and political development. The Compact was finalized at a donor meeting held in Egypt on May 3, 2007, attended by more than 60 countries. Roughly \$30 billion in financial commitments are estimated to be associated with the Compact, including \$10 billion from the United States that was requested in the FY2007 Supplemental, FY2008 regular, and FY2008 Emergency budget proposals.<sup>21</sup>

## U.S. Assistance Policy and Program Structure

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. At that time, broad responsibility for assistance programs moved from the Secretary of Defense to the Secretary of State.<sup>22</sup> At the Department of State, the Senior Advisor and Coordinator for Iraq is David Satterfield. In Iraq, the United States provides assistance and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy. Ryan Crocker is the Ambassador. The embassy employs about 1,000 U.S. direct hire staff.

By executive order (13431), on May 15, 2007, an Iraq Transition Assistance Office (ITAO) was established in the embassy, supplanting the functions of the Iraq Reconstruction Management Office (IRMO) that had, itself, supplanted CPA efforts in setting requirements and priorities for the aid program. The ITAO is headed by Mark Tokola. Under the President's new strategy for Iraq, an office of the Coordinator for Economic Transition in Iraq (CETI), headed by Ambassador Timothy Carney, has been established to help integrate assistance with military strategy and facilitate the transition to Iraqi self-reliance.

The Project and Contracting Office (PCO), formerly the CPA's Program Management Office (PMO), are run by the Army Corps of Engineers, Gulf Region

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<sup>20</sup> Kofi Annan, "There's Progress in Iraq," *Washington Post*, June 21, 2005; "United Nations to Set Up Trust Fund for Iraq," *Washington File*, November 30, 2004. "U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis," *New York Times*, January 26, 2005.

<sup>21</sup> Ambassador David Satterfield, State Department briefing on April 30, 2007.

<sup>22</sup> According to National Security Presidential Directive (NSPD) of May 11, 2004. It made the Secretary of State responsible for "continuous supervision and general direction of all assistance for Iraq."

Division (GRD), headed by Brig. Gen. Michael J. Walsh.<sup>23</sup> The GRD-PCO is chiefly responsible for the roughly \$10 billion in FY2004-funded IRRF programs dedicated to infrastructure construction, as well as follow-on sustainability efforts. The GRD/PCO coordinates, manages and monitors contracting and expenditures in six sectors — transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil. Although in the Department of the Army, it reports to the Department of State as well as to the Department of the Defense.

Overall responsibility for management of U.S. military activity in Iraq belongs to Gen. David H. Petraeus, commander of the multinational forces in Iraq. He also serves as principal military adviser to the U.S. ambassador. Utilizing the roughly \$5 billion in IRRF funds and \$14 billion of ISFF funds, with the policy guidance of the Ambassador, Lt. General James Dubik is the officer immediately in charge of overseeing the training and support of all Iraqi security forces. Although the State Department had assumed control of technical assistance provided to the different Iraq ministries, in October 2005 it ceded responsibility to DOD for the two ministries most closely involved in security matters — Interior and Defense. Among reasons given for this switch are that DOD has greater resources at its disposal and that State has had difficulty filling advisor positions in these ministries, the latter point disputed by some. In most other countries, State has responsibility for training police forces.<sup>24</sup>

A third major U.S. actor in the implementation of the aid program is the U.S. Agency for International Development (USAID). Responsible for about \$5.2 billion of assistance to date, USAID manages a wide range of economic, social, and political development programs. Its programs have included a \$2.7 billion construction project contracted to Bechtel and most activities related to public health, agricultural development, basic and higher education, civil society, local governance, democratization, and policy reform.<sup>25</sup>

On May 15, 2007, President Bush chose Lieutenant General Douglas Lute to serve as his so-called “war czar” in the capacity of Assistant to the President and Deputy National Security Advisor. He is expected to coordinate and manage the implementation of the new strategy in Iraq, including assistance program activities.

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation (P.L. 108-106), was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the FY2005 DOD Authorization (P.L. 108-375). Special Inspector General Stuart Bowen, Jr., reports to both the Secretary of Defense and State. The SIGIR office has about 60 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. The

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<sup>23</sup> The PCO and IRMO were established by the May 11, 2004 NSPD. See GRD-PCO website at [<http://www.rebuilding-iraq.net>].

<sup>24</sup> “Aid to Iraq Ministries to Shift to Pentagon,” *Washington Post*, September 26, 2005.

<sup>25</sup> USAID, *Bi-Weekly Update*, January 8, 2007.



SIGIR issued his first report to Congress regarding his audits and investigations on March 30, 2004, and has reported quarterly since then.<sup>26</sup>

The life span and scope of authority of the SIGIR have been recurrent issues of concern to Congress. P.L. 108-375 extended the SIGIR beyond its originally mandated December 2004 expiration until 10 months after 80% of the reconstruction funds were obligated. The FY2006 Foreign Operations appropriations (P.L. 109-102) permitted it to function until 10 months after 80% of FY2004 IRRF funds were expended. The FY2007 Defense Authorization (H.R. 5122/P.L. 109-364) terminated the SIGIR office on October 1, 2007. Two months after passage of this bill, on December 20, 2006, P.L. 109-440 set the termination date at 10 months after 80% of IRRF funds are expended, but, in its definition of IRRF funds for termination purposes, included all IRRF funding as well as any FY2006 funds made available for reconstruction purposes regardless of funding account, including ISFF and ESF. In effect, the legislation extended the life of the SIGIR into 2008. The FY2007 supplemental (P.L. 110-28) adds FY2007 funding to the definition of IRRF for purposes of determining the SIGIR termination date.

The SIGIR's scope of authority originally encompassed only the IRRF, although the SIGIR has responded to specific congressional and executive branch requests to audit other account programs. The FY2007 Defense Authorization made all FY2006 reconstruction appropriations, regardless of account, subject to SIGIR jurisdiction as though they were under the IRRF. More recently, both House and Senate committee reports on the FY2007 supplemental appropriations indicated they also expected SIGIR authority to include FY2007 reconstruction funding irrespective of funding account, but they did not address the issue with legislation. The FY2008 Defense Authorization, H.R. 1585, that was approved by the House on May 17, 2007, contains language that would broaden the authority of the SIGIR to include all reconstruction programs from all accounts and all years (and include these as well in determining termination). Agreement was reached on the House floor during debate on H.R. 2764, the FY2008 State/Foreign Operations appropriations, to withdraw a provision with a similar purpose when that bill reaches conference so as to avoid competing versions.

## **U.S. Reconstruction Assistance**

Among the key policy objectives laid out by the Bush Administration is the economic and political reconstruction of Iraq. Discussion and debate have been ongoing regarding the strategy to reach these ends utilizing reconstruction aid funds and the effectiveness of aid implementation.

### **Reconstruction Priorities**

Reconstruction priorities have changed over time. Allocations within the Iraq Relief and Reconstruction Fund (IRRF), the main U.S. assistance account in the first few years, mirrored shifting events on the ground. For example, in November 2003,

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<sup>26</sup> See [<http://www.sigir.mil/>] for reports and audits.

when the CPA decided to accelerate the hand-over of sovereignty, it immediately revised the allocation of FY2004 IRRF appropriations that had been legislatively mandated only weeks previously in order to increase substantially the democratization effort — from \$100 million to \$458 million. After the State Department took charge in June 2004, the new U.S. Embassy country team reallocated FY2004 IRRF resources, emphasizing security needs, increased oil production, greater employment, and democracy as the highest priorities, at the expense of many large-scale economic infrastructure projects — in particular water and sanitation and electricity — that were viewed as too slow and dependent on an improved security situation to have an immediate impact.

There have been regular reviews of priorities since then, although reallocations were smaller as amounts available in the IRRF dwindled. Most of the reallocated IRRF funds have come from canceled long-term energy and water projects. Although reallocations are pragmatic responses to new events on the ground, their cumulative impact has been to divert funds from previously planned programs. The SIGIR has determined that, of 136 infrastructure projects originally planned in late 2003 for the water sector, only 49 will be completed. Of 425 projects planned in the electricity sector, only 300 will be completed.

**Table 2. Iraq Relief and Reconstruction Fund (IRRF)**  
(\$ millions)

| Sector                                    | Current allocation | Obligations as of June 12, 2007 | Exp.          |
|---|--------------------|---------------------------------|---------------|
| <b>FY2004 Supplemental (P.L. 108-106)</b> |                    |                                 |               |
| Security and Law Enforcement              | 5,005              | 4,975                           | 4,797         |
| Justice, Public Safety, and Civil Soc.    | 1,304              | 1,297                           | 1,093         |
| Democracy                                 | 998                | 998                             | 933           |
| Electricity                               | 4,217              | 4,046                           | 3,323         |
| Oil Infrastructure                        | 1,725              | 1,572                           | 1,456         |
| Water and Sanitation                      | 2,116              | 1,963                           | 1,614         |
| Transport and Telecommunications          | 457                | 447                             | 354           |
| Roads, Bridges, Construction              | 334                | 321                             | 227           |
| Health                                    | 816                | 759                             | 669           |
| Private Sector                            | 809                | 809                             | 789           |
| Education, Refugees, Governance           | 410                | 400                             | 368           |
| Administrative Expenses                   | 211                | 210                             | 188           |
| <b>Total FY2004 Supplemental</b>          | <b>18,402</b>      | <b>17,798</b>                   | <b>15,811</b> |
| <b>FY2003 Supplemental (P.L. 108-11)</b>  | <b>2,473</b>       | <b>2,232</b>                    | <b>2,139</b>  |
| <b>Total IRRF</b>                         | <b>20,875</b>      | <b>20,030</b>                   | <b>17,950</b> |

Sources: Department of State, *Iraq Weekly Status Report*, June 13, 2007.

**Current Priorities.** As of the end of September 2006, IRRF funds are no longer available for obligation, and large-scale infrastructure programs will no longer

be funded from other accounts (although targeted neighborhood-oriented infrastructure projects will continue).<sup>27</sup> The major elements of current assistance are as follows:

- **Military-Security Assistance.** Almost two-thirds of total FY2007 regular and supplemental appropriations are for the training and equipping of Iraqi security forces. This effort is funded entirely from the ISFF.

Economic-social-democratization assistance is funded mostly with Economic Support Fund (ESF) assistance, categorized under three “tracks”:

- **Security Track.** Under the security track are assistance programs most closely associated with the Administration’s new strategy for Iraq, largely programs supporting work of the Provincial Reconstruction Teams (PRTs). Ten new PRTs are being established to join the existing 10, but concentrated in strategic locations. These work with Iraqi local leaders to identify economic and political development projects that can be implemented with U.S. financing (see PRT section below for details).
- **Economic Track.** This track encompasses assistance to help Iraqis operate, maintain, and sustain U.S.-funded infrastructure projects (see sustainability section below for discussion).
- **Political Track.** Under the political track are a range of efforts to support governance, democratization, and rule of law programs at all levels of government in Iraq, including helping Iraqi ministries improve their ability to operate and helping local governments administer their provinces and municipalities.

Security, sustainability, PRTs, and governance remain key features of the Administration budget requests for FY2008.

## Reconstruction Programs and Issues

**Status.** Reconstruction programs have shown mixed results to date. There are many positive outputs, such as schools rehabilitated, vaccinations provided, and so on. However, in the most critical sectors — electric power and oil production — outputs have been less than originally envisioned. Moreover, the impact of U.S. projects on Iraq is hard to estimate, and the extent to which they and other-donor contributions meet the total needs of Iraq has not been fully assessed. Although mismanagement and corruption play a large role in diminishing returns from reconstruction efforts, it has been the lack of stability and the effects of the insurgency that have most affected the course of reconstruction to date.

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<sup>27</sup> According to the Administration, the remaining un-obligated FY2004 funds (about \$437 million) will be used for “upward adjustments and limited in-scope changes to complete existing contracts.” *2207 Report to Congress*, October 2006, p. 1.

A brief review of reconstruction sectors:<sup>28</sup>

- **Security and Justice.** More than 1,200 facilities — police stations, border forts, fire stations, courts, etc. — have been completed. About 348,700 police and military security forces have been trained and equipped. Reports indicate, however, that many are insufficiently trained to required levels of competence or unwilling to carry out assigned duties. Security responsibility for 7 of the 18 provinces has now been transferred to Iraqi control. Additional challenges are the efforts to develop logistics capabilities in the Iraqi Army and infrastructure protection forces.
- **Healthcare.** The focus of this sector has been to rehabilitate and equip facilities and provide medical services such as immunizations. Health care providers have been trained and completed health facilities equipped. The immunization program has been a success, with nearly 98% of children under five immunized against polio. Many construction projects experienced considerable delays and contracts won by U.S. firms had to be revoked and re-awarded to Iraqis. Of 20 hospitals being refurbished, 12 were completed by the original contractor and the rest re-awarded to Iraqis. Only 7 of a planned 142 new clinics will be finished by the original contractor. Further, the Basrah Children's Hospital has had significant cost overruns.
- **Transportation and Communications.** Key results in this sector are the restoration of the deepwater port at Umm Qasr, and repairs on 92 of 98 railway stations, as well as two international and three regional airports. Although the port has shown considerable activity, only a tiny percentage of Iraqi trains run because of security concerns. The SIGIR notes that road repairs, mostly village roads, are only targeting a very small percentage of total road and bridge work required (for example, only 8 repaired bridges of 1,156 in poor condition or destroyed). While U.S. assistance has supported modernization of the postal service and rebuilding of the landline telephone network, the strongest advance was due to the private sector provision of mobile phone technology, helping to raise total phone users from 913,000 to nearly 10 million.
- **Democracy, Education, Agriculture and Private Sector Development.** About 6,271 schools have been rehabilitated and 60,000 teachers trained. Local governance was strengthened through establishment of councils and community associations. More than 3,475 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. Voter education, training of election monitors, and related activities

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<sup>28</sup> SIGIR, *Report to Congress*, April 30, 2007, p. 33-94; Department of State, *2207 Report to Congress*, April 2007; Department of State, *Iraq Weekly Status Report*, June 13, 2007.

contributed to three successful elections in 2005. Irrigation systems were rehabilitated, 68 veterinary clinics reconstructed, and 83,500 date palm offshoots were planted. Technical experts provide advice to government agencies regarding adoption of possible budgetary and management reforms. Bank credit officers have been trained, and credit is provided to micro and small business. All these sectors have nearly run out of IRRF funding and must look to ESF, CERP, and other accounts for continuing activities.

- **Electricity.** U.S.-funded projects have added 2,120 megawatts (MW) to Iraq's generating capacity. Before the war, electric power was 4,500 MW; in the first quarter of 2007, it was around 3,832 MW. The goal was originally 6,000 MW. In Baghdad, Iraqis receive fewer hours of electricity than before the war (averaging about 6 hours in late April); elsewhere they receive more than previously (about 11 hours). In addition to the impact of insurgent activity, other challenges to the growth of electrical power are the rising demand for electricity, a lack of centralized monitoring and control systems, poorly maintained infrastructure, and a shortage of fuels to operate power plants.
- **Oil and Gas.** Oil and gas production has remained stagnant and below pre-war levels for some time. The pre-war level of oil production was 2.5 million barrels/day; it currently (early June) stands at 2.0 MBD. The original goal was 2.8-3.0 MBD by end of 2004. According to the SIGIR, poor infrastructure, corruption, and difficulty maintaining and operating U.S.-funded projects join the destruction caused by the insurgency as major challenges. All U.S. assistance projects in this sector have been completed.
- **Water and Sanitation.** Water and sanitation sector assistance has provided clean water to 5.6 million more people and sanitation to 5.1 million more than before the war.

**Infrastructure Sustainability.** As more large-scale construction projects — power plants, water and sanitation systems, oil facilities, etc. — are completed, there has been increasing concern regarding the ability of Iraqis to maintain and fund their operations once they are handed-over to Iraqi authorities. This concern has grown following recent SIGIR “sustainment reviews” that suggested projects transferred to Iraqi control are not being adequately maintained.<sup>29</sup>

A “principal objective” of PCO contracting has always been the “swift transition of the reconstruction effort to Iraqi management and control.”<sup>30</sup> To insure long-term sustainability, the U.S. effort — the so-called “economic track” now led by the Army Corps of Engineers — has focused on capacity development — providing training to the appropriate personnel in the labor force who will operate and maintain

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<sup>29</sup> SIGIR, Report to Congress, April 30, 2007, p. 147.

<sup>30</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, January 21, 2004.

facilities and insuring sufficient funds are available for repairs and equipment replacement following project completion. At the Ministry level, the IRMO (now ITAO) is assisting development of policies and laws conducive to efficient use and maintenance of infrastructure. The SIGIR has pressed the embassy to encourage ministries to develop strategic plans for sustainment of its infrastructure.<sup>31</sup>

In addition, the United States is providing significant assistance to support the physical protection of important infrastructure, in particular electricity and oil facilities. Efforts to secure infrastructure include the construction of security perimeters, lighting and communications improvements, establishment of exclusion zones for pipelines, and enhancements to the forward operating bases used by the Iraqi army to protect infrastructure.<sup>32</sup>

The long-term responsibility for sustainability, however, lies with the Iraqi government, and the IRMO has estimated that it would cost about \$1.2 billion annually to operate and maintain U.S.-sponsored projects.<sup>33</sup> Whether the Iraqi government can shoulder the burden of additional costs will likely depend on the level of resources it is able to draw on from oil profits and international donors.

**Ministerial Capacity Development (MCD).** Much effort and assistance has gone into improving the capabilities of government ministries, including equipping and training personnel at all levels of service. Ministry officials and staff, however, remain deficient in knowledge of modern administrative systems and management practices. The current focus is on improving budget execution and service delivery, considered by many to be an essential element of an effective Iraqi government. In the past year, the SIGIR has noted problems with U.S. implementation and coordination of the MCD, pointing out that, as there is no single organization responsible for the reconstruction effort, the capacity building program has gone without an integrated plan providing coordination and priorities to the multiple organizations responsible for it. Perhaps in response, the new Coordinator for Economic Transition is leading the Embassy's Budget Execution Initiative. This \$20 million initiative encompasses an interagency task force to coordinate U.S. activities, including those of USAID and the U.S. senior consultants assigned to each ministry.<sup>34</sup>

**Provincial Reconstruction Teams (PRTs).** In an effort to expand outreach to the provinces and strengthen local government, the U.S. Embassy, in mid-2005, began establishing Provincial Reconstruction Teams (PRTs). The PRTs are made up of Embassy, PCO, USAID, military, and other agency staff, between 35 and 100 members in each. Prior to the new Iraq strategy announced in January 2007,

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<sup>31</sup> Briefing by PCO on Capacity Development, March 17, 2005; SIGIR, *Report to Congress*, April 30, 2007, p. 83-85.

<sup>32</sup> SIGIR, *Report to Congress*, April 30, 2007, p. 81.

<sup>33</sup> SIGIR, *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, Audit 06-017, July 2006.

<sup>34</sup> SIGIR, *Status of Ministerial Capacity Development in Iraq*, Audit 06-045, January 30, 2007; SIGIR, *Report to Congress*, April 30, 2007, p. 4.

10 PRTs had been established in Kirkuk, Ninewa (Mosul), and Babil (Hillah), as well as in Baghdad, Anbar, Diyala, Salah-ad-Din, Basrah, Nasiriyah, and Irbil (for all of Kurdistan). The latter three PRTs are British, Italian, and South Korean-led, respectively.<sup>35</sup>

The PRTs are a key element in the President's new strategy for Iraq. That plan includes doubling the number of PRTs to 20 and expanding the number of civilian staff from 290 to nearly 600.<sup>36</sup> PRTs in Baghdad would increase from one to seven and in Anbar province from one to three. Greater effort would be made to integrate civilian teams with U.S. military battalions; the new PRTs will be embedded in Brigade Combat Teams. In essence, the strategy envisions that, as U.S. and Iraqi military forces clear an area of Baghdad or Anbar, PRT staff would work with local Iraqis to further stabilize the area by drawing on all available spigots of U.S. and Iraqi government funding to create jobs and meet other basic needs.

Existing PRTs work together with local community and Iraqi government representatives — forming the Provincial Reconstruction Development Councils (PRDCs) — to identify projects that can be implemented and carried out with U.S. financing. It is anticipated that, as a result of this collaboration, local governments may be strengthened while U.S. projects achieve more lasting support. The PRTs also work closely with provincial governments to strengthen their capacities and enable them to better interact with the central government, as well as to more effectively utilize the Iraqi government funds that have been allocated to each province. According to U.S. officials, only about 18% of the 2006 Iraqi capital budget of about \$6 billion was utilized.<sup>37</sup> In conjunction with the Administration's new strategy, the Iraqi government has allocated a \$10.5 billion capital budget for 2007. An additional expected benefit of the PRTs is that U.S. agencies may better coordinate their reconstruction programs.

At the disposal of the PRTs are a tool-box of projects that can be implemented at the grass-roots level. In addition to a range of economic projects directly handled by the PRTs, USAID runs several programs under the framework of the PRTs. The Community Action Program (CAP) funds projects identified by local representative associations, stimulating democratic participation, while meeting local needs and creating short-term employment. The Community Stabilization Program (CSP) addresses economic needs in specific strategic cities, providing youth programs, micro and small enterprise support, and vocational training. The Local Governance Program (LGP) helps build management and knowledge skills of provincial government personnel. Complementing the work of the PRTs and USAID, funding from the Commander's Emergency Response Program (CERP) is also available to pacify the local population where PRTs reside. A large proportion of CERP projects support local, small-scale infrastructure construction, especially in the water and sanitation and electrical power sectors.

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<sup>35</sup> Department of State, *2207 Report to Congress*, October 2006, p. 5. "Military to Protect U.S. Aid Teams in Iraq," *Washington Post*, April 14, 2006.

<sup>36</sup> Ambassador Satterfield, Teleconference, February 7, 2007.

<sup>37</sup> SIGIR, *Report to Congress*, April 30, 2007, p. 4.

There have been security and staffing constraints to the work of PRTs, however, that might also pose problems for the expansion plan. One reason there had been limited grassroots development work in the provinces up to the creation of the PRTs is the lack of security. Although originally reluctant to divert the necessary manpower from its other responsibilities, the Department of Defense agreed to provide protection to the PRTs. A Memorandum of Understanding to this effect was signed in November 2006. However, according to the SIGIR, minimum “movement” by PRT personnel has required three armored vehicles and eight “shooters.” Normal business is, therefore, difficult — the SIGIR reported in October 2006 that many PRT members could not regularly meet with local government officials to carry out their capacity-building chores; and in the two locations where coalition military provide security, due to U.S. rules forbidding their use, U.S. personnel generally could not leave their compounds.<sup>38</sup> Further, a former PRT diplomat who left in January 2007 has suggested that local Iraqis are too intimidated to meet with U.S. staff. She noted that a town council in Diyala province had not had a quorum since October and that training sessions had been cancelled due to security concerns.<sup>39</sup> In January 2007 congressional testimony, Secretary Rice indicated that civilian staff have been able to meet regularly with local government personnel and Ambassador Satterfield claimed in February 2007 that the SIGIR views on this issue do not reflect current reality. But a recent article based on PRT foreign service officer reports indicates that the problem persists. Moreover, it suggests that security obstacles facing PRTs may increase as U.S. troops currently protecting PRT staff hand responsibility for security over to Iraqi forces.<sup>40</sup>

A second issue is the availability of qualified U.S. government civilian staff. Early reports of its first year of operations suggested that State was having difficulty enticing its personnel to volunteer for PRT posts. According to the SIGIR, DOD stepped in to provide military civil affairs personnel in place of the State posts, but required skills for such posts as local government, economic, and agricultural advisers were not being fully met. That situation appears to be continuing. It has been reported that about 129 of the new PRT posts are going to be temporarily occupied by military personnel or civilians until State is able to recruit sufficient numbers of skilled individuals. Those recruited in specialized skills will likely be contract personnel, because such skills are not typically available from either the State or USAID foreign service. As many as 269 such personnel are expected to eventually be needed.<sup>41</sup>

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<sup>38</sup> SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006.

<sup>39</sup> “Ex-Envoy Says Iraq Rebuilding Plan Won’t Work,” *Reuters*, February 17, 2007.

<sup>40</sup> “Rice’s Rebuilding Plan Hits Snags,” *Washington Post*, January 15, 2006; Testimony of Secretary Rice to Senate Foreign Relations Committee, January 11, 2007; Teleconference of Ambassador Satterfield, February 7, 2007; Shawn Dorman, “Iraq PRTs: Pins on a Map,” *Foreign Service Journal*, March 2007.

<sup>41</sup> “Pentagon Agrees to Help Fill State Department’s Iraq Reconstruction Jobs on Temporary Basis,” *New York Times*, February 20, 2007; Teleconference of Ambassador David Satterfield, February 7, 2007; and Robert Perito, *Provincial Reconstruction Teams in Iraq*, United States Institute of Peace, February 2007.



**The Role of Iraqis in Reconstruction and the Plan to Re-start State-Owned Enterprises.** One facet of the U.S. reconstruction effort has been to attempt to encourage economic growth and decrease unemployment by trying to utilize Iraqis to the extent possible in the implementation of projects. In 2003-2004, this involved making Iraqi businessmen aware of contract opportunities and encouraging U.S. contractors to employ Iraqi firms. Although U.S. government requirements could be waived for Iraqi contractors, most work for Iraqi business came in the form of subcontracts for U.S. prime contractors.

When the State Department took over reconstruction in July 2004, however, greater efforts were made to contract project work directly with Iraqis. By 2005, the SIGIR estimated that about 70%-80% of new contracting was directly with Iraqis.<sup>42</sup> A contributing factor in this effort was the deleterious impact of security on the activities of the large-scale contractors. In January 2005, Contrack International, holder of a \$325 million roads and bridges construction contract, announced its withdrawal.<sup>43</sup> Consequently, many bridge and road projects were then implemented directly with the Ministry of Construction, with estimated savings of between 30% and 40%.<sup>44</sup> USAID also used Iraqi Ministry employees to implement electrical distribution projects in Baghdad. As some U.S. contractors were shown to perform inadequate work, they were replaced by Iraqi contractors. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects, although these numbers are falling significantly as construction projects are completed. CERP and USAID Community Action Program grants are often designed to directly employ large numbers of Iraqis, many at the village level. About 93,587 Iraqis are reported to be currently employed under all U.S.-funded projects.<sup>45</sup>

U.S. defense officials, seeking to create employment opportunities for Iraqi citizens, have recently begun rehabilitating some of the roughly 200 state-owned enterprises that composed a large portion of the Iraqi economy prior to the U.S. occupation. Soon after the occupation began, the CPA attempted to privatize them in an effort to open up a free market economy in Iraq, but officials gave up on what promised to be a politically unpopular endeavor when the turnover of sovereignty was accelerated. The Defense Department plan envisions the production in Iraq of items required by the U.S. military, some of which are currently produced by neighboring countries. Additionally, U.S. firms have been asked to consider purchasing supplies from Iraqi enterprises. Since November 2006, three factories have started-up: one producing Iraqi uniforms, another armored vehicles, and another household ceramic bathware for domestic Iraqi consumption. DOD officials think that up to 140 of these enterprises could potentially be viable. To support this effort, the Administration sought \$100 million in DOD FY2007 supplemental

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<sup>42</sup> Stuart Bowen, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

<sup>43</sup> BNA, Inc. Federal Contracts Report, January 11, 2005.

<sup>44</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Subcommittee, September 7, 2005. State Department, *2207 Report to Congress*, October 2005, p. 3.

<sup>45</sup> Department of State, *Iraq Weekly Status Report*, June 13, 2007.

funding; Congress approved \$50 million for this purpose. It will be used to supply generators and other supplies.<sup>46</sup>

Skepticism has been expressed regarding the DOD plan. Some observers question the extent to which violence will be reduced as a result of expanded employment. Some are concerned that the SOEs may provide targets for insurgents. Others suggest that, unless well-managed, investments in SOEs may provide opportunities for corruption and political manipulation.<sup>47</sup>

**CERP.** Drawn from DFI and Department of Defense funds rather than IRRF appropriations, the Commander's Emergency Response Program (CERP) contributes to the reconstruction effort by providing "walking around money" for U.S. military civil affairs officers throughout Iraq. Up to now, a total of \$2.5 billion — \$548 million in Iraqi funds and nearly \$2 billion in U.S. DOD appropriations — has been made available for this purpose. Another \$350 million has been appropriated in the FY2007 Supplemental.

The CERP supports a wide variety of reconstruction activities at the village level from renovating health clinics to digging wells to painting schools, provided in the form of small grants. CERP also has funded small-scale infrastructure efforts, such as repair or provision of electric generators and construction of sewer systems. In lieu of civilian U.S. government or NGO aid personnel, who are not present in most of the country, commanders identify local needs and dispense aid with few bureaucratic encumbrances. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs. In addition to reconstruction, CERP funds are used for compensation payments to the families of killed or injured Iraqis.<sup>48</sup>

**Security.** The successful conduct of reconstruction work is contingent on an environment of order and stability. More than four years since Operation Iraqi Freedom was launched, violence persists against both U.S. forces and Iraqis. Among the many effects of the continued instability on the reconstruction effort:

- The instability has hindered implementation of reconstruction projects. Security threats are preventing PRT personnel from communicating directly with local governments, construction

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<sup>46</sup> DOD News Briefing with Deputy Undersecretary Paul Brinkley, March 28, 2007; "To Stem Iraqi Violence, U.S. Aims to Create Jobs," *Washington Post*, December 12, 2006; "Bush to Propose Restoring Iraqi Factories to Create Jobs," *New York Times*, January 10, 2007; "Aging and Shut, Iraq Factories May Reopen and Mitigate Ills," *New York Times*, January 18, 2007.

<sup>47</sup> United States Institute of Peace, *State-Owned Enterprises: Post-Conflict Political Economy Considerations*, March 2007. "Defense Skirts State in Reviving Iraqi Industry," *Washington Post*, May 14, 2007.

<sup>48</sup> SIGIR, *Report to Congress*, January 30, 2007, Appendix G.

workers from appearing at their jobs, and project managers from monitoring project work.<sup>49</sup>

- Completed reconstruction projects and pre-existing infrastructure have been destroyed. For instance, on October 20, 2006, attacks on the electrical grid cut Baghdad off from the national grid and greatly reduced its supply. Major pipelines continue to be sabotaged, shutting down oil exports. Along with criminal activity and poor equipment, insurgent attacks are estimated to be responsible for the loss of \$16 billion in oil revenue in the past two years.<sup>50</sup>
- Reconstruction costs rose substantially due to the need to provide for security and insurance for personnel. Estimates of the portion of project costs devoted to security have varied widely. In 2005, the State Department estimated it at 16%-22%. According to the SIGIR, USAID projects funded with the FY2003 supplemental were about 20% more expensive than the original estimates. A 2006 SIGIR survey of major U.S. contractors found security costs to range from a low of 7.6% to a high of 16.7%. Unanticipated security costs as well as the related need to shift \$1.8 billion from water and power projects to the training and equipping of Iraqi forces has meant that funds have been drained from infrastructure programs. Among other results, USAID cancelled two electric power generation programs; the Army Corps of Engineers cut a planned 23 electric substation rehabilitation program to nine.<sup>51</sup>
- Implementing organizations and personnel have fled. Fearing for their safety, many aid implementors have been withdrawn from the country. U.N. and bilateral aid donors have been reluctant to initiate projects of their own; many are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.<sup>52</sup>

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<sup>49</sup> For example, the SIGIR reports that on March 24, 2006, a project manager received an e-mail threatening all employees — as a result, no one came to work the next day. SIGIR, *Report to Congress*, April 30, 2006, p. 12. SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006.

<sup>50</sup> SIGIR, *Report to Congress*, October 30, 2006, p. 4; “Iraq Insurgents Starve Capital of Electricity,” *New York Times*, December 19, 2006; “Report Details Oil Industry Losses,” *Washington Post*, September 29, 2006; “Mortar Attack Shuts Down Refinery,” *Los Angeles Times*, February 2, 2006.

<sup>51</sup> SIGIR, *Report to Congress*, January 30, 2007, p.154-55; Howard Krongard, State Department IG, testimony to House Government Reform Committee, October 18, 2005; James Kunder, USAID, testimony to House Foreign Operations Subcommittee, September 7, 2005; “Security Costs Slow Iraq Reconstruction,” *Washington Post*, July 29, 2005.

<sup>52</sup> “Wolfowitz Says Iraq Violence Impedes Rebuilding Aid,” *Wall Street Journal*, June 1, 2005; “Driven from Iraq, Aid Groups Reflect on Work Half Begun,” *New York Times*, November 15, 2004; “Security Conditions Continue to Hamper U.N. in Iraq,” *Washington File*, August 11, 2004; “Charities Get Ready to Leave,” *London Times*, September 9, 2004.

- The quality of aid has likely been negatively affected as implementors cannot meet with local people and design and monitor projects as they would in other countries. The pool of foreign expertise available to advise the government and NGOs is restricted to those few willing to endure the country's hardships. U.S. agency personnel stay only a short time and therefore institutional knowledge is not maintained. Iraqi experts necessary to successful reconstruction have left — ten percent of registered doctors have reportedly given up work in the past year. According to the U.N., in May 2006, 22 doctors, nurses, and non-medical staff were killed and 50 were wounded. In 2006, more than 300 teachers and Ministry of Education staff were killed.<sup>53</sup>
- In a broader sense, prolonged insecurity has undermined the trust of the Iraqi people in U.S. and now Iraqi government leadership to bring about a democratic and economic transformation in Iraq, opening the door to further political discontent and possible civil war.<sup>54</sup>

There are two elements in the effort to provide the security that might allow political and economic reconstruction to take hold — U.S. and coalition peacekeeping forces and the training of Iraqi security forces to replace them. The number of U.S. troops is roughly 149,700. There are also about 11,637 troops from 25 other nations.<sup>55</sup>

About \$19.2 billion in U.S. appropriations has been aimed at building Iraqi security forces. According to the State Department, in early June 2007, there were 194,200 trained and equipped conventional Iraqi police and Ministry of Interior forces and 154,500 army and other defense forces, although the actual number of active duty soldiers is said to be one-half to one-third of the total because of leave, attrition, and desertion.<sup>56</sup> Reports by officials and observers have suggested that many fewer could be said to be capable of the most demanding jobs. The U.S. military commander formerly in charge of training recently informed Congress that

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<sup>53</sup> “Civilian Death Toll Reaches New High in Iraq, U.N. Says,” *New York Times*, November 23, 2006; “As Death Stalks Iraq, Middle-Class Exodus Begins,” *New York Times*, May 19, 2006; “Iraq’s Attorneys Practicing in a State of Fear,” *Washington Post*, June 10, 2006; “Professionals Fleeing Iraq as Violence, Threats Persist,” *Washington Post*, January 23, 2006; “Facing Chaos, Iraqi Doctors are Quitting,” *New York Times*, May 30, 2005; “World Bank Considers Sending Staff Back to Baghdad,” *Washington Post*, September 18, 2005.

<sup>54</sup> “In Jaded, Perilous Capital, A Collision of Perceptions,” *Washington Post*, July 29, 2005; “As Violence Deepens, So Does Pessimism,” *Washington Post*, May 18, 2004; “Fueling Anger in Iraq,” *Washington Post*, December 9, 2003; “The Best, Brightest, and Wealthiest Flee Iraq,” *Chicago Tribune*, November 21, 2004.

<sup>55</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], June 7, 2007, page 27; Department of State, *Iraq Weekly Status Report*, June 13, 2007.

<sup>56</sup> Department of State, *Iraq Weekly Status Report*, June 6, 2007. SIGIR, *Report to Congress*, April 30, 2007, p. 92.

an additional 20,000 Iraqi soldiers would be needed to ensure security.<sup>57</sup> During the past three years, poorly trained and equipped security forces, no-shows and desertions, dismissals of police for criminal behavior, bribe-taking for obtaining higher rank or for release of insurgent suspects, and infiltration of police and other units by sectarian militia groups have threatened U.S. plans to increase security using Iraqi personnel.<sup>58</sup>

## Accountability, Waste, and Fraud

A lack of transparency in early contracting and numerous reports in the media suggesting that reconstruction funds were being squandered led to the establishment in the FY2004 supplemental of an Inspector General for the CPA, now called the Special Inspector General for Iraq Reconstruction (SIGIR). To date, the SIGIR has issued more than 86 audits and 94 project assessments, and it has conducted 96 limited onsite inspections as well as dozens of investigations of possible criminal activity.<sup>59</sup>

Some of the most egregious examples of misconduct appear to center on the CPA's use of Iraqi funds (see the DFI section below).<sup>60</sup> Other notable cases involve use of IRRF funds blended with Iraqi or DOD funds. A KBR contract to repair oil fields and import gasoline and other oil products into Iraq (Restore Iraqi Oil, or RIO), funded by about \$900 million in U.S. funds, both DOD and IRRF, and \$1.5 billion in Iraqi money, led to findings by Defense Contract Audit Agency auditors disputing \$263 million in charges. Either the charges were inflated — KBR paid a Kuwait company 40% more for gasoline than the U.S. military pays — or they were unsupported by documentation. In the end, the Army, citing the wartime conditions under which KBR operated, decided to ignore its auditors and pay KBR all but \$10.1

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<sup>57</sup> "Big Boost in Iraqi Forces is Urged," *Washington Post*, June 13, 2007.

<sup>58</sup> GAO, *Stabilizing Iraq: Factors Impeding the Development of Capable Iraqi Security Forces*, GAO-07-612T, March 13, 2007; "U.S. Officers Detail Problems with Iraqi Soldiers," *Washington Post*, November 1, 2006; "In Baghdad, a Force Under the Militias' Sway," *Washington Post*, October 31, 2006; "Flaws Cited in Effort to Train Iraqi Forces," *Washington Post*, November 21, 2006; "On Baghdad Streets, A Police Partnership Falter," *New York Times*, October 22, 2006; "Searching for the Exit," *New York Times*, October 25, 2006; "Iraqi Soldiers Refuse to Go to Baghdad, Defying Order," *New York Times*, August 29, 2006; "An Army of Some," *New York Times Magazine*, August 20, 2006.

<sup>59</sup> See SIGIR website [<http://www.sigir.mil/>] for audit reports to date. SIGIR, Report to Congress, April 30, 2007, Section 3.

<sup>60</sup> At an October 18, 2005 congressional hearing (House Government Reform Committee), the DOD IG revealed that all DOD IG office personnel had been withdrawn from Iraq in the previous year; the Army Audit Agency, however, does have auditors in Iraq and is following the KBR LOGCAP contract. For a summary of the Halliburton issues, see Joint Report of the House Committee on Government Reform Minority Staff and Senate Democratic Policy Committee, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion*, June 27, 2005.

million of the disputed charges, a percentage reportedly considered unusually low in such cases.<sup>61</sup>

In November 2006, an audit of the same program conducted by the International Advisory Monitoring Board (IAMB), which monitors the use of Iraqi funds, agreed that the Army was justified in reimbursing KBR but also found that the excessive cost of the program was in large part due to the cost of fuel delivery, accounting for as much as 86 percent of the total cost. In one \$871 million work order, for example, only \$112 million was attributable to the cost of fuel; the rest was for the fleet of tanker trucks which transported it to Iraq from Kuwait. Payment was made for the trucks even when, due to a lack of armed escorts, they sat idle. Rather than an indictment of KBR, the IAMB audit suggests Army mismanagement of the program.<sup>62</sup>

On March 9, 2006, Custer Battles, a contractor on the project that distributed the new Iraqi currency, was found guilty of fraud. Although the contract let by the CPA was for roughly \$20 million, the judge controversially ruled that Custer Battles could only be charged for fraud relating to the \$3 million which was U.S. taxpayer money — the rest were Iraqi funds and not under U.S. jurisdiction. The contractor received a \$10 million fine.<sup>63</sup> On August 18, a federal judge overturned the verdict and fine on the disputed grounds that the CPA was not an entity of the U.S. government, but rather an internationally-run body.<sup>64</sup>

Apart from possible criminal activity, there have been many questions raised regarding evidence of poor project implementation and the quality of management and oversight of projects, the majority of these the responsibility of the Army Corps of Engineers which runs the Embassy Project and Contracting Office. SIGIR auditors and project assessment teams with engineering, audit, and investigative experience have traveled to major U.S.-funded IRRF project sites to see if work is being performed properly. Although most conclude that projects were either carried out as intended or point out correctable quality control and structural deficiencies, the SIGIR has found some projects to be especially problematic, including the following:

- The Basrah Children's Hospital, expected to cost \$50 million, will run to at least \$98 million and nearly a year behind schedule.

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<sup>61</sup> "Army to Pay Halliburton Unit Most Costs Disputed by Audit, *New York Times*, February 27, 2006; "Now You See It: An Audit of KBR," *New York Times*, March 20, 2005; Defense Contract Audit Agency, Audit Report 3311, October 8, 2004, available at Government Reform Committee minority website [<http://www.democrats.reform.house.gov>]. In December 2005, the IAMB called on the United States to "seek resolution" with the Iraqi government — possibly make repayment — on up to \$208 million of the Iraqi funds that went to KBR for work questioned by the DCAA. "U.S. Owes \$208 Million to Iraq, U.N. Audit Finds," *Washington Post*, November 6, 2005.

<sup>62</sup> Crowe Chizek and Company, *Updated Report of Agreed-Upon Procedures Regarding the Settlement Between USACE and KBR*, November 16, 2006; "Cost of Taking Fuel to Iraq is Questioned in New Audit, *New York Times*, November 7, 2006.

<sup>63</sup> "Contractor Bilked U.S. on Iraq Work," *Washington Post*, March 10, 2006.

<sup>64</sup> "Verdict Against Iraq Contractor Overturned," *Washington Post*, August 19, 2006.

Bechtel, the project contractor, has been removed and the project will be completed using local contractors. USAID, the agency responsible, failed to report the cost and delays, in part because it had only one contracting officer and one technical officer to oversee 20 projects worth \$1.4 billion.<sup>65</sup>

- The Baghdad Police College, a \$75 million construction project implemented by Parsons, is riddled with deficiencies, including improperly fabricated wastewater plumbing which poses a health and structural hazard.<sup>66</sup> The Mosul police headquarters, constructed by an Iraqi contractor at a cost of nearly \$1 million, is similarly troubled.<sup>67</sup>
- A \$218 million first responders network is ineffective — communication is not possible between the three established zones of the system and Iraqi citizens cannot call in to request emergency assistance, among other problems.<sup>68</sup>
- After the expenditure of \$186 million, only 6 of 150 planned primary health care centers to be constructed by Parsons were completed and only 14 more were expected to be finished. A contract was awarded to Iraqi firms to complete 121 partially constructed centers.<sup>69</sup>
- An October 2005 assessment of five electrical substations was positive for the substations themselves, but found that installation of distribution lines to the end users, part of the original plan, had to be eliminated (presumably due to funding reallocations) and, therefore, the benefits of the new substations would not be derived until the Ministry of Electricity could perform the work. All five substations were connected to transmission lines by end November 2006, although they were operating at 36% capacity pending connection to upstream substations.<sup>70</sup>
- A project to run 16 oil pipelines under the Tigris River failed amidst warnings from a geologist that the subsoil was not conducive to

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<sup>65</sup> SIGIR, Audit 06-026, July 2006; “U.S. Neglect Found in Long-Delayed Iraq Hospital Project,” *Washington Post*, July 29, 2006.

<sup>66</sup> SIGIR, Project Assessment-06-078.1 and 06-079.1, September 27, 2006; “Heralded Iraq Police Academy a ‘Disaster’,” *Washington Post*, September 28, 2006.

<sup>67</sup> “U.S. Agency Cites Flaws in Another Iraqi Construction Project,” *New York Times*, October 12, 2006.

<sup>68</sup> SIGIR, Audit 06-020, July 2006.

<sup>69</sup> SIGIR, Audit 06-011, April 2006; SIGIR, *Report to Congress*, October 30, 2006, p. 78; “In a Dispute, Army Cancels Rebuilding Contract in Iraq,” *New York Times*, May 13, 2006.

<sup>70</sup> SIGIR, Project Assessments PA-05-05 to 09, in *Report to Congress*, October 30, 2005, p. 53; SIGIR, *Report to Congress*, January 20, 2007, p. 195-198.

drilling, demonstrating a lack of appropriate oversight by the Army Corps of Engineers. Nearly \$76 million in DFI funds were wasted.<sup>71</sup>

- An examination of Task Force Shield, a program to train and manage an oil and electricity infrastructure protection force, found it had been unsuccessful after the expenditure of \$147 million. In part, this outcome was due to the absence of a clear management structure for the various U.S. agencies involved. Further, auditors, reportedly, could not determine how many Iraqis were trained or how many weapons were purchase.<sup>72</sup>
- An audit of “design-build” contracts that characterize many of the infrastructure projects found very high administrative costs in some cases. About 55% of KBR work on the RIO project and 43% of a Parsons oil project were consumed by overhead costs. Security is likely one factor in the high level of overhead found here, and enforced idleness while awaiting government direction to begin work is another. However, the audit also found inadequate accounting and billing systems to capture administrative costs in four of five contracts examined.<sup>73</sup>
- Roughly 370,000 weapons purchased with \$133 million in IRRF funds for the use of Iraqi security forces were not accompanied by spare parts or technical repair manuals, and were not registered to insure accountability. (Some of these weapons have reportedly made their way to the black market.)<sup>74</sup>
- A DynCorp project to provide services to international police trainers spent nearly \$44 million on a residential camp that was not used (including an Olympic-size swimming pool that was unauthorized) and about \$36 million for weapons that cannot be accounted for. The audit found the State Department Bureau for International Narcotics and Law Enforcement and State Office of Acquisition Management provided poor contract administration.<sup>75</sup>

**The Development Fund for Iraq (DFI).** Many questions have been raised regarding the CPA’s use and monitoring of DFI funds. Although the funds were

<sup>71</sup> SIGIR, Project Assessment SA-2005-001, in *Report to Congress*, January 30, 2006, p. 73-75; “Rebuilding of Iraqi Oil Pipeline as Disaster Waiting to Happen,” *New York Times*, April 25, 2006.

<sup>72</sup> SIGIR, Audit 06-009, April 2006; “In Shadows, Armed Groups Propel Iraq Toward Chaos,” *New York Times*, May 24, 2006.

<sup>73</sup> SIGIR, Audit 06-028, October 2006; “Idle Contractors Add Millions to Iraq Rebuilding,” *New York Times*, October 25, 2006.

<sup>74</sup> SIGIR, Audit 06-033, October 2006. “Black-Market Weapon Prices Surge in Iraq Chaos,” *New York Times*, December 10, 2006.

<sup>75</sup> SIGIR, Audit 06-029, January 2007.



derived from Iraqi, mostly oil, resources, under Security Council Resolution 1483 (May 2003) the CPA had complete control over them during the occupation and responsibility under international law to insure they were used appropriately. To prioritize and recommend how DFI resources were used, the CPA established a Program Review Board in June 2003. Although composed of coalition, multilateral bank, and U.N. officials, the multilateral bank members had no vote and the U.N. official served only as an observer. The Program Review Board published brief minutes of its meetings but little detail regarding the nearly 2,000 contracts it awarded utilizing Iraqi funds. Reportedly, U.S. contractors received as much as \$1.9 billion of DFI funds, of which Halliburton subsidiary Kellogg, Brown & Root (KBR) was awarded \$1.7 billion (mostly the RIO project noted above).<sup>76</sup>

Security Council Resolution 1483 required that an international advisory board to monitor the sale and use of oil be established, but at first the CPA opposed international institution efforts to create a system of “special audits” that would allow the board to look at any issue. CPA failure to establish the board led to international criticism, and Security Council Resolution 1511 (October 2003) recommended that the board be established as a priority and that the DFI should be “used in a transparent manner.”<sup>77</sup> Soon after, the CPA announced that it would allow the advisory board to go forward and the first meeting of the International Advisory and Monitoring Board (IAMB) was held on December 5, 2003. However, a delay in appointing accountants by the CPA continued to prevent work up to early February 2004. In March 2004, the IAMB recommended installation of a metering system for oil extraction to prevent diversion (still not implemented), and criticized the use of non-competitive bidding for contracts funded by the DFI.<sup>78</sup>

In its June 2004 audit, KPMG, the accounting firm designated by the IAMB to audit the DFI, noted the CPA’s inadequate accounting systems and records and lack of controls over ministry spending of DFI resources, opening the door for corruption. KPMG also pointed out the use of non-competitive bidding for some contracts funded by the DFI. Subsequent audits highlighted multiple financial irregularities.<sup>79</sup> A representative on the IAMB accused the Administration of withholding information on non-competitive contracts, and repeated requests to U.S. agencies for

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<sup>76</sup> “\$1.9 Billion of Iraq’s Money Goes to U.S. Contractors,” *Washington Post*, August 4, 2004.

<sup>77</sup> Security Council Resolution 1511, October 16, 2003, para. 23. “Oil to Come Under Iraqi Control as U.S. Fails to Form Advisory Board,” *Financial Times*, August 19, 2003; “Annan Deals a Blow to U.S. Draft Resolution,” *Financial Times*, October 3, 2003.

<sup>78</sup> The IAMB’s mandate was extended to December 31, 2007, under U.N. Security Council Resolution 1723. The IAMB website is at [<http://www.iamb.info/>]; IAMB, Press Release, March 24, 2004; “Monitoring Panel for Iraq Spending Yet to Start Work,” *Financial Times*, February 5, 2004.

<sup>79</sup> KPMG Audit dated June 29, 2004, available online at IAMB website [<http://www.iamb.info/>]; Iraq Revenue Watch, *Disorder, Negligence and Mismanagement: How the CPA Handled Iraq Reconstruction Funds*, Report no. 7, September 2004; Iraq Revenue Watch, *Audit Finds More Irregularities and Mismanagement of Iraq’s Resources*, December 2004; “Big Spender,” *Financial Times*, December 10, 2004.

information on sole-sourced contracts funded by the DFI were not answered.<sup>80</sup> The organization Christian Aid accused the CPA of being “in flagrant breach of the U.N. resolution” giving it use of DFI funds. “Last minute” spending by the CPA of \$2.5 billion in DFI resources in the weeks prior to the turn-over of sovereignty also drew critical attention. Among other things, the spending went for equipment for security forces, vocational training, and oil and electric infrastructure, and local projects. Iraqi officials, too, were critical of the contrast between the slow spending of U.S. funds and the rapid draw-down of the DFI.<sup>81</sup>

A January 2005 audit by the SIGIR seems to have confirmed the IAMB accusations with a finding that the CPA “provided less than adequate controls” for \$8.8 billion of DFI resources it moved through Iraqi ministries.<sup>82</sup> An April 2005 SIGIR audit concluded that CPA managers of DFI funds distributed in the South-Central region of Iraq could not account for more than \$96.6 million in cash and receipts. An October 2005 audit found that South-Central personnel could not account for more than \$20.5 million in Rapid Regional Response Program funds and made \$2.6 million in excessive payments. In late 2005, several U.S. citizens were criminally charged with respect to the handling of these funds — and have since pled guilty. In February 2007, five more were indicted.<sup>83</sup>

In early 2006, it was reported that an examination by the Army Joint Contracting Command of 9,000 contracts supported by about \$5.8 billion in Iraqi money has shown a number of problems, including contracted projects that were not carried out and a lack of supporting documents. As a result, roughly \$230 million that was withheld to finance the contracts reportedly will be returned to the Iraqi government for use on reconstruction projects.<sup>84</sup>

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<sup>80</sup> Press Release, “Statement by the International Advisory and Monitoring Board on Iraq,” September 8, 2004; “U.S. Won’t Turn Over Data for Iraq Audits,” *Washington Post*, July 16, 2004.

<sup>81</sup> Christian Aid, *Fuelling Suspicion: the Coalition and Iraq’s Oil Billions*, June 2004; “U.S. Is Quietly Spending \$2.5 Billion from Iraqi Oil Revenue to Pay for Iraqi Projects,” *New York Times*, June 21, 2004.

<sup>82</sup> According to IG Bowen, the Iraq Commission on Public Integrity is investigating \$1.5 billion that may have gone missing in the Ministry of Defense. “Special Inspector General Stuart Bowen,” *Washington Post*, November 9, 2005.

<sup>83</sup> Among other things, the SIGIR found a \$500,000 contract in Karbala that was not carried out, a \$1 million grant for training librarians that was not delivered, and a half constructed \$7.3 million police academy. “Guilty Plea in Iraq Bid-Rigging,” *Washington Post*, February 2, 2006; “U.S. Accuses Pair of Rigging Iraq Contracts,” *Washington Post*, November 18, 2005; “2<sup>nd</sup> Army Officer Charged in Iraq Rebuilding Scandal,” *New York Times*, December 16, 2005; *Management of Rapid Regional Response Program Grants in South-Central Iraq*, Report No. 05-015, October 25, 2005; *Audit of Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, Report No. 05-004, January 30, 2005; and *Control of Cash Provided to South-Central Iraq*, Audit Report No. 05-006, April 30, 2005, available at SIGIR website [<http://www.sigir.mil>]; “5 Indicted in Probe of Iraq Deals,” *Washington Post*, February 8, 2007.

<sup>84</sup> “Auditors Find Widespread Waste and Unfinished Work in Iraqi Rebuilding Contracts,” (continued...)

## Assessments of Reconstruction

There have been dozens of reports and articles during the past three years that have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid.<sup>85</sup> Many focus on the history of the aid program with a view toward explaining the current state of affairs. Others, like the Iraq Study Group report (see below), seek to improve future outcomes. See the appendix for a collection of many such criticisms.

Another category of assessments are reviews of specific projects, some findings of which are noted in the previous section. Security concerns in Iraq have made difficult the kind of expert and anecdotal reports usually produced in other places by interest groups and the news media. Most project assessments, therefore, have come from the various government auditors.<sup>86</sup> Even these, however, appear constrained by security in the number of site-visits they are able to undertake to review project results. The SIGIR is conducting some of its assessments by aerial imagery because of the risk to its personnel. Government Accountability Office (GAO) investigators were not even able to visit Iraq while preparing a 2005 report on water and sanitation programs.<sup>87</sup>

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<sup>84</sup> (...continued)

*New York Times*, January 31, 2006.

<sup>85</sup> Among the most incisive are Anthony Cordesman, *Cleaning Up the Mess*, Center for Strategic and International Studies, July 7, 2004; David Rieff, "Blueprint for a Mess," *New York Times Magazine*, November 2, 2003; George Packer, "War After War: Letter from Baghdad," *The New Yorker*, November 24, 2003; Kenneth M. Pollack, "After Saddam: Assessing the Reconstruction of Iraq," *Foreign Affairs*, January/February 2004; John Hamre and others, *Iraq's Post-Conflict Reconstruction: A Field Review and Recommendations*, Center for Strategic and International Studies, July 17, 2003; James Fallows, "Blind into Baghdad," *The Atlantic Monthly*, January/February 2004; Center for Strategic and International Studies, Post-Conflict Reconstruction Project, Frederick Barton and Bathsbeba Crocker, Co-Directors, *Progress or Peril? Measuring Iraq's Reconstruction*, September 2004 and November 12 Update; Larry Diamond, *Squandered Victory: The American Occupation and the Bungled Effort to Bring Democracy to Iraq*, Henry Holt, 2005; James Fallows, "Why Iraq Has no Army," *The Atlantic Monthly*, December 2005; Rajiv Chandrasekaran, *Imperial Life in the Emerald City: Inside Iraq's Green Zone*, Knopf, 2006; and George Packer, *The Assassins' Gate: America in Iraq*, Farrar, Straus and Giroux, 2005; International Crisis Group, *Reconstructing Iraq*, September 2, 2004, available at [<http://www.crisisgroup.org/home/index.cfm?>]; T. Christian Miller, *Blood Money*, Little, Brown, and Company, 2006, and SIGIR, *Iraq Reconstruction: Lessons in Program and Project Management*, March 2007.

<sup>86</sup> For a list of audits and inspections from all agencies, see SIGIR, *Report to Congress*, January 30, 2007, Appendices I, J, K, L.

<sup>87</sup> SIGIR, *Report to Congress*, July 30, 2005, p. 60-66. For an assessment of several aspects of reconstruction, see GAO, *Rebuilding Iraq: Status of Funding and Reconstruction Efforts*, GAO-05-876, July 2005. Also, GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, GAO-05-872, September 2005.

An exception to the dearth of private sector accounts of specific project work is a February 2006 report by a professional from the Institute of Electrical and Electronics Engineers who appears to have been given unusual access to power plants and officials in the electric power sector. In brief, the author highlights reasons for the long-reported failure of assistance to bring electric power at least up to pre-war standards. Among these are the specific targeting of electrical infrastructure by insurgents, the lack of maintenance skills by Ministry of Electricity workers, and management and personnel problems in the Iraqi government, made worse by the presence of thousands of fictitious employees drawing paychecks. Less well known reasons are the low levels of revenue flowing to the Ministry due to limited use of electric metering and a low rate structure. U.S.-funded construction is also directly faulted for poor planning, including a mismatch between the generator technologies provided to Iraq and the fuel available to it. In one case, the best fuel for the generators — natural gas — was being burned off at an oil field just across the street from the power plant, and no effort had been made to capture it for use. The assessment is a reminder that the provision of equipment alone is insufficient — multiple factors must be addressed to bring significant improvements.<sup>88</sup>

Some observers have suggested that one problem with assessing the progress of reconstruction is that there is no “big picture” overview. Responsible government agencies provide information regarding how many infrastructure projects are being started and completed, how many small-scale grants are being provided, and how many people are being trained, but there is little detail regarding to what degree the overall national need for drinking water, schools, health care, electricity, and other requirements is being met by the billions of dollars in U.S. resources — not to mention Iraqi and other donor resources — targeted at these needs. When such data has been gathered, mostly by the SIGIR, it suggests that the needs are much larger than donor or other resources currently being made available.<sup>89</sup>

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<sup>88</sup> Glenn Zorpette, “Re-engineering Iraq,” *IEEE Spectrum*, February 2006, available at [<http://www.spectrum.ieee.org/feb06/2831>].

<sup>89</sup> Further, “measurements” provided by the Administration have been criticized as highly selective. See *Measuring Stability and Security in Iraq*, Report to Congress in accordance with DOD Appropriations Act 2006, May 2006; and Anthony H. Cordesman, *The Quarterly Report on “Measuring Stability and Security in Iraq”: Fact, Fallacy, and an Overall Grade of “F”*, Center for Strategic and International Studies, June 5, 2006.

## Appendix: Criticisms of Iraq Reconstruction

Included among the many suggestions of what has gone wrong in the Iraq reconstruction effort from a wide range of sources are the following:

- **Inadequate security.** As noted earlier in this report, lack of a secure environment in which to undertake reconstruction meant delays in project implementation and completion; destruction of completed projects; greatly increased costs which, in turn, drained funding from other projects; and a loss of foreign expertise and local participation that would have made projects more effective. Among the reasons were a failure to anticipate post-invasion security needs and the early decision of the CPA administrator to disband the Iraqi military. Initially, security forces received hurried and insufficient training.
- **No prior planning.** Planning for post-Iraq reconstruction was inept. Military officials planned for a humanitarian crisis that never happened. Moreover, accounts suggest that efforts to plan for reconstruction were actively discouraged by the Pentagon leadership lest it raise potential obstacles to U.S. invasion. The State Department's 2002 Future of Iraq Project, which utilized dozens of Iraqi experts to anticipate post-war concerns, including the possibility of widespread looting, was studiously ignored by DOD.
- **Mismanaged transition to Iraqi governance.** Many critics have pointed to the slow pace of forming a publically approved Iraqi authority which could have provided Iraqis with a sense of ownership in the reconstruction and democratic process and discouraged disorder. In the first six months, foreign aid workers had no counterpart in the Iraqi ministries able to make decisions that might advance reconstruction. CPA-imposed de-Baathification disrupted the functioning of the Iraqi bureaucracy. Further, large-scale reconstruction efforts were designed with little regard for Iraqi views and were originally meant to be implemented by U.S. contractors with Iraqis playing a secondary role.
- **Discouraging a U.N. and International Role.** The Administration sought at first to keep control of post-war reconstruction in U.S. hands, rather than internationalizing it as had been done in Kosovo and Bosnia. Critics asserted that, had the U.N. been in a position of greater responsibility, it would have deflected Iraqi criticism of the United States, legitimized occupation policies, and encouraged financial and peacekeeping participation by bilateral donors. Donors were unresponsive to U.S. pleas for either military or financial assistance, partly because they were not being offered a "seat at the table" in determining the future of Iraq. The decision to exclude some countries from competing for Iraq contracts, in the view of many, further alienated potential international support.

- **Inadequate U.S. civilian administration.** Early on, a British official was quoted as saying of the CPA, “this is the single most chaotic organization I have ever worked for.”<sup>90</sup> The CPA was understaffed, lacking experience and knowledge of the country, in many cases with no background in assistance programs, and too isolated from the Iraqi people (with headquarters in a former palace and requiring a military bodyguard when they ventured outside). The level of aid expertise improved under State Department management, but security concerns continued to limit contact with Iraqis and insufficient staff numbers negatively affected project oversight as well as PRT implementation.
- **Excessive Reliance on the U.S. Military.** Although actual reconstruction is inherently a civilian effort, in Iraq much of it was implemented by military personnel. In January 2003, the President placed sole authority for reconstruction in the hands of DOD, rather than with development assistance or democracy experts at USAID and State. In June 2004, after the State Department was given the lead role, the Army continued to manage about \$10 billion in infrastructure projects, insuring a continued lack of coordination between assistance entities. Utilizing the CERP program, military civil affairs teams continue to influence reconstruction at the grassroots level. Some assert that these are roles for which the military had not been prepared — there is a long learning curve and many mistakes were made — and which emphasize to the Iraqi people the “occupation” character of the U.S. presence. Instead, some critics suggested that a corps of civilian reconstruction specialists should have been deployed around the country. As early as July 2003, the Hamre Assessment Mission report recommended that 18 provincial CPA offices be established with 20-30 civilian staff in each.<sup>91</sup> It was not until mid-2005, that the PRT program was launched. Its spread was delayed by military reluctance to provide security.
- **Poor Accountability.** As discussed earlier in this report, a number of projects were poorly implemented. In some cases, funds may have been misused. What unites many of these accounts, perhaps most notably the CPA’s cavalier treatment of billions in Iraqi-owned funds, is that they could have been prevented by more thorough oversight by government managers.
- **Ineffective Assistance.** Measurable objectives in critical sectors, such as oil production and electric power generation, were not met.

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<sup>90</sup> “America’s Rebuilding of Iraq Is in Chaos, Say British,” *London Daily Telegraph*, June 17, 2003.

<sup>91</sup> John Hamre, and others. *Iraq’s Post-Conflict Reconstruction: A Field Review and Recommendations*, July 17, 2003, page 5.

But the full picture of the effectiveness of the reconstruction effort in most sectors is clouded by the impact of instability and conflict.

- **Inadequate Levels of Assistance.** The high cost of conducting reconstruction projects in Iraq: due to protective security spending and large overhead costs — amounting in some cases to half of project totals — meant that amounts appropriated for economic reconstruction did not produce the equivalent in goods and services that one would expect in other aid recipient countries. In short, less bang for the buck. Further, funds originally intended for economic reconstruction, particularly water and electricity programs, were diverted to training of Iraqi security forces.
- **Too Broadly Dispersed Assistance.** The aid effort attempted to do too much in too many sectors from health to electricity to microenterprise to roads. As a result, too few resources were scattered over too many projects to produce a significant impact in any one of them. Assistance should have been concentrated more intensively in key areas such as oil production and governance so that Iraqi funds could have been generated and Iraqi managers could spend them.
- **Poor Contracting and Procurement Processes.** The SIGIR has looked at contracting actions from before the war through the CPA to the present. Among other problems, it points to the failure to involve contracting and procurement personnel in the planning stages of post-conflict reconstruction operations, the lack of emphasis given contracting for smaller projects, the use of sole-source and limited competition contracting, and the failure to give a single unified contracting entity the authority to coordinate all contracting activity.<sup>92</sup>

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<sup>92</sup> SIGIR, *Iraq Reconstruction: Lessons in Contracting and Procurement*, July 2006.