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## **Iraq: Recent Developments in Reconstruction Assistance**

**Updated May 5, 2006**

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# Iraq: Recent Developments in Reconstruction Assistance

## Summary

Large-scale assistance programs are being undertaken by the United States following the war with Iraq. To fund such programs, in April 2003, Congress approved a \$2.48 billion Iraq Relief and Reconstruction Fund (IRRF) in the FY2003 Supplemental Appropriation. In November 2003, the FY2004 Supplemental Appropriation provided an additional \$18.4 billion for the IRRF. The FY2005 Emergency Supplemental signed into law in May 2005 provides \$5.7 billion in a new Iraqi Security Forces Fund for the training and equipping of Iraqi security forces.

In February 2006, the Administration requested \$749 million for economic reconstruction-related programs in its FY2007 foreign operations budget. It also requested \$1.6 billion to support similar programs in an FY2006 emergency supplemental and \$3.7 billion for training of Iraqi security forces. Both House and Senate-approved versions of the supplemental provide roughly \$1.6 billion in economic aid. The House provides \$3.0 billion for Iraqi security forces while the Senate meets the Administration request.

Contributions pledged by other donors at the October 24, 2003 Madrid donor conference and in subsequent meeting have amounted to roughly \$14.6 billion in grants and loans.

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. assistance is now provided through the U.S. embassy.

Many reconstruction efforts on the ground are underway, but security concerns have slowed progress considerably. Of the nearly \$29 billion in appropriated funds from all accounts directed at reconstruction purposes, close to 40% is targeted at infrastructure projects — roads, sanitation, electric power, oil production, etc. About 38% is used to train and equip Iraqi security forces. A range of programs — accounting for roughly 22% of appropriations — are in place to offer expert advice to the Iraqi government, establish business centers, rehabilitate schools and health clinics, provide school books and vaccinations, etc. Of the nearly \$21 billion appropriated to the Iraq Relief and Reconstruction Fund in the FY2003 and 2004 supplementals, \$19.0 billion had been obligated and \$14.3 billion spent by early May 2006.

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

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# Iraq: Recent Developments in Reconstruction Assistance

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. More recently, the Bush Administration has asserted a “victory” strategy composed of eight objectives, five of which are to: transition Iraq to security self-reliance, help Iraqis form a national compact for democratic government, help Iraq build government capacity and provide essential services, help Iraq strengthen its economy, and help Iraq strengthen the rule of law and promote civil rights.<sup>1</sup>

To meet these ends, a large-scale assistance program has been undertaken by the United States in Iraq. This report describes recent developments in this assistance effort.<sup>2</sup>

## Funding for Reconstruction

The best available estimates of the eventual cost of Iraq reconstruction were provided in an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy. Prepared for the benefit of the international donors conference held in Madrid on October 23-24, 2003, it established the targets by which the adequacy of available resources continues to be judged. The World Bank/U.N. assessments put the cost of reconstruction for the 14 sectors at \$36 billion over four years, a figure that does not include \$19.4 billion estimated by the Coalition Provisional Authority (CPA) in 2003 for security, oil, and other sectors not covered by the Bank/U.N. assessments. Combined World Bank and CPA projected reconstruction costs through 2007 amount to \$55 billion.<sup>3</sup> These totals, calculated in mid-2003, did not take into account the significant costs of instability and security needs.

Several potential “spigots” are available to fund Iraq reconstruction. U.S. foreign aid appropriations for Iraq were provided mostly in FY2003, FY2004, and

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<sup>1</sup> U.N. Security Council Resolution 1483, May 22, 2003; National Security Council, *National Strategy for Victory in Iraq*, November 2005.

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

<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>].

FY2005 emergency supplemental bills. 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 makes further resources available. These sources of reconstruction funding are discussed below.

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

Appropriations	FY2003	FY2004	FY2005	FY2006	Total
Iraq Relief and Reconstruction Fund (IRRF)	2,473.0	18,439.0	—	—	20,912.0 (of which 18,993.9 obligated 5/2/06)
DOD - Iraq Security Forces Fund	—	—	5,700.0	—	5,700.0 (of which 3,113.0 obligated 3/31/06)
DOD - CERP	—	140.0	718.0	375.0	1,233.0 (of which 853.4 obligated 12/31/05)
DOD - Oil Repair	802.0	—	—	—	802.0
DOD - Iraq Army	51.2	—	—	—	51.2
Other Agency Funds	477.8	—	—	—	477.8
Economic Support Fund (ESF)	—	—	—	60.4	60.4
IMET	—	—	—	0.7	0.7
<b>Total U.S. Reconstruction Assistance</b>	<b>3,804.0</b>	<b>18,579.0</b>	<b>6,418.0</b>	<b>436.1</b>	<b>29,237.1</b>

**Sources:** Section 2207 Report to Congress Pursuant to P.L. 108-106, April 2006; CPA Inspector General, Report to Congress, Pursuant to P.L. 108-106, April 2006; Department of State, *Iraq Weekly Status Report*, May 3, 2006; and CRS calculations.

## U.S. Assistance

To date, the bulk of U.S. assistance has been provided to a special Iraq Relief and Reconstruction Fund (IRRF) for the purpose of 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. It 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 control of the President.

While the first appropriation had been used to support a broad range of humanitarian and reconstruction efforts, the FY2004 appropriation was largely intended to have an immediate impact on the two greatest reconstruction concerns raised since the occupation of Iraq began — security and infrastructure. The reconstruction funds were provided entirely as grants, after the Administration threatened to veto any measure that provided aid in the form of loans.

In addition to the IRRF, funds have been drawn from other accounts for related 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, USAID has used its own funds to pay for humanitarian programs in Iraq.

The FY2005 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept.109-72), signed on May 11, 2005, provided \$5.7 billion for a new DOD account — the Iraq Security Forces Fund — 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 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 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.”

In another departure from previous practice, in 2005, the Administration requested \$414 million in Iraq reconstruction funds under traditional foreign aid accounts in the regular FY2006 foreign operations budget instead of funneling requests exclusively through emergency supplementals and for the IRRF. Of this amount, \$360 million was Economic Support Funds (ESF) to be used for traditional development programs supporting local governance, civil society, elections, private sector development, economic reform, and agriculture. Many of these assistance activities are currently funded out of the IRRF, and some Members felt that sufficient funds remained unobligated in that account — at the time, \$3-5 billion — from which the Administration could draw. As a result, Congress provided (P.L. 109-102, H.R. 3057) only \$61 million 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.

**FY2007 Foreign Operations Appropriations Request.** Despite its lack of success in obtaining full funding for Iraq in the regular FY2006 budget, the Administration has requested nearly \$771 million in its regular FY2007 foreign

operations budget. Most of the request is composed of \$478.8 million in ESF to continue programs to sustain U.S.-funded infrastructure, and support democracy, governance, civil society, economic policy reform, private sector, and agriculture programs. An additional \$254.6 million is aimed at rule of law programs (International Narcotics and Law Enforcement account - INCLE), \$16.6 million is for nonproliferation and anti-terrorism activities (Nonproliferation, Anti-Terrorism, and Demining account - NADR), \$20 million is for refugee assistance (Migration and Refugee Assistance account - MRA), and \$1.2 million for IMET (International Military Education and Training program).

**FY2006 Emergency Supplemental Request.** In mid-February 2006, the Administration requested \$72.4 billion in supplemental funding, mostly for military operations in Iraq. Roughly \$5.7 billion of these funds would go toward activities that have previously characterized the reconstruction program in Iraq:

- The supplemental request for training and equipping of security forces under the DOD-managed Iraq Security Forces Fund (ISFF) is \$3.7 billion.
- The request for the DOD-managed Commanders' Emergency Response Program (CERP) is \$423 million. However, part of this sum would go to Afghanistan.
- The Administration request for non-DOD aid includes \$1.6 billion in so-called "stabilization" assistance for Iraq.<sup>4</sup>

By entitling its effort "stabilization" instead of "reconstruction", the Administration is perhaps emphasizing that the new funds are not to go to be used for actual construction of economic infrastructure as nearly 40% of reconstruction funds from all spigots have been employed previously. For all intents and purposes, however, these funds would bolster many of the existing economic infrastructure programs currently being conducted under the Iraq Relief and Reconstruction Fund (IRRF).

The \$1.6 billion non-DOD supplemental funding request chiefly appears to address three major issues of current concern to those implementing the reconstruction program:

- **Security.** Reconstruction progress has been severely undermined by the insurgency which has directly targeted key infrastructure for

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<sup>4</sup> Another \$545 million, not counted above as reconstruction aid, would go toward the operational and security costs of the PRTs, USAID, and the SIGIR. In its version of the legislation, the House funds only \$61.6 million of the \$119.6 million request for USAID operating expenses and additional security. The remaining \$58 million would be transferred from the IRRF. PRT security receives \$208 million, instead of the \$400 million requested. SIGIR receives the \$24 million requested. The Senate bill provides the Administration request for USAID and SIGIR operations, but provides \$300 million for PRT security, noting that the request preceded the decision to have DOD provide security.

destruction. The supplemental provides \$287 million to help secure oil, electricity, and water infrastructure.

- **Sustainability.** As more large-scale construction projects have been completed with U.S. assistance, there has been increasing concern regarding the financial, organizational, and technical capacity of Iraqis to maintain them in the long run. The supplemental provides \$355 million to assist the Iraqis to operate, maintain, and sustain these projects. In the past, this has been accomplished largely by providing training and replacement parts.
- **Provincial Reconstruction Teams (PRTs).** Following the example established in Afghanistan, the State Department is seeking to set-up at least eight PRTs throughout Iraq, up from the four established in the past six months. PRTs consist of officials from USAID, State, the military, and other agencies who work with Iraqi local government committees to identify economic and political development projects that can be implemented with U.S. financing. While enabling aid workers to escape the isolation of the “green zone” and expand outreach to the provinces, they are also viewed as a way to improve coordination of aid, especially of DOD-CERP funds and State-controlled funding. The Administration is proposing an appropriation of \$675 million to be disbursed by the PRTs, including \$165 million to stimulate short-term employment for young adults, \$165 for local government, and \$20 million for local business development.

Like the FY2007 request, the FY2006 supplemental also would provide significant funding to governance, democratization and rule of law programs at all levels of government in Iraq. These efforts would include \$125 million to help Iraqi ministries improve their ability to operate, \$37 million to assist the Iraqi Special Tribunal that is investigating and trying Saddam Hussein and others, \$100 million to construct correctional facilities, \$10 million for broad democracy activities such as parliamentary and civil society development, and \$13 million to provide Treasury Department technical assistance to the Ministry of Finance and the Central Bank.

The proposed legislation would also amend the FY2004 Supplemental to alter the allocation of \$18.4 billion that had been approved by Congress for each major reconstruction sector — most recently by statute in September 2004. Periodically, the allocations had been changed to the extent allowed by law without need for further legislation. The amendment proposed would give the Administration greater flexibility by aligning the legislated allocations with current needs, by making remaining funds available for four years from the current expiration date of end of FY2006, and by allowing any obligated funds to be re-obligated regardless of sectoral allocation restrictions.

**Congressional Action.** In the version of the supplemental, H.R. 4929, approved by the House on March 17, the President’s request for Iraq stabilization assistance was funded at near the request level, \$26.3 million for prison construction having been removed to fund Colombian counter-narcotics programs. The House



adopted an amendment (Shays) that would direct \$10 million of ESF to USAID's Community Action Program for which funding was expected to run out and not be renewed this year. The version approved by the Senate on May 4 fully met the request. The Senate Committee report directed at least \$75 million for USAID's Community Action Program, of which at least \$10 million should be used for the Marla Ruzicka Iraqi War Victims Fund. The report also supported USAID's Iraq Civil Society Program which was expected to end as well in 2006. On the floor, the Senate adopted an amendment (Kennedy) that would provide \$104 million to NGOs working on democracy programs, funding for which was expected to end in 2006.

The House-approved version provided \$3.0 billion for the Iraqi Security Forces Fund, \$696 million less than the request, pending submission by the Administration of more complete justification materials for police training programs that would be funded by the deleted amount. The Senate bill provides full funding. Both House and Senate meet the Administration request for the CERP.

The House rejected the proposed reallocation of funds within the IRRF that would allow the Administration greater future flexibility to move funds between sectors, and, it has extended the expiration date for use of the IRRF by one year to the end of FY2007 instead of to the end of FY2010 as requested. The Senate accepted the Administration position in both cases. In what is described by the House Appropriations Committee as an effort to bring the Iraq program into the structure of a more traditional foreign aid program, it inserted language into the bill that would transfer from the IRRF into ESF \$185.5 million. This amount is equal to that of IRRF funding previously allocated to projects, such as those supporting the PRTs and Ministerial Capacity Development, which also are to be funded with new FY2006 supplemental appropriations. The Senate did not replicate this move. In report language, the House Committee also directed that no new funding for the PRTs is to be permitted until an assessment of pilot PRTs, a program plan, and other reporting requirements are met by the Department of State. The Senate did not act similarly.

## 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 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.

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

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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.

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 on November 22, 2003.

Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq obtained control over use of DFI funds.<sup>6</sup> Oil production accounts for more than 90% of the Iraqi government revenue. However, even with the rise in oil prices in 2005, that revenue was still expected to be \$6 billion less than the amount needed to cover anticipated expenditures in the FY2005 Iraqi government budget of \$28 billion.<sup>7</sup>

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 has been slowed by sabotage. 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, but rates have fallen since then and, as of early May 2006, stand at 2.2 million barrels/day. The CPA target had been 2.8-3.0 million barrels/day by end of 2004. The Iraqi government says it hopes to raise production to at least 2.5 million barrels/day in 2006.<sup>8</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 40 cents a gallon.<sup>9</sup>

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<sup>6</sup> Other Iraqi assets were expected to be put in the DFI. On March 20, 2003, President Bush issued an executive order confiscating non-diplomatic Iraqi assets held in the United States. Of the total assets seized, an estimated \$1.74 billion worth were 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> "Rice Short on Detail in Laying Out Strategy for 'Decisive Iraq Victory'," *Financial Times*, October 20, 2005; "Despite Crushing Costs, Iraqi Cabinet Lets Big Subsidies Stand," *New York Times*, August 11, 2005; "Struggling to Pick Up the Pieces," *Economist Newspapers*, September 6, 2005.

<sup>8</sup> Department of State, *Iraq Weekly Status Report*, May 3, 2006. "Iraqis Look to Raise Oil Output Next Year," *Financial Times*, December 29, 2005.

<sup>9</sup> "At Gas Stations in Iraq, Price Hike Fuels Outrage," *Washington Post*, December 28, 2005; "Despite Crushing Costs, Iraqi Cabinet Lets Big Subsidies Stand," *New York Times*, August 11, 2005; "Iraqi Economy Adds to Tensions with U.S.," *Financial Times*, July 7, 2005;

(continued...)

## Iraqi Debt

At the time of the invasion, Iraq's debt, both public and private, was estimated at \$125 billion.<sup>10</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>11</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 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 approved \$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 \$31 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 \$22 billion in commercial debt. Of the latter, about \$14.7 billion is expected to be forgiven in the near future.<sup>12</sup>

## 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>13</sup> The Madrid donor conference, held on October 23-24, 2003, produced a minimum total of \$13.6 billion in reconstruction aid pledges from other donors —

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<sup>9</sup> (...continued)

"Iraqis Reluctant to End Love Affair with Fuel Subsidies," *Financial Times*, June 13, 2005.

<sup>10</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>11</sup> "G-7 Agrees That Iraq Needs Help with Debt," *Washington Post*, April 13, 2003; "Restructuring, Not Forgiveness," *Financial Times*, April 15, 2003.

<sup>12</sup> State Department, *2207 Report to Congress*, April 2006, Appendix II; SIGIR, *Report to Congress*, January 30, 2006, p. F-6. See CRS Report RS21765, *Iraq: Debt Relief*, by Martin A. Weiss for further details.

<sup>13</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.

nearly \$4 billion in grant aid and \$9.6 billion in loans. Later pledges have raised the total non-U.S. offer to \$14.6 billion as of March 31, 2006.<sup>14</sup>

Grant aid pledges from other donors include \$1.5 billion by Japan, \$452 million by the United Kingdom, \$220 million by Spain, \$715 million by the European Commission, \$200 million by South Korea, and \$236 million by Italy. Loans have been offered by Japan (\$3.5 billion), the World Bank (between \$3.0 and \$5.0 billion), the IMF (between \$2.6 and \$4.3 billion), and Saudi Arabia (\$500 million). Of these pledges, as much as \$3.5 billion has been disbursed bilaterally, most of it as a contribution to the IRFFI (see below). Additionally, the IMF has provided a \$436 loan and approved a \$685 million Standby Arrangement on which Iraq can draw. In November 2005, the World Bank announced its first Iraq loan for a \$100 million education project, part of an anticipated \$500 million loan program.<sup>15</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 is about to launch the first \$655 million 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, 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.

In 2006, donor reluctance to implement programs due to security concerns and related high costs are being addressed by the Iraqi government. A “donor village” in the protected green zone is being prepared that will offer housing and office space from which development projects can be conducted. The United States has actively assisted in the establishment of this facility.<sup>16</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>17</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 2006, donors had deposited about \$1.37 billion to the Facility. The World Bank Fund (\$454 million deposited) has financed textbooks,

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<sup>14</sup> SIGIR, *Report to Congress*, April 30, 2006, p. 93.

<sup>15</sup> SIGIR, *Report to Congress*, April 30, 2006; “Iraq: World Bank Approves First IDA Credit,” World Bank News Release, November 29, 2005.

<sup>16</sup> State Department, *2207 Report to Congress*, April 2006, Appendix II.

<sup>17</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.

school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund (\$912 million deposited) is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>18</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. work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities.<sup>19</sup>

U.N. Security Council Resolution 1637, approved November 8, 2005, extends the U.N. Mission for Iraq (UNAMI) another year and calls on the U.N. to continue to play a leading role in assisting Iraq. The U.N. helped with the constitution-writing process, the subsequent 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. Currently, there are about 800 U.N. international and local staff in Iraq.<sup>20</sup>

## U.S. Assistance Policy Structure on Iraq

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>21</sup> In Iraq, the United States provides assistance and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy under Ambassador Zalmay Khalizad. The embassy employs about 1,000 U.S. and locally engaged direct hire staff. An Iraq Reconstruction Management Office (IRMO) within the U.S.

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<sup>18</sup> SIGIR, *Report to Congress*, April 2006, p. 99. State Department, *2207 Report to Congress*, April 2006, Appendix II.

<sup>19</sup> “U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis,” *New York Times*, January 26, 2005.

<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.

<sup>21</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.”

embassy has supplanted CPA assistance efforts in setting requirements and priorities. It is headed by Ambassador Dan Speckhard.

Responsibility for the activities of the Project and Contracting Office (PCO), formerly the CPA's Program Management Office (PMO), has been taken over by the Army Corps of Engineers, Gulf Region Division (GRD), headed by Brig. Gen. William H. McCoy, Jr.<sup>22</sup> The GRD-PCO is in charge of contract management and execution for the roughly \$10 billion dedicated to infrastructure construction. Although in the Department of Defense, it reports to the Department of State as well as to the Department of the Army.

Immediate overall responsibility for management of U.S. military activity in Iraq belongs to General George Casey, Jr., commander of the multinational forces in Iraq. He also serves as principal military adviser to the U.S. ambassador. With the policy guidance of the Ambassador, General Casey is responsible for providing training and support to Iraqi security forces. Maj. Gen. Martin E. Dempsey is the officer immediately responsible for overseeing the organization and training 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>23</sup>

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the DOD Authorization for FY2005 (P.L. 108-375). Special Inspector General Stuart Bowen, Jr., reports to both the Secretary of Defense and State. The SIGIR office has about 48 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. In addition to audits and investigations, the SIGIR issued his first report to Congress on March 30, 2004 and has reported quarterly since then.<sup>24</sup> P.L. 108-375 extended the SIGIR beyond its originally mandated December 2004 expiration and granted operational authority until 10 months after 80% of the reconstruction funds have been obligated. The FY2006 Foreign Operations appropriations (P.L. 109-102) permits it to function until 10 months after 80% of FY2004 IRRF funds have been expended. To date, 64% has been expended.

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<sup>22</sup> The PCO and IRMO were established by the May 11, 2004 NSPD. See GRD-PCO website at [<http://www.rebuilding-iraq.net>].

<sup>23</sup> SIGIR, *Report to Congress*, April 30, 2006, p. 21; "Aid to Iraq Ministries to Shift to Pentagon," *Washington Post*, September 26, 2005.

<sup>24</sup> See [<http://www.sigir.mil/>] for reports and audits. SIGIR, *Report to Congress*, January 30, 2006.

## U.S. Reconstruction Assistance

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

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

Sector	Current allocation	Obligations as of May 2, 2006	Exp.
<b>FY2004 Supplemental (P.L. 108-106)</b>			
Security and Law Enforcement	5,036	4,896	4,473
Justice, Public Safety, and Civil Society	1,316	1,190	832
Democracy	1,034	983	712
Electricity	4,220	3,547	2,150
Oil Infrastructure	1,736	1,567	882
Water and Sanitation	2,131	1,577	991
Transport and Telecommunications	466	421	265
Roads, Bridges, Construction	334	313	180
Health	739	676	452
Private Sector	805	782	615
Education, Refugees, Human Rights, Governance	410	354	267
Administrative Expenses	213	212	92
<b>Total FY2004 Supplemental</b>	<b>18,439</b>	<b>16,521</b>	<b>11,912</b>
<b>FY2003 Supplemental (P.L. 108-11)</b>	<b>2,473</b>	<b>2,473</b>	<b>2,407</b>
<b>Total IRRF</b>	<b>20,912</b>	<b>18,994</b>	<b>14,319</b>

Sources: Department of State, *Iraq Weekly Status Report*, May 3, 2006; *2207 Report*, April 2006.

### Reconstruction Priorities

Reconstruction priorities have changed over time, mirroring shifting events on the ground. For example, in November 2003 when the CPA decided to accelerate the hand-over of sovereignty, it revised the original legislatively mandated allocation of FY2004 IRRF appropriations, increasing substantially the democratization effort — from \$100 million to \$458 million.

In September 2004, the Administration proposed and Congress approved (P.L. 108-309) a substantial reallocation of FY2004 IRRF resources, reflecting a review conducted by the IRMO and the U.S. Embassy country team after the State Department took charge of Iraq non-military policy on June 28, 2004.<sup>25</sup> The review identified security needs, increased oil production, greater employment, and democracy as the highest priorities, while suggesting that many large-scale economic infrastructure projects were too slow and dependent on an improved security situation to have an immediate impact. Security — mostly training and equipping Iraqi forces — increased by \$1.8 billion. Efforts to increase oil production capacity gained \$450 million. Employment creation — mostly USAID labor-intensive local road, clean water, and other improvement projects — received an additional \$280 million. Democracy programs geared toward assisting the pending elections grew by \$180 million. General development programs — mostly conducted by USAID in the areas of economic reform, private sector development, and agriculture — increased by \$380 million. To demonstrate U.S. commitment to debt reduction prior to Paris Club deliberations, the reallocation drew on \$352.2 million to subsidize U.S. forgiveness of \$4 billion in bilateral Iraqi debt to the United States.

In all, these sectors gained \$3.46 billion of the \$18.44 billion FY2004 supplemental appropriation. That amount was drawn from three sectors to which the funds had originally been allocated — purchases of already refined imported oil (-\$450 million), water and sewerage (-\$1.935 billion), and electricity (-\$1.074 billion) — all sectors where the benefits of planned large-scale projects were viewed as too long-term to make an immediate difference. The reallocated funds came out of amounts that had not yet been obligated.

Following this reallocation, reconstruction aid priorities in Iraq, as determined by the State Department, put 32% of total FY2004 IRRF funds into improving the security capabilities of the Iraqis (versus 22% previously), 16% into democratization, health, civil society and other traditional development sectors (10% before), and 51% into improvements in electricity, water and sanitation, transport, oil and other economic infrastructure (67%).

In December 2004, the Embassy again reviewed its priorities. It allocated \$211 million for fast-disbursing projects to meet needs for electricity, and it targeted \$246 million for a variety of high visibility and quick disbursing projects to provide essential services in the four post-battle cities of Fallujah, Samarra, Najaf, and Sadr City. Following another review in March 2005, the State Department reallocated \$832 million of IRRF funds. Of these funds, \$196 million was targeted at short-term, high visibility, job creation activities, including projects providing essential services in Baghdad, USAID Community Action Program projects, and micro/small business loan programs. The reallocation also included \$607 million, both to complete work

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<sup>25</sup> Because the desired changes were greater than the FY2004 supplemental's restriction on how much a specific sector — such as security or health — could be increased (no more than 20%) or decreased (no more than 10%) from the original congressional allocation, a simple notification to the appropriations committees was insufficient. Requiring legislative action in order to accommodate the President's reallocation plan, Congress included such authority in the FY2005 Continuing Resolution (P.L. 108-309).



where costs have grown due to unanticipated security needs and to insure that training and spare parts are provided to Iraqis so they can manage the operation and maintenance of U.S.-rehabilitated equipment in the oil, electricity, and water sectors. Most of the reallocated funds again came from canceled long-term energy and water projects.

With dwindling amounts available, recent reallocations have been comparatively small. Between October 2005 and April 2006, increases were made to rule of law (\$53.6 million), democracy (\$38.5 million), and migration and refugee activities (\$27 million). Efforts to improve the operations of Iraqi ministries also received additional funds (\$20 million). Most of these funds were drawn from the electric power, water, transport, and health care sectors. While reallocations are pragmatic responses to new events on the ground, their cumulative impact has been to divert funds from previously planned programs — the resulting “reconstruction gap” has been raised as an issue of possible interest by the SIGIR (see below).

## Reconstruction Programs and Issues

**Status.** A wide range of reconstruction project work has been underway. In all, about 2,426 infrastructure construction projects — road, bridges, government buildings, power plants, water sewage treatment facilities, etc. — have broken ground out of 2,764 currently planned, and 1,894 of these have been completed. Iraqi government ministry staff are being trained in budgeting, management, and other work skills. Healthcare providers are being trained and children immunized. More than 3,475 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. School materials have been provided and thousands of schools renovated. Business centers have been set up throughout the country and a micro-loan program established. Voter education, training of election monitors, and related activities contributed to three successful elections in 2005. More broadly, the Iraqi economy continues to improve and the IMF predicts 10% growth for 2006.<sup>26</sup>

For a variety of reasons, not least of which is the poor security situation, these efforts have produced a somewhat mixed picture. Objectives in critical sectors, such as oil production and electric power generation, have not been met. Electric power was 95,600 Megawatt Hours before the war. It is currently below 100,000 MWh — the goal has been 120,000. Oil production is currently at 2.2 million barrels/day — the goal was 2.8-3.0 million by December 2004. Construction of only twenty of a planned 142 large healthcare centers is expected to be completed. A survey reportedly found that 85% of households lack stable electricity and 54% lack access to clean water. Anecdotal reports of successful reconstruction programs, not surprisingly, emanate from the Kurdish north and the Shiite south. In the four central

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<sup>26</sup> Project and Contracting Office, *Iraq Reconstruction Update*, April 20, 2006; Department of State, *Iraq Weekly Status Report*, May 3, 2006; USAID, *Iraq Reconstruction Weekly Update*, April 28, 2006; “Iraqis Look to Raise Oil Output Next Year,” *Financial Times*, December 29, 2005; “Billions Pour into Iraq Reconstruction Efforts,” *Financial Times*, December 8, 2005; “U.S. Official Defends Pace of Iraqi Reconstruction,” *New York Times*, November 14, 2005.

provinces where there is significant turmoil and more than 40% of the population resides, reports are less sanguine.<sup>27</sup>

**Rate of Implementation.** A particular congressional concern has been the rate of project implementation. Although, in proposing a FY2004 supplemental in September 2003, the Administration had argued an urgent need to demonstrate progress, employ Iraqis, and win hearts and minds, only about 12% of the \$18.4 billion had been obligated six months after it was appropriated.<sup>28</sup> Among reasons for the slow progress were pressures to employ open and competitive bidding for the new reconstruction contracts, inter-agency disputes over control of the funds, and time required for planning and design of construction projects prior to breaking ground. A significant delaying factor has been the lack of security. The September 2004 reallocation of U.S. reconstruction funds was, in part, intended to speed up implementation, including the expanded use of smaller projects.<sup>29</sup> That effort was pushed further by a December 2004 targeting of \$457 million specifically to rapid-disbursing grassroots projects and a March 2005 reallocation favoring short-term priorities. Partly as a result, since mid-2004, the obligation and expenditure rate has accelerated notably, and, currently, of the nearly \$21 billion in total IRRF funding, 91% has been obligated and 68% has been spent.<sup>30</sup> Nevertheless, the availability of as much as \$5 billion in unobligated funds in mid-2005 led Congress to reject most of the Administration's FY2006 Iraq aid request. As of end-April 2006, just under \$2.0 billion remains unobligated.

Although IRRF funding is running out and requests for new U.S. funds focus on traditional economic aid programs rather than infrastructure construction, the SIGIR has pointed out that in three critical infrastructure areas — electricity, oil and gas, and water — projects are still less than half completed. Under current rates of implementation, these projects are not likely to be finished for another year or two.<sup>31</sup>

**Security.** The successful conduct of much reconstruction work is contingent on an environment of order and stability. Three years since Operation Iraqi Freedom

<sup>27</sup> Department of State, *Iraq Weekly Status Report*, May 3, 2006; "U.S. Plan to Build Iraq Clinics Falter," *Washington Post*, April 3, 2006; "Billion-Dollar Start Falls Short in Iraq," *Washington Post*, April 16, 2006; "U.S. Lowers Sights on What Can Be Achieved in Iraq," *Washington Post*, August 14, 2005; "U.S. Rebuilding in Iraq Found to Fall Short," *New York Times*, January 27, 2006; "Iraq Utilities are Falling Short of Prewar Performance," *New York Times*, February 9, 2006; "Even in Iraqi City Cited as Model, Rebuilding Efforts are Hobbled," *New York Times*, September 18, 2005; "Baghdad Neighborhood's Hopes Dimmed by the Trials of War," *Washington Post*, September 27, 2005; "Funds Fade, Deaths Rise, and Iraq Rebuilding is Spotty," *New York Times*, October 31, 2005; "President's Account of Gains Depicts Only Part of the Picture," *New York Times*, December 8, 2005.

<sup>28</sup> To compensate for the slow rate of implementation, in April 2004, CPA-head Bremer initiated the Accelerated Iraqi Reconstruction Program (AIRP) which utilized Iraqi DFI funds (\$313 million) to get work underway in ten cities.

<sup>29</sup> "U.S. Seeks to Provide More Jobs and Speed Rebuilding in Iraq," *New York Times*, July 27, 2004.

<sup>30</sup> Department of State, *Iraq Weekly Status Report*, May 3, 2006.

<sup>31</sup> SIGIR, *Report to Congress*, April 30, 2006, p. 18.

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 delayed implementation of reconstruction projects. 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.<sup>32</sup>
- Completed reconstruction projects and pre-existing infrastructure have been destroyed. Major pipelines continue to be sabotaged, shutting down oil exports, with the consequent loss of hundreds of millions of dollars in revenue. In the Sunni triangle, small-scale rehabilitation projects have been destroyed soon after completion. In April, U.S. officials noted that attacks on infrastructure were down by 60% in the previous three months.<sup>33</sup>
- Reconstruction costs have risen due to the need to provide for security and insurance for personnel. Estimates of the portion of project costs devoted to security vary widely; the State Department estimates it at 16%-22%. In any case, project 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>34</sup>
- Iraqi government-budgeted funds planned for the operation and maintenance of U.S.-funded infrastructure projects have had to be diverted to pay for security forces, increasing the need for U.S. sustainability assistance.<sup>35</sup>
- Projects to which funds have been committed may cost more to complete than originally anticipated. According to the SIGIR, USAID projects funded with the FY2003 supplemental have been about 20% more expensive than the original estimates, and a

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<sup>32</sup> SIGIR, *Report to Congress*, April 30, 2006, p. 12.

<sup>33</sup> “Iraqi Infrastructure Attacks Down,” *Department of State Washington File*, April 13, 2006; “Mortar Attack Shuts Down Refinery,” *Los Angeles Times*, February 2, 2006; “Sabotage Cuts Power to More Than 100 Electrical Lines,” *New York Times*, June 11, 2004.

<sup>34</sup> Howard Krongard, State Department IG, testimony to House Government Reform Committee, October 18, 2005; State Department, 2207 Report to Congress, July 2005; SIGIR, *Report to Congress*, July 30, 2005 and October 30, 2005; James Kunder, USAID, testimony to House Foreign Operations Subcommittee, September 7, 2005; “Security Costs Slow Iraq Reconstruction,” *Washington Post*, July 29, 2005; “Thanks to Guards, Iraq Oil Pipeline is Up and Running, On and Off,” *New York Times*, September 3, 2005.

<sup>35</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

sampling of FY2004-funded USAID and PCO projects suggests these may be as much as 50%-85% more costly to complete than the initial cost estimates. This trend, due in large part to unexpected security expenses, may severely decrease the number of construction projects the United States is able to undertake in Iraq.<sup>36</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, including the U.N., are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.<sup>37</sup>
- 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.<sup>38</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>39</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 has fallen to roughly 133,000 from 160,000 in November.

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<sup>36</sup> SIGIR, *Report to Congress*, January 30, 2005 and 2006.

<sup>37</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.

<sup>38</sup> “Professionals Fleeing Iraq as Violence, Threats Persist,” *Washington Post*, January 23, 2006; “Facing Chaos, Iraqi Doctors are Quitting,” *New York Times*, May 30, 2005; SIGIR, *Report to Congress*, July 30, 2005, p. 20; “World Bank Considers Sending Staff Back to Baghdad,” *Washington Post*, September 18, 2005.

<sup>39</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.

There are also about 20,000 troops from 26 other nations.<sup>40</sup> As violence and hostage-taking increased through 2004 and into 2005, many participating countries, including the Philippines, Hungary, the Netherlands, Ukraine, Poland, and Italy announced reductions or departures. Although NATO rejected the Administration request that it provide forces, it did agree to help train Iraqi troops, and all NATO members currently provide training or equipment.<sup>41</sup>

Thirty-eight percent of total U.S. appropriations for reconstruction — nearly \$11 billion — are aimed at building Iraqi security forces. Most of these funds — \$7.5 billion — have been added since September 2004, as the security situation remained unstable and efforts to train forces appeared inadequate. According to the State Department, in early May 2006, there were 97,300 trained and equipped conventional Iraqi police and 113,600 army forces. Officials believe 325,000 security forces are needed to defeat the insurgency. In all, about 253,700 security forces are currently defined by officials as ready for action. However, reports by officials and observers have suggested that many fewer could be said to be capable of the most demanding jobs.<sup>42</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>43</sup> Increasing attention is being paid by U.S. officials to the lack of adequate logistical capabilities in the Iraqi Ministry of Defense. Problems in paying, feeding, and supplying equipment to troops are compounded by reports of corruption in the Ministry procurement office.<sup>44</sup>

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<sup>40</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], April 24, 2006, page 20; Department of State, *Iraq Weekly Status Report*, May 3, 2006.

<sup>41</sup> “NATO Reports All 26 Nations are Aiding Iraq with Training,” *New York Times*, September 22, 2005; “NATO Agrees on Modest Plan for Training Iraqi Forces,” *New York Times*, February 23, 2005; “Coalition Members Look for an Exit,” *Washington Post*, November 23, 2005.

<sup>42</sup> Department of State, *Iraq Weekly Status Report*, May 3, 2006; “Iraqis Not Ready to Fight Rebels on Own, U.S. Says,” *New York Times*, July 21, 2005; “Building Iraq’s Army: Mission Improbable,” *Washington Post*, June 10, 2005; “As Iraqi Army Trains, Word in Field is It May Take Years,” *New York Times*, June 13, 2005; “Pentagon Says Iraqi Forces Are Improving, but Still Can’t Fight Alone,” *New York Times*, October 14, 2005.

<sup>43</sup> “Iraqi Security Has Come Far, With Far to Go,” *Washington Post*, August 1, 2004; “Wanted: Police Academy ASAP,” *Washington Post*, May 16, 2004; “Iraqi Battalion Refuses to ‘Fight Iraqis’,” *Washington Post*, April 11, 2004; “Iraqi Police Suspected in Slaying of Americans,” *Washington Post*, March 13, 2004; “Recruits Abandon Iraqi Army,” *Washington Post*, December 13, 2003; “U.S. Needs More Time to Train and Equip Iraqis,” *New York Times*, May 24, 2004; “Iraqis Readiness Disputed in Hearing,” *Washington Post*, January 20, 2005. “U.S. Says Police in Iraq Need Bolstering,” *Washington Post*, November 25, 2004. “U.S. Officials Say Iraq’s Forces Founder Under Rebel Assaults,” *New York Times*, November 30, 2004.

<sup>44</sup> “Worry Grows as Iraq’s Defense Ministry Falls Short of Expectations,” *New York Times*, August 3, 2005; “Iraq Facing Hurdles, U.S. General Warns,” *New York Times*, January 6, 2006; “Why Iraq’s Police are a Deadly Problem,” *TIME Magazine*, March 20, 2006.

Early U.S. efforts to support forces specifically intended to protect critical oil and electricity infrastructure are regarded by the SIGIR as failures. Currently, assistance is being used to strengthen a different entity, the Strategic Infrastructure Battalions, Ministry of Defense forces which protect oil fields and pipelines. According to the SIGIR, about 3,400 personnel have completed training.<sup>45</sup>

**Implementing Agencies.**<sup>46</sup> More than half of FY2004-funded IRRF programs — the roughly \$9.6 billion currently dedicated to construction — is managed by the Army Corps of Engineers/Project and Contracting Office (PCO). The ACE/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. The PCO's parent organization, the Department of Defense, is responsible for most security training. Together, they account for roughly 73% of FY2004 IRRF appropriations.

Responsible for nearly 17% of FY2004 appropriations (\$3.0 billion), the Agency for International Development (USAID) manages the widest range of economic, social, and political development programs. Its programs include a \$1.8 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>47</sup> Other U.S. government agencies involved in the reconstruction effort include the Department of State (accounting for about 7%), which continues work begun in 2003 providing police training, and the Treasury Department (0.2%), which provides economic advice to the transition government.<sup>48</sup>

**CERP and CHRRP.** Drawn from DFI Iraqi seized assets and oil profits 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 end-March 2006, a total of \$1.8 billion — \$548 million in Iraqi funds and \$1.2 billion in U.S. DOD appropriations — has been made available for this purpose. 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. In lieu of civilian U.S. government or NGO aid personnel,

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<sup>45</sup> SIGIR, *Review of Task Force Shield Programs*, Audit 06-009, April 2006; *SIGIR Report to Congress*, April 30, 2006, p. 28.

<sup>46</sup> Dozens of U.S. firms and NGOs are participating in the reconstruction of Iraq. For information on contract awards and solicitations, and business opportunities in Iraq, see the following websites: the Iraq Project and Contracting Office [<http://www.grd.usace.army.mil/index.html>], USAID's Iraq Reconstruction effort [<http://www.usaid.gov/iraq/activities.html>]; and the Department of Commerce (DOC) Iraq Reconstruction Task Force [<http://www.export.gov/iraq/>].

<sup>47</sup> Most FY2003 IRRF funds (73%) were utilized by USAID. It awarded \$1.8 billion in contracts and grants in the abovementioned sectors, as well as in seaport and airport administration, capital construction, theater logistical support, and personnel support. All FY2005 funding — \$5.7 billion for Iraqi security force training — is managed by DOD.

<sup>48</sup> SIGIR, *Report to Congress*, April 30, 2006, Appendix C.

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. The Commanders Humanitarian Relief and Reconstruction Program (CHRRP) uses IRRF funds — \$84 million to date — combined with Iraqi government grants — \$136 million — for similar purposes. CHRRP projects are usually conducted on a larger-scale.<sup>49</sup>

**The Role of Iraqis in Reconstruction.** 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 the first year, 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. The SIGIR estimates that about 70%-80% of contracting is now directly with Iraqis.<sup>50</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>51</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>52</sup> USAID also used Iraqi Ministry employees to implement electrical distribution projects in Baghdad. The PCO and IRMO have made efforts as well to give the Iraqi Government some decision-making responsibility over U.S.-funded reconstruction work, including on-site supervision and drafting of contracts. They are also working to develop the capacity of private sector contractors, especially women-owned businesses, to respond to Iraqi government contracting opportunities in the future. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects. About 131,000 Iraqis are employed under all U.S.-funded projects.<sup>53</sup>

**Provincial Reconstruction Teams (PRTs).** As it has sought to involve Iraqis in the reconstruction process, the Embassy has expanded its outreach to the provinces. It has encouraged the creation of Iraqi Provincial Reconstruction Development Committees (PRDCs) in the 18 governorates throughout the country. The PRDCs are composed of local and national government representatives. At the

<sup>49</sup> SIGIR, *Report to Congress*, April 30, 2006, Appendix B.

<sup>50</sup> Stuart Bowen, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

<sup>51</sup> BNA, Inc. Federal Contracts Report, January 11, 2005

<sup>52</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Subcommittee, September 7, 2005. State Department, *2207 Report to Congress*, October 2005, p. 3.

<sup>53</sup> Department of State, *Iraq Weekly Status Report*, May 3, 2006; State Department, *2207 Report to Congress*, July 2005, p. 2.

same time, roughly following the Afghanistan model, the Embassy is establishing Provincial Reconstruction Teams (PRTs), made up of Embassy, PCO, and USAID staff. Four PRTs had been established as of April (from the three already existing Regional Embassy Offices in Kirkuk, Mosul, and Hillah, and in Baghdad), but more are expected if FY2006 supplemental funding for their operations is approved. The State Department expects to establish a total of 8 U.S.-led PRTs, while four others will be led by Britain (Basrah), Italy (Dhi Qar), and other coalition partners. Six remaining PRTs will be managed by Iraqis.<sup>54</sup>

The intention is that the PRDCs and PRTs work together to identify projects which can be implemented and carried out with U.S. financing. As a result, it is hoped local governments may be strengthened while U.S. projects achieve more lasting support. The PRTs will also work closely with provincial governments to strengthen their capacities and enable them to better interact with the central government. An additional benefit of the PRTs is that U.S. agencies may better coordinate their reconstruction programs. In its June 2005 review of resources, the IRMO allocated \$241 million of IRRF funds to back the PRDC-PRT partnership — \$80 million used through the CERP and \$161 million through USAID's Community Action Program (CAP) and Local Governance Program (LGP).<sup>55</sup> Proposed funding in the FY2006 supplemental would add to funds available for use by PRTs.

There are potential obstacles to the spread of PRTs. One reason there has been limited grassroots development work in the provinces to date is the lack of security. In order to establish PRTs, security for U.S. officials must be insured. Although originally reluctant to divert the necessary manpower from its other responsibilities, the Department of Defense has agreed to provide protection. The full terms of its agreement are not clear. News reports note that DOD has agreed to facility and site security, but that the movement of personnel may not be covered. In any event, the FY2006 supplemental request would provide funding for private security support, if needed.

A second issue is the availability of qualified U.S. government civilian staff. Early reports suggested that State was having difficulty enticing its personnel to volunteer for PRT posts; a point recently refuted by the Department. A further concern is whether the PRTs will have sufficient funds for development projects.<sup>56</sup> The supplemental would provide such funds. Finally, the House Appropriations Committee, reporting on the FY2006 supplemental, has raised the concern that PRTs are very much pilot programs — it is unclear how they are to function in Iraq, whether coordination of the civilian and military funds available will work, and how well their mission of improving the capacity of government can be achieved. The Committee has directed that *no new funds* be provided until reporting requirements, including assessments of current PRTs and complete program plans, are met.

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<sup>54</sup> Department of State, *2207 Report to Congress*, April 2006, p 3. "Military to Protect U.S. Aid Teams in Iraq," *Washington Post*, April 14, 2006.

<sup>55</sup> Department of State, *2207 Report to Congress*, July 2005, p. 2.

<sup>56</sup> "Rice's Rebuilding Plan Hits Snags," *Washington Post*, January 15, 2006.



**Ministerial Assistance Teams (MATs).** Much effort and assistance has previously gone into improving the capabilities of government ministries, including equipping and training personnel at all levels of service. A new initiative of the Embassy is the creation of Ministerial Assistance Teams composed of the senior consultants that have long been assigned to each Ministry, their Iraqi counterparts, and U.S. and international experts. The MATs will focus on trying to improve the performance of the core functions of key Ministries, by identifying basic needs of each Ministry, developing action plans to address these needs, and providing any training and technical assistance required. Ministry officials and staff are reportedly deficient in knowledge of modern administrative systems and management practices. The FY2006 supplemental would provide additional funds for this effort.<sup>57</sup>

**Project Sustainability.** As more large-scale construction projects 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. A “principal objective” of PCO contracting has always been the “swift transition of the reconstruction effort to Iraqi management and control.”<sup>58</sup> To insure long-term sustainability, the PCO and IRMO are focusing on what they call capacity development. At this point, each contractor is responsible for providing training to the appropriate personnel in the labor force who will operate and maintain power plants, water systems, etc., and contractors are liable for repairs and equipment replacement for a period of 90 days following project completion. At the Ministry level, the IRMO 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>59</sup>

According to the SIGIR, the State Department has identified \$425 million in IRRF funds that have been already been spent or are programmed to be used to help sustain projects. Of this, \$31.5 million has been for capacity development programs at the Iraqi ministry level. In addition, State is considering diverting funds from planned IRRF projects to bolster sustainment and has proposed FY2006 supplemental funding of \$355 million and an FY2007 level of \$154 million for this purpose.

The long-term responsibility for sustainability, however, lies with the Iraqi government, and the SIGIR has estimated that between \$650 and \$750 million annually would be needed to operate and maintain U.S.-sponsored projects alone. When security, salaries, and fuel are included the estimate increases to between \$750 and \$950 million annually.<sup>60</sup> Whether the Iraqi government can shoulder the burden of additional costs — it is already running a deficit — will likely depend on the level of resources it is able to draw on from oil profits and international donors.

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<sup>57</sup> Department of State, *2207 Report to Congress*, April 2006, p. 2.

<sup>58</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, Jan. 21, 2004.

<sup>59</sup> Briefing by PCO on Capacity Development, March 17, 2005; State Department, *2207 Report to Congress*, June 2005, p. 5.

<sup>60</sup> SIGIR, *Managing Sustainment for Iraq Relief and Reconstruction Fund Programs*, Report Number 05-022, October 24, 2005.

**The Reconstruction Gap.** Many of the projects that were originally promised to the Iraqis and for which funds were appropriated by Congress cannot be completed with the sums allotted. The SIGIR attributes this “reconstruction gap” to a number of factors, including the unexpected higher cost of security to protect projects and project personnel; the higher cost for materials, especially in the oil sector; higher costs due to project delays, many deriving from security disruptions; the reprogramming of planned assistance in sectors such as electricity and water to other sectors such as security and oil production; and the increased need to provide for long-term sustainability of projects. The consequences of this “gap” for Iraq are significant. For example, the SIGIR has determined that, of 136 projects originally planned in late 2003 for the water sector, only 49 will be completed. Mostly eliminated have been projects in sewerage, irrigation, and dams. Of 425 projects planned in the electricity sector, only 300 will be completed. As the Administration is not proposing to provide further large-scale infrastructure assistance to Iraq, the SIGIR findings point to an increased burden that the Iraqi government will have to face on its own or windows of opportunity for other donors.<sup>61</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).<sup>62</sup> The SIGIR has issued a number of audits and launched dozens of investigations of possible criminal activity.<sup>63</sup> Up to now, however, the most egregious examples appear to center, not on IRRF reconstruction aid, but on DOD appropriations — especially the Halliburton Kellogg, Brown & Root (KBR) projects — and on the CPA’s use of Iraqi funds (see the DFI section below).<sup>64</sup>

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<sup>61</sup> SIGIR, *Report to Congress*, January 30, 2006, page 4.

<sup>62</sup> For example, a cement plant’s renovation, estimated to cost \$15 million by U.S. engineers, was repaired by Iraqis for \$80,000. [Rep. Henry Waxman, letter to Joshua Bolten, Director of OMB, Sept. 26, 2003.] The Governing Council questioned a decision by the CPA to spend \$1.2 billion training 35,000 police in Jordan rather than in Iraq at, in its view, “a fraction of the cost.” (“Iraqis Say U.S. Occupation Authority Misspend Millions in Its Awarding of Contracts,” *New York Times*, Oct. 4, 2003.) Press reports suggested that ministry equipment was sold on the streets and reconstruction subcontracts were delivered for bribes. (“Spoils of War,” National Public Radio, April 21-23, 2004.) The Department of Defense IG found numerous “irregularities” in contracting procedures followed by DOD acquisition support for the CPA and its predecessor through August 2003. (DOD IG Audit, *Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command*, Report No. D-2004-057, March 18, 2004.) The State Department IG found contractor DynCorp had overcharged \$685,000 for services rendered to the Bureau of International Narcotics and Law Enforcement Affairs police training program. (SIGIR report, Jan. 30, 2005, p. 21.)

<sup>63</sup> See SIGIR website [<http://www.sigir.mil/>] for audit reports to date. SIGIR, Report to Congress, April 30, 2006, Section 3.

<sup>64</sup> At an October 18, 2005 congressional hearing (House Government Reform Committee),  
(continued...)

The main exceptions are cases involving 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 — 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 decided to ignore its auditors and pay KBR all but \$10.1 million of the disputed charges, a percentage reportedly considered unusually low in such cases.<sup>65</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>66</sup>

During the past year, SIGIR auditors and project assessment teams with engineering, audit, and investigative experience have traveled to major reconstruction project sites to see if work is being performed properly. Among the more worrying findings is that, after the expenditure of \$186 million, only 6 of 150 planned health care centers was complete and only 14 more expected to be finished. Although an estimated \$36 million would complete another 121 partially constructed centers, insufficient IRRF funding is now available for this purpose.<sup>67</sup> An 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 will not be derived until the Ministry of Electricity can perform the work.<sup>68</sup> A project to run 16 oil pipelines under the Tigris River failed despite warnings from a geologist that the subsoil was not conducive to drilling,

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<sup>64</sup> (...continued)

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.

<sup>65</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>66</sup> “Contractor Bilked U.S. on Iraq Work,” *Washington Post*, March 10, 2006.

<sup>67</sup> SIGIR, Audit 06-011, April 2006.

<sup>68</sup> SIGIR, Project Assessments PA-05-05 to 09, *Report to Congress*, October 30, 2005, p. 53.

demonstrating a lack of appropriate oversight by the Army Corps of Engineers.<sup>69</sup> On the other hand, assessments of many other projects were either largely positive or helped point out correctable quality control and structural deficiencies, suggesting that the IG inspections are playing a role in motivating contractors to perform work as required.<sup>70</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 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>71</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>72</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>73</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

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<sup>69</sup> SIGIR, Project Assessment SA-2005-001, *Report to Congress*, January 30, 2006, p. 73-75.

<sup>70</sup> SIGIR, *Report to Congress*, October 30, 2005, p. 47-58; January 30, 2006, p. 66-90; April 30, p. 145-183.

<sup>71</sup> "\$1.9 Billion of Iraq's Money Goes to U.S. Contractors," *Washington Post*, August 4, 2004.

<sup>72</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>73</sup> 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.

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>74</sup> A representative on the IAMB accused the Administration of withholding information on non-competitive contracts, and repeated requests to U.S. agencies for information on sole-sourced contracts funded by the DFI were not answered.<sup>75</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>76</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>77</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 — one has pled guilty.<sup>78</sup>

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<sup>74</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.

<sup>75</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>76</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>77</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>78</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; “Special Inspector General Stuart Bowen,” *Washington Post*, November 9, 2005; “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* (continued...)

Most recently, it has been 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 will be returned to the Iraqi government for use on reconstruction projects.<sup>79</sup>

## 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>80</sup> Most focus on the history of the occupation and those problems that help explain the current state of affairs. For example, *Reconstructing Iraq*, a September 2004 report from the International Crisis Group, examines the gamut of mistakes that many agree were made prior to and during the occupation. These include the lack of a reconstruction plan; the failure to adequately fund reconstruction early on; unrealistic application of U.S. views to Iraqi conditions by, for example, emphasizing privatization policy; the organizational incompetence of the CPA; shifting deadlines, such as the November 2003 decision to end the occupation seven months later; and the inadequate utilization of Iraqis both in making policy and in implementing reconstruction projects. The report then draws on these failures to inform its recommendations for the future, including the suggestion that staff with expertise in post-conflict situations be utilized and encouraged to serve in Iraq longer than six months; that Iraqis representing a range of views participate in design and implementation of U.S. reconstruction projects; that development of the Iraqi private sector be emphasized through greater use of Iraqis as subcontractors; and that prime contractors be required to employ Iraqis as much as possible.<sup>81</sup>

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<sup>78</sup> (...continued)

of Cash Provided to South-Central Iraq, Audit Report No. 05-006, April 30, 2005, available at SIGIR website [<http://www.sigir.mil>].

<sup>79</sup> “Auditors Find Widespread Waste and Unfinished Work in Iraqi Rebuilding Contracts,” *New York Times*, January 31, 2006.

<sup>80</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 Bathsheba 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; and George Packer, *The Assassins’ Gate: America in Iraq*, Farrar, Straus and Giroux, 2005.

<sup>81</sup> International Crisis Group, *Reconstructing Iraq*, September 2, 2004. Available at (continued...)

Another category of assessments are reviews of specific projects. 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>82</sup> Even these, however, appear constrained by security in the number of site-visits they are able to undertake to review project results. One of four water projects assessed by the SIGIR in 2005 could not be visited due to security concerns, and the SIGIR is conducting some of its assessments by aerial imagery because of the risk to its personnel. GAO investigators were not even able to visit Iraq while preparing a 2005 report on water and sanitation programs.<sup>83</sup>

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>84</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, sanitation, 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. The April 2006

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<sup>81</sup> (...continued)

[<http://www.crisisgroup.org/home/index.cfm?>].

<sup>82</sup> For a list of audits, see SIGIR, *Report to Congress*, April 30, 2006, Appendices E and F.

<sup>83</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.

<sup>84</sup> Glenn Zorpette, “Re-engineering Iraq,” *IEEE Spectrum*, February 2006, available at [<http://www.spectrum.ieee.org/feb06/2831>].

SIGIR report to Congress, however, begins to address this concern with a status report on each sector of assistance containing data on U.S. activities, outputs, and outcomes.<sup>85</sup>

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<sup>85</sup> SIGIR, *Report to Congress*, April 2006, Section 2.