

# CRS Report for Congress

## Iraq: Recent Developments in Reconstruction Assistance

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# Iraq: Recent Developments in Reconstruction Assistance

## Summary

A large-scale assistance program has been undertaken by the United States in Iraq. To fund such programs, in an April 2003 FY2003 Supplemental Appropriation, Congress approved \$2.48 billion, and in a November 2003 FY2004 Supplemental Appropriation it provided \$18.4 billion for the Iraq Relief and Reconstruction Fund (IRRF). The May 2005 FY2005 Emergency Supplemental provided \$5.7 billion in a new Iraqi Security Forces Fund (ISFF) for the training and equipping of Iraqi security forces. The June 2006 FY2006 Emergency Supplemental provided \$3 billion for the ISFF and \$1.6 billion for economic assistance. Currently, FY2007 funding for Iraq is provided under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289 Division B, as amended) which provides foreign aid spending at the FY2006 level or the House-passed FY2007 level, whichever is less. The continuing appropriations resolution expires on February 15, 2007. On January 10, 2007, the President announced a new \$1.1 billion FY2007 Supplemental reconstruction request.

Contributions pledged by other donors at the October 2003 Madrid donor conference and in subsequent meetings have amounted to roughly \$14.6 billion in grants and loans, of which about \$3.8 billion has been disbursed.

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

Many reconstruction efforts on the ground are completed or ongoing, but security concerns have slowed progress. Of the roughly \$36 billion in appropriated funds from all accounts directed at reconstruction purposes, about 33% has been targeted at infrastructure projects — roads, sanitation, electric power, oil production, etc. About 44% is being used to train and equip Iraqi security forces. A range of programs — accounting for roughly 23% of total appropriations — are in place to offer expert advice to the Iraqi government, establish business centers, 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, \$20.3 billion had been obligated and \$16.8 billion spent by early January 2007.

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

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# Iraq: 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.<sup>1</sup> To meet these ends, a large-scale assistance program has been undertaken by the United States in Iraq. This program, funded through a mix of appropriations accounts, is expected to undergo increased scrutiny in the 110<sup>th</sup> Congress. This report describes recent developments in this assistance effort and key issues of potential interest to Congress.<sup>2</sup>

## Funding for Reconstruction

The first formal estimate of the possible cost of Iraq reconstruction amounted to \$55 billion over the four years from 2003 through 2007. This figure was the sum total of an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy — \$36 billion — combined with a \$19.4 billion Coalition Provisional Authority (CPA) projection for security, oil, and other sectors not covered by the Bank/U.N. assessment.<sup>3</sup> These amounts, calculated in mid-2003, did not take into account the significant costs of instability and security needs that have emerged since then.

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

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

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

<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>].

## 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.

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

Fiscal Year	2003	2004	2005	2006	2007	Total
Iraq Relief and Reconstruction Fund (IRRF)	2,232.3*	18,053.0*	—	10.0	—	20,295.3
DOD - Iraq Security Forces Fund (ISFF)	—	—	5,700.0	3,007.0	1,700.0	10,407.0
DOD - CERP	—	140.0	718.0	753.0	375.0	1,986.0
DOD - Oil Repair	802.0	—	—	—	—	802.0
DOD - Iraq Army	51.2	—	—	—	—	51.2
Other USAID Funds	469.9	—	—	—	—	469.9
Economic Support Fund (ESF)	—	—	—	1,534.6	—	1,534.6
INL (Int'l Narcotics & Law Enforcement)	—	—	—	91.4	—	91.4
IFTA (Treasury Dept. Tech Asst.)	—	—	—	13.0	—	13.0
IMET (Int'l Military Ed & Training)	—	—	—	0.7	—	0.7
<b>Total U.S. Reconstruction Assistance</b>	<b>3,555.4</b>	<b>18,193.0</b>	<b>6,418.0</b>	<b>5,409.7</b>	<b>2,075.0</b>	<b>35,651.1</b>

\*The IRRF was originally appropriated \$2,473 million for FY2003 and \$18,439 million for FY2004. Amounts shown above are those available for use after \$241 million in FY2003 and \$386 million in FY2004 appropriations expired.

**Sources:** *Section 2207 Report to Congress*, October 2006; SIGIR Report to Congress, October 2006; Department of State, *Iraq Weekly Status Report*, January 10, 2007; and CRS calculations.

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, the U.S. Agency for International Development (USAID) has used its own funds to pay for humanitarian and other programs in Iraq.

The FY2005 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept.109-72), signed on May 11, 2005, provided \$5.4 billion for a new DOD account — the Iraq Security Forces Fund (ISFF) — supporting the training and equipping of Iraqi security forces. Previously, most security training funds had been provided out of the IRRF. Policy responsibility for the IRRF, originally delegated to the CPA (under DOD authority), had, since the end of the occupation in June 2004, belonged to the State Department as a result of a Presidential directive (NSPD 36, May 11, 2004), which, nonetheless, continued to give DOD the main role in directing security aid. Putting funding for security 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.” The FY2006 Emergency Supplemental added \$3 billion to the ISFF, and the FY2007 regular Defense appropriations (P.L. 109-289) added another \$1.7 billion.

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

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

**FY2007 Foreign Operations Appropriations.** The Administration requested nearly \$773 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

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

Enforcement account, INCLE); \$18.2 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).

On June 9, the House approved H.R. 5522 (H.Rept. 109-486), the FY2007 Foreign Operations bill. It cut the ESF request by \$173 million to \$305.8 million. In report language, the Appropriations Committee supported the MRA request, but did not comment on Iraq levels for the other accounts. Substantial cuts in the overall INCLE and MRA account requests might affect amounts provided for Iraq. The Committee also directed that \$50 million be provided to the USAID Community Action Program. On July 15, the Senate Appropriations Committee reported its version of the bill (S.Rept. 109-277), matching the total Administration request level. However, it re-allocated \$108 million in ESF and INCLE funds intended for democracy and rule of law activities to the Democracy Fund to be used in Iraq for the same purposes. The full Senate did not take up the legislation. FY2007 funding for Iraq is provided under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289 Division B, as amended) that provides foreign aid spending at the FY2006 level or the House-passed FY2007 level, whichever is less. The continuing appropriations resolution expires on February 15, 2007.

**The President's "Surge" Plan and FY2007 Supplemental Appropriations Request.** On January 10, 2007, President Bush proposed a new Iraq strategy to deal with increasing instability, especially in Baghdad. In addition to the introduction of about 21,500 more U.S. troops and other efforts to create a more secure environment for successful political and economic development, the President's scheme includes \$1.2 billion in new reconstruction initiatives which are expected to be part of an FY2007 supplemental appropriations request:

- \$414 million to support a near doubling in the number of Provincial Reconstruction Teams (PRTs) from 10 to at least 18 and an increase in the number of U.S. civilian staff for them from 250 to 400. The Administration promises better integration of civilian and military elements in the field;
- \$350 million for the Commander's Emergency Response Program (CERP) which allows military officers to distribute development grants at the grassroots community level; and
- \$400 million for a new quick-response civilian version of the CERP. This had been a recommendation of the Iraq Study Group (No. 68).

Complementing the U.S. effort, the Iraqi government has committed \$10 billion of its funds to reconstruction, including a jobs creation program. A long-discussed International Compact for Iraq is also expected to stimulate reconstruction donations from other countries.

## 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.<sup>6</sup>

During the occupation, DFI funds available to the CPA — \$20.7 billion by June 28, 2004 — were used to support a wide range of reconstruction activities, including the currency exchange program, oil and electricity infrastructure repair, purchase of firefighting equipment, the Iraqi operating budget, and the Oil for Food Program's monthly food baskets, responsibility for which was transferred from the U.N. to the CPA in November 2003.

Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq obtained control over use of DFI funds. Oil production accounts for more than 90% of the Iraqi government revenue. However, even with a rise in oil prices, estimated 2006 revenue — about \$32 billion — does not cover operating expenses (the deficit is estimated at nearly \$3 billion), putting significant constraints on amounts of funding available to the government for reconstruction programs.<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 was slowed by sabotage and corruption. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with an estimated pre-war rate of 2.5 million barrels/day, but rates have fallen since then and, as of early January 2007, stand at 2.0 million barrels/day. The CPA target had been 2.8-3.0 million barrels/day by end of 2004. The Iraqi government had hoped to raise production to at least 2.5 million barrels/day in 2006.<sup>8</sup>

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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.

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

<sup>7</sup> Economist Intelligence Unit, Country Report for Iraq, November 2006 update.

<sup>8</sup> Department of State, *Iraq Weekly Status Report*, January 10, 2007. "Iraqis Look to Raise (continued...)"



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, and it raised prices again in June 2006.<sup>9</sup>

A further concern regarding the amount of oil income available for reconstruction is the extent of corruption and mismanagement in the Iraqi government. An audit of the DFI undertaken on behalf of the International Advisory and Monitoring Board (IAMB) found that controls over export earnings are ineffective and funds are improperly accounted for by government staff. The Comptroller General of the GAO has also suggested that there is "massive corruption" in the Oil Ministry. Iraq ranks next to the bottom on Transparency International's corruption index.<sup>10</sup>

Finally, it appears that Iraqi ministries are having difficulty spending the revenue on capital projects such as roads, schools, and oil production. According to news reports, only about 20 percent of the 2006 capital budget of about \$6 billion was being utilized. Among the reasons was a rapid turnover in personnel, security concerns, lack of skills in contracting and managing projects, and a fear of being accused of corrupt practices.<sup>11</sup> Complementing the Administration's new "surge" initiative, the Iraqi government is expected to use \$10 billion for capital reconstruction and job creation-related programs.

## Iraqi Debt

At the time of the invasion, Iraq's debt, both public and private, was estimated at \$125 billion.<sup>12</sup> Since then, the United States has argued that any new Iraqi

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<sup>8</sup> (...continued)

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

<sup>10</sup> "Iraq Rated Amongst Most Corrupt," *International Herald Tribune*, November 6, 2006; "Corruption Cited in Iraq's Oil Industry," *Washington Post*, July 17, 2006; "An Audit Sharply Criticizes Iraq's Bookkeeping," *New York Times*, August 12, 2006.

<sup>11</sup> "Oil Revenues are in the Billions, but Iraq is Failing to Spend Them," *New York Times*, December 11, 2006.

<sup>12</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-* (continued...)

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>13</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 authorized \$360 million (P.L. 108-309) to cover the costs of cancelling the roughly \$4 billion Iraqi debt obligation owed the United States. These factors culminated in an agreement by the 19 Paris Club government creditors on November 20, 2004, to write off roughly \$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 \$20 billion in commercial debt. Of the latter, about \$16 billion is expected to be forgiven in the near future.<sup>14</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>15</sup> The Madrid donor conference, held on October 23-24, 2003, produced a minimum total of \$13.6 billion in reconstruction aid pledges from more than forty other donors — nearly \$4 billion in grant aid and \$9.6 billion in loans. Later pledges have raised the total non-U.S. offer to \$15 billion as of June 30, 2006.<sup>16</sup>

Grant aid pledges from other donors include \$1.5 billion by Japan, \$452 million by the United Kingdom, \$222 million by Spain, \$905 million by the European Commission, \$200 million by South Korea, and \$236 million by Italy. 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 (\$1 billion). Of these

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<sup>12</sup> (...continued)

*Conflict Assistance*, September 24, 2004.

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

<sup>14</sup> State Department, *2207 Report to Congress*, July 2006, Appendix II-11. See CRS Report RL33376, *Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief*, by Martin A. Weiss for further details.

<sup>15</sup> Includes appeal and outside-appeal aid from all donor countries, except the United States. U.N. Office for the Coordination of Humanitarian Affairs. *Total Humanitarian Assistance for Iraq Crisis 2003*. April 5, 2004.

<sup>16</sup> SIGIR, *Report to Congress*, October 30, 2006, p. 107.

pledges, as much as \$3.8 billion has been disbursed, much of it as a contribution to the IRFFI (see below).<sup>17</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 developing projects for use of \$683 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.

Among multilateral contributions, the IMF has approved a \$436 million Emergency Post-conflict Assistance package and a \$685 million Standby Arrangement on which Iraq can draw, but has yet to do so. The World Bank has allocated \$235 million of a \$500 million concessional loan program, including a \$100 million education project.<sup>18</sup>

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>19</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>20</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 October 31, 2006, donors had deposited about \$1.6 billion to the Facility. The World Bank Fund (\$457 million deposited) has financed textbooks, school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund (\$1.1

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<sup>17</sup> SIGIR, *Report to Congress*, October 30, 2006, p. 105-116.

<sup>18</sup> SIGIR, *Report to Congress*, October 30, 2006; “Iraq: World Bank Approves First IDA Credit,” World Bank News Release, November 29, 2005.

<sup>19</sup> State Department, *2207 Report to Congress*, July 2006, Appendix II.

<sup>20</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.

billion deposited) is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>21</sup>

**United Nations.** In addition to the above donor projects, the United Nations, since its return to Iraq in early 2004, has been largely responsible for providing assistance and guidance to assist the democratization of Iraq, including support to the transitional government and the Iraqi Electoral Commission. U.N. envoy Lakhdar Brahimi helped negotiate the transition to sovereignty, and a U.N. team headed by Carina Perelli assisted the implementation of elections for the National Assembly, successfully held on January 30, 2005. With U.N. assistance the electoral law was drafted, thousands of registrars were trained, 540 registration centers were set up around the country, millions of ballots were printed, 5,300 voting centers established, and thousands of poll watchers trained. Much of the U.N. election work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities. Subsequently, the U.N. helped with the constitution-writing process, the constitutional referendum, and the December 2005 parliamentary election. With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects. There are about 800 U.N. international and local staff in Iraq.<sup>22</sup> U.N. Security Council Resolution 1700, approved August 10, 2006, 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.

In response to a continuing U.S. effort to encourage greater levels of donor contributions, the U.N. and Iraq, on July 27, 2006, launched an International Compact with Iraq. Under this initiative, participating donor countries would pledge a certain threshold of funds. In return, Iraq would promise a five-year program of specific reforms and actions leading to long-term economic and political development. The Compact is expected to be finalized at a donor meeting in the near future.

## U.S. Assistance Policy and Program Structure

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. At that time, broad responsibility for assistance programs moved from the Secretary of Defense to the Secretary of State.<sup>23</sup> At the Department, the Senior Advisor and Coordinator for Iraq is David Satterfield.

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<sup>21</sup> IRFFI website [<http://www.irffi.org>].

<sup>22</sup> Kofi Annan, "There's Progress in Iraq," *Washington Post*, June 21, 2005; "United Nations to Set Up Trust Fund for Iraq," *Washington File*, November 30, 2004. "U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis," *New York Times*, January 26, 2005.

<sup>23</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."

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. Ryan Crocker has been nominated to succeed him. The embassy employs about 1,000 U.S. direct hire staff. An Iraq Reconstruction Management Office (IRMO) within the U.S. embassy has supplanted CPA assistance efforts in setting requirements and priorities. It is headed by Ambassador Joseph A. Saloom. Under the President's "surge" initiative, a new Coordinator for Iraqi Transitional Assistance, Ambassador Timothy Carney, has been appointed to serve in Baghdad to help integrate assistance with military strategy.

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. Michael J. Walsh.<sup>24</sup> The GRD-PCO is chiefly responsible for the roughly \$10 billion in FY2004-funded IRRF programs dedicated to infrastructure construction. The GRD/PCO coordinates, manages and monitors contracting and expenditures in six sectors — transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil. Although in the Department of the Army, it reports to the Department of State as well as to the Department of the Defense.

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. He is expected to be succeeded in the near future by Lt. Gen. David H. Petraeus. Maj. Gen. Martin E. Dempsey is the officer immediately responsible for overseeing the organization and training of all Iraqi security forces, including roughly \$5 billion in IRRF funds and all \$10.4 billion of ISFF funds. 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>25</sup>

A third major U.S. actor in the implementation of the aid program is the U.S. Agency for International Development (USAID). Responsible for about \$5 billion of assistance to date, USAID manages a wide range of economic, social, and political development programs. Its programs have included a \$1.8 billion construction project contracted to Bechtel and most activities related to public health, agricultural

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<sup>24</sup> The PCO and IRMO were established by the May 11, 2004 NSPD. See GRD-PCO website at [<http://www.rebuilding-iraq.net>].

<sup>25</sup> "Aid to Iraq Ministries to Shift to Pentagon," *Washington Post*, September 26, 2005.

development, basic and higher education, civil society, local governance, democratization, and policy reform.<sup>26</sup>

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation (P.L. 108-106), was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the 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 60 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. The SIGIR issued his first report to Congress regarding his audits and investigations on March 30, 2004, and has reported quarterly since then.<sup>27</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 were obligated. The FY2006 Foreign Operations appropriations (P.L. 109-102) permitted it to function until 10 months after 80% of FY2004 IRRF funds is expended. To date, 76% has been expended. The FY2007 Defense Authorization (H.R. 5122/P.L. 109-364) made all FY2006 reconstruction appropriations, regardless of account, subject to SIGIR jurisdiction as though they were under the IRRF. But it also contained a provision terminating the SIGIR office on October 1, 2007.

Concern that the termination provision was inserted by the Chairman of the House Armed Services Committee without the full agreement of legislators led members of both parties to introduce bills in both the House (H.R. 6313/Skelton) and Senate (S. 4046/Collins) that would extend the life of the SIGIR. The latter was approved by Congress in early December and signed by the President on December 20, 2006 (P.L. 109-440). It terminates the SIGIR 10 months after 80% of IRRF funds are expended. However, in its definition of IRRF funds, S. 4046 also includes all IRRF funding as well as any FY2006 funds made available for reconstruction purposes regardless of funding account. In effect, the legislation likely extends the life of the SIGIR into 2008.<sup>28</sup>

## **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.

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<sup>26</sup> SIGIR, *Report to Congress*, October 30, 2006, Appendix F.

<sup>27</sup> See [<http://www.sigir.mil/>] for reports and audits.

<sup>28</sup> "Watchdog Agency for Iraq Projects Survives," *New York Times*, December 9, 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 immediately revised the allocation of FY2004 IRRF appropriations that had been legislatively mandated only weeks previously in order to increase substantially the democratization effort — from \$100 million to \$458 million.

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>29</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.

As a result, 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. These additional amounts were drawn from three sectors to which the funds had originally been allocated but not yet obligated — 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.

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<sup>29</sup> Because the desired changes were greater than the FY2004 supplemental's restriction on how much a specific sector could be increased (no more than 20%) or decreased (no more than 10%) from the original congressional allocation, legislative action, rather than a simple notification to the appropriations committees, was required. Congress included such authority in the FY2005 Continuing Resolution (P.L. 108-309). In the FY2006 Emergency Supplemental, Congress again re-set the sector allocation baseline in order to give the Administration additional programming flexibility. It also made remaining IRRF funds available for re-obligation for one year beyond the previous expiration date of end of FY2006 as long as they were initially obligated by end of September 2006. All but roughly \$382 million had been obligated by that time.

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

Sector	Current allocation	Obligations as of January 9, 2007	Exp.
<b>FY2004 Supplemental (P.L. 108-106)</b>			
Security and Law Enforcement	5,003	4,986	4,707
Justice, Public Safety, and Civil Society	1,304	1,297	973
Democracy	1,002	1,002	889
Electricity	4,240	4,080	2,977
Oil Infrastructure	1,725	1,625	1,289
Water and Sanitation	2,131	2,049	1,417
Transport and Telecommunications	464	458	337
Roads, Bridges, Construction	334	326	210
Health	819	801	595
Private Sector	814	814	762
Education, Refugees, Human Rights, Governance	402	401	339
Administrative Expenses	213	212	156
<b>Total FY2004 Supplemental</b>	<b>18,449</b>	<b>18,052</b>	<b>14,652</b>
<b>FY2003 Supplemental (P.L. 108-11)</b>	<b>2,473</b>	<b>2,232</b>	<b>2,139</b>
<b>Total IRRF</b>	<b>20,922</b>	<b>20,285</b>	<b>16,791</b>

Sources: Department of State, *Iraq Weekly Status Report*, January 10, 2007.

There have been regular reviews of priorities and reallocations thereafter. In December 2004, for instance, the Embassy 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. In March 2005, the State Department reallocated \$832 million of IRRF funds, targeting \$196 million 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 2005 reallocation also included \$607 million, both to complete work 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. 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).



Recent reallocations have been comparatively small as amounts available dwindled. As of the end of September 2006, IRRF funds are no longer available for obligation.<sup>30</sup> Now, major issues of current concern to those implementing the reconstruction program will be addressed with \$1.6 billion in new, mostly ESF account, funding that was requested by the Administration and appropriated by Congress in the FY2006 Supplemental:

- **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. \$355 million will assist the Iraqis to operate, maintain, and sustain these projects. In the past, this has been accomplished largely by providing training and replacement parts. In addition, about \$287 million was expected to help secure threatened oil, electricity, and water infrastructure.
- **Provincial Reconstruction Teams (PRTs).** Following the example established in Afghanistan, the State Department has set up 10 PRTs throughout Iraq (see below for details) which work with Iraqi local government committees to identify economic and political development projects that can be implemented with U.S. financing. About \$675 million in FY2006 funding is expected 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.
- **Governance.** A number of efforts support governance, democratization and rule of law programs at all levels of government in Iraq, including \$125 million to help Iraqi ministries improve their ability to operate and \$91.4 million to construct correctional facilities and provide security for judges. Congress funneled \$50 million of ESF to a specific list of seven democracy and rule of law NGOs whose funding had been expected to end in 2006. It also provided \$50 million for USAID's Community Action Program (CAP). Funding for the well-regarded CAP had also been expected to run out and not be renewed by end of FY2006.

## Reconstruction Programs and Issues

**Status.** Reconstruction programs have shown mixed results to date. Although there are many positive outputs — schools rehabilitated, vaccinations provided, etc. — in arguably the most critical sectors — electric power and oil production — the outputs have been less than originally envisioned. Moreover, the impact of these projects on Iraq is hard to estimate, and the extent to which they and other-donor

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<sup>30</sup> According to the Administration, the remaining un-obligated \$371 will be used for “upward adjustments and limited in-scope changes to complete existing contracts.” *2207 Report to Congress*, October 2006, p. 1.

contributions meet the total needs of Iraq has not been fully assessed. Although mismanagement and corruption play a large role in diminishing returns from reconstruction efforts, it has been the lack of stability and the effects of the insurgency that have most affected the course of reconstruction to date.

A brief review of each reconstruction sector:<sup>31</sup>

- **Security and Justice.** About 323,000 police and military security forces have been trained and equipped — the end-strength Iraqi goal has been 325,000. Reports indicate, however, that many are insufficiently trained to required levels of competence or unwilling to carry out assigned duties. Additional challenges are the efforts to develop logistics capabilities in the Iraqi Army and infrastructure protection forces. More than 1,200 facilities — police stations, border forts, fire stations, courts, etc. — have been completed. (See below for more.)
- **Healthcare.** The focus of this sector has been to rehabilitate and equip facilities and provide medical services such as immunizations. Health care providers have been trained and facilities equipped. The immunization program has been a success, with nearly 98% of children under five immunized against polio. Twenty hospitals are being refurbished. The most significant shortfalls are that only 20 of a planned 150 new clinics will be finished by the original contractor and only six of these are fully functioning at this time. Iraqi contractors will now complete 121 of the clinics. Further, the Basrah Children's Hospital has had significant cost overruns. All these construction projects have faced considerable delays.
- **Transportation and Communications.** Key results in this sector are the restoration of the deepwater port at Umm Qasr, and repairs on 86 of 98 railway stations, as well as two international and three regional airports. Although the port has shown considerable activity, only 10% of Iraqi trains run because of security concerns. The SIGIR notes that road repairs are only targeting a very small percentage of total road and bridge work required (for example, only 5 repaired bridges of 1,156 in poor condition or destroyed). While U.S. assistance has supported modernization of the postal service and rebuilding of the landline telephone network, the strongest advance was due to the private sector provision of mobile phone technology, helping to raise total phone users from 913,000 to over 7 million.
- **Democracy, Education, Agriculture and Private Sector Development.** About 5,270 schools have been rehabilitated and 60,000 teachers trained. Local governance was strengthened through

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<sup>31</sup> SIGIR, *Report to Congress*, July 30, 2006, p. 15-89; Department of State, *2207 Report to Congress*, July 2006; Department of State, *Iraq Weekly Status Report*, January 10, 2007.

establishment of councils and community associations. More than 3,475 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. Voter education, training of election monitors, and related activities contributed to three successful elections in 2005. Irrigation systems were rehabilitated, 68 veterinary clinics reconstructed, and 83,500 date palm offshoots were planted. Technical experts provide advice to government regarding adoption of possible economic reforms and credit is provided to micro and small business. All these sectors have nearly run out of IRRF funding and must look to other accounts for future activities.

- **Electricity.** U.S.-funded projects have added 2,710 megawatts (MW) to Iraq's generating capacity. Before the war, electric power was 95,600 megawatt hours (MWh); now, it is close to 90,000 MWh. The goal was originally 120,000 MWh. In Baghdad, Iraqis receive fewer hours of electricity than before the war (averaging about 3 hours in early January); elsewhere they receive more than previously (about 8 hours). In addition to the impact of insurgent activity, other challenges to the growth of electrical power are the rising demand for electricity, a lack of centralized monitoring and control systems, poorly maintained infrastructure, and a shortage of fuels to operate power plants.
- **Oil and Gas.** Oil and gas production has remained stagnant and below pre-war levels for some time. The pre-war level of oil production was 2.5 million barrels/day; it currently stands at 2.0 million barrels/day. The goal was 2.8-3.0 million by end of 2004. According to the SIGIR, poor infrastructure, corruption, and difficulty maintaining and operating U.S.-funded projects join the destruction caused by the insurgency as major challenges to the industry.
- **Water and Sanitation.** Water and sanitation sector assistance, according to the IRMO, has provided clean water to 4.6 million more people and sanitation to 5.1 million more than before the war.

**The Reconstruction Gap.** Many of the infrastructure projects that were originally programmed both to meet Iraqi needs and the U.S. objective of stabilizing the country cannot be completed with the sums appropriated and allotted under the IRRF. 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.<sup>32</sup>

This "reconstruction gap" is attributed by the SIGIR to a number of factors: the unexpected higher cost of security to protect projects and project personnel; the

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<sup>32</sup> SIGIR, *Report to Congress*, January 30, 2006, page 4.

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.

Funding for the training and provisioning of Iraqi security forces is continuing to be met out of the ISFF, most recently replenished in the FY2007 Defense appropriations bill. The FY2006 supplemental appropriations provided new funding for some, but not all, of the traditional technical assistance programs promoting good governance and economic growth (health and education programs are not funded). However, as the IRRF runs down its remaining funds, the Administration has indicated that it has no plans to propose continued funding of large-scale infrastructure.

For Iraq, the consequences of this reconstruction “gap” may be significant. 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. It is not at all clear that the Iraqis, pressed to sustain a growing military and police force as well as regular government operations, can afford sufficient expenditures in infrastructure that might be crucial to maintaining the allegiance of its people.

**Infrastructure Sustainability.** As more large-scale construction projects — power plants, water and sanitation systems, oil facilities, etc. — are completed, there has been increasing concern regarding the ability of Iraqis to maintain and fund their operations once they are handed-over to Iraqi authorities. A “principal objective” of PCO contracting has always been the “swift transition of the reconstruction effort to Iraqi management and control.”<sup>33</sup> To insure long-term sustainability, the PCO and IRMO are focusing on what they call capacity development — providing training to the appropriate personnel in the labor force who will operate and maintain facilities and insuring sufficient funds are available for repairs and equipment replacement 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>34</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. In addition, the FY2006 supplemental provides \$355 million for this purpose. Another \$134 million was requested in the FY2007 budget.

The long-term responsibility for sustainability, however, lies with the Iraqi government, and the IRMO has estimated that it would cost about \$1.2 billion

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<sup>33</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, Jan. 21, 2004.

<sup>34</sup> Briefing by PCO on Capacity Development, March 17, 2005; State Department, *2207 Report to Congress*, October 2006, p. 4.

annually to operate and maintain U.S.-sponsored projects.<sup>35</sup> Whether the Iraqi government can shoulder the burden of additional costs will likely depend on the level of resources it is able to draw on from oil profits and international donors.

**Ministerial 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. Ministry officials and staff, however, remain deficient in knowledge of modern administrative systems and management practices. An 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 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. The FY2006 supplemental provided \$125 million in additional funds for this effort.<sup>36</sup>

**Provincial Reconstruction Teams (PRTs).** In an effort to expand outreach to the provinces and strengthen local government, the Embassy, in 2005, 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 same time, roughly following the Afghanistan model, the Embassy began establishing Provincial Reconstruction Teams (PRTs), made up of Embassy, PCO, USAID, military, and other agency staff. Nine PRTs have been established from the three already existing Regional Embassy Offices in Kirkuk, Ninewa (Mosul), and Babil (Hillah), as well as in Baghdad, Anbar, Diyala, Salah-ad-Din, Basrah, and Nasiriyah. The latter two PRTs are British and Italian-led respectively. A 10th PRT, led by South Korea, is being established in Irbil to assist the Kurdish region.<sup>37</sup>

The intention is that the PRDCs and PRTs work together to identify projects that can be implemented and carried out with U.S. financing. It is anticipated that, as a result, local governments may be strengthened while U.S. projects achieve more lasting support. The PRTs also work closely with provincial governments to strengthen their capacities and enable them to better interact with the central government as well as to more effectively utilize the \$2 billion in Iraqi government funds that are allocated to each province. An additional expected 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). According to the IRMO, \$103.5 million in IRRF funds have been used to date to support 135 PRDC identified projects, mostly in the electrical, road

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<sup>35</sup> SIGIR, *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, Audit 06-017, July 2006.

<sup>36</sup> Department of State, *2207 Report to Congress*, April 2006, p. 2.

<sup>37</sup> Department of State, Iraq Weekly Status Report, December 20, 2006; Department of State, *2207 Report to Congress*, October 2006, p. 5. "Military to Protect U.S. Aid Teams in Iraq," *Washington Post*, April 14, 2006.

and bridge construction, and water sectors. The FY2006 supplemental adds \$675 million in ESF funds 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.

The President's new "surge" initiative includes a request for \$414 million to expand the number of PRTs to at least 18 and the number of civilian staff from 250 to 400. PRTs in Baghdad would increase from one to six and in Anbar province from one to three. Greater effort would be made to integrate civilian teams with U.S. military battalions. The CERP and a newly proposed civilian quick response version of the CERP, increased by \$350 million and \$400 million respectively under the initiative, would help fund activities identified by the PRTs, as would the infusion of \$10 billion in promised Iraqi government funds.

To date, there have been security and staffing constraints to the work of PRTs that might pose problems in some form to the expansion plan.<sup>38</sup> One reason there had been limited grassroots development work in the provinces up to the creation of the PRTs is the lack of security. Although originally reluctant to divert the necessary manpower from its other responsibilities, the Department of Defense agreed to provide protection to the PRTs. However, minimum "movement" by PRT personnel has required three armored vehicles and eight "shooters." Normal business is, therefore, difficult — the SIGIR reports that many PRT members cannot regularly meet with local government officials to carry out their capacity-building chores; and in the two locations where coalition military provide security, due to U.S. rules forbidding their use, U.S. personnel generally may not leave their compounds. In congressional testimony, Secretary Rice indicated that civilian staff have been able to meet regularly with local government personnel.<sup>39</sup>

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. According to the SIGIR, DOD stepped in to provide military civil affairs personnel in place of the State posts, but needed specific skills for such posts as local government, economic, and agricultural advisers are not being fully met. In her recent testimony, Secretary Rice noted that 98% of positions, current and anticipated, are now filled.<sup>40</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.

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<sup>38</sup> SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006; "Rice's Rebuilding Plan Hits Snags," *Washington Post*, January 15, 2006.

<sup>39</sup> Testimony to Senate Foreign Relations Committee, January 11, 2007.

<sup>40</sup> Testimony to Senate Foreign Relations Committee, January 11, 2007.

When the State Department took over reconstruction in July 2004, however, greater efforts were made to contract project work directly with Iraqis. By 2005, the SIGIR estimated that about 70%-80% of new contracting was directly with Iraqis.<sup>41</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>42</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>43</sup> USAID also used Iraqi Ministry employees to implement electrical distribution projects in Baghdad. As some U.S. contractors have been shown to perform inadequate work, they have been replaced by Iraqi contractors. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects. CERP and USAID Community Action Program grants are often designed to directly employ large numbers of Iraqis, many at the village level. About 108,200 Iraqis are currently employed under all U.S.-funded projects.<sup>44</sup>

Now, nearly four years into the reconstruction program, U.S. defense officials reportedly have concluded that insufficient efforts have been made to create employment opportunities for Iraqi citizens. To address the issue, they are considering the rehabilitation of some of the roughly 200 state-owned enterprises that composed a large portion of the Iraqi economy prior to the U.S. occupation. Soon after the occupation began, the CPA attempted to privatize them, but gave up when the turnover of sovereignty was accelerated. The Defense Department plan would envision the production in Iraq of items required by the U.S. military, many of which are currently produced by neighboring countries. Additionally, U.S. firms would be asked to consider purchasing supplies from Iraqi enterprises.<sup>45</sup> The President's "surge" initiative expects the Iraqi government to utilize \$10 billion of its own funds for reconstruction and job creation purposes.

**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 now, a total of \$2.5 billion — \$548 million in Iraqi funds and nearly \$2 billion in U.S. DOD appropriations — has been made available for this purpose. The President's "surge" initiative would add another \$350 million to the CERP program.

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

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<sup>41</sup> Stuart Bowen, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

<sup>42</sup> BNA, Inc. Federal Contracts Report, January 11, 2005.

<sup>43</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Subcommittee, September 7, 2005. State Department, *2207 Report to Congress*, October 2005, p. 3.

<sup>44</sup> Department of State, *Iraq Weekly Status Report*, December 20, 2006.

<sup>45</sup> "To Stem Iraqi Violence, U.S. Aims to Create Jobs," *Washington Post*, December 12, 2006.

the form of small grants. In lieu of civilian U.S. government or NGO aid personnel, who are not present in most of the country, commanders identify local needs and dispense aid with few bureaucratic encumbrances. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs. In addition to reconstruction, CERP funds are used for compensation payments to the families of killed or injured Iraqis. 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.<sup>46</sup>

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

- The instability has hindered implementation of reconstruction projects. Security threats are preventing PRT personnel from communicating directly with local governments, construction workers from appearing at their jobs, and project managers from monitoring project work.<sup>47</sup>
- Completed reconstruction projects and pre-existing infrastructure have been destroyed. For instance, on October 20, 2006, attacks on the electrical grid cut Baghdad off from the national grid and greatly reduced its supply. Major pipelines continue to be sabotaged, shutting down oil exports. Along with criminal activity and poor equipment, insurgent attacks are estimated to be responsible for the loss of \$16 billion in oil revenue in the past two years.<sup>48</sup>
- Reconstruction costs have risen substantially 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%. According to the SIGIR, USAID projects funded with the FY2003 supplemental have been about 20% more expensive than the original estimates, and a 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. Unanticipated security costs as well as the

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<sup>46</sup> SIGIR, *Report to Congress*, October 30, 2006, Appendix E.

<sup>47</sup> For example, the SIGIR reports that on March 24, 2006, a project manager received an e-mail threatening all employees — as a result, no one came to work the next day. SIGIR, *Report to Congress*, April 30, 2006, p. 12. SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006.

<sup>48</sup> SIGIR, *Report to Congress*, October 30, 2006, p. 4; “Iraq Insurgents Starve Capital of Electricity,” *New York Times*, December 19, 2006; “Report Details Oil Industry Losses,” *Washington Post*, September 29, 2006; “Mortar Attack Shuts Down Refinery,” *Los Angeles Times*, February 2, 2006; “Sabotage Cuts Power to More Than 100 Electrical Lines,” *New York Times*, June 11, 2004.



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>49</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>50</sup>
- Implementing organizations and personnel have fled. Fearing for their safety, many aid implementors have been withdrawn from the country. U.N. and bilateral aid donors have been reluctant to initiate projects of their own; many are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.<sup>51</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. According to the U.N., in May 2006, 22 doctors, nurses, and non-medical staff were killed and 50 were wounded. In 2006, more than 300 teachers and Ministry of Education staff have been killed.<sup>52</sup>

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<sup>49</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*, January 30, 2005; July 30, 2005, October 30, 2005, January 30, 2006; 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>50</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

<sup>51</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>52</sup> SIGIR Report to Congress, July 30, 2006, p. 66; "Civilian Death Toll Reaches New High in Iraq, U.N. Says," *New York Times*, November 23, 2006; "As Death Stalks Iraq, Middle-Class Exodus Begins," *New York Times*, May 19, 2006; "Iraq's Attorneys Practicing in a State of Fear," *Washington Post*, June 10, 2006; "Professionals Fleeing Iraq as Violence,

(continued...)

- 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>53</sup>

There are two elements in the effort to provide the security that might allow political and economic reconstruction to take hold — U.S. and coalition peacekeeping forces and the training of Iraqi security forces to replace them. The number of U.S. troops is roughly 140,000. There are also about 14,138 troops from 25 other nations.<sup>54</sup> 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>55</sup>

About 43 percent of total U.S. appropriations for reconstruction — roughly \$15.4 billion — are aimed at building Iraqi security forces. According to the State Department, in mid-December 2006, there were 135,000 trained and equipped conventional Iraqi police and 132,700 army forces. Officials have stated that 325,000 security forces are needed to defeat the insurgency, although then-Defense Secretary Rumsfeld suggested on October 31, 2006, that the goal may be raised.<sup>56</sup> In all, about 323,000 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. 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>57</sup>

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<sup>52</sup> (...continued)

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>53</sup> “In Jaded, Perilous Capital, A Collision of Perceptions,” *Washington Post*, July 29, 2005; “As Violence Deepens, So Does Pessimism,” *Washington Post*, May 18, 2004; “Fueling Anger in Iraq,” *Washington Post*, December 9, 2003; “The Best, Brightest, and Wealthiest Flee Iraq,” *Chicago Tribune*, November 21, 2004.

<sup>54</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], January 11, 2007, page 20; Department of State, *Iraq Weekly Status Report*, January 10, 2007.

<sup>55</sup> “NATO Reports All 26 Nations are Aiding Iraq with Training,” *New York Times*, September 22, 2005.

<sup>56</sup> “Inspector General Warns Logistics Plan for Iraqi Army in Jeopardy,” *Inside the Army*, November 6, 2006; Department of State, *Iraq Weekly Status Report*, December 20, 2006.

<sup>57</sup> “U.S. Officers Detail Problems with Iraqi Soldiers,” *Washington Post*, November 1, 2006; “In Baghdad, a Force Under the Militias’ Sway,” *Washington Post*, October 31, 2006; “Flaws Cited in Effort to Train Iraqi Forces,” *Washington Post*, November 21, 2006; “On

(continued...)

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 (SIBs), Ministry of Defense forces which protect oil fields and pipelines. Seventeen SIBs are currently being trained (probably about 6,400 personnel), only one of which was considered capable of planning and executing independent operations as of August 2006. The SIGIR most recently pointed out that the SIBs, although growing in size and improving in capabilities, were unable to stop the October 2006 attack on the power grid around Baghdad.<sup>58</sup>

## Accountability, Waste, and Fraud

A lack of transparency in early contracting and numerous reports in the media suggesting that reconstruction funds were being squandered led to the establishment in the FY2004 supplemental of an Inspector General for the CPA, now called the Special Inspector General for Iraq Reconstruction (SIGIR).<sup>59</sup> The SIGIR has issued

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<sup>57</sup> (...continued)

Baghdad Streets, A Police Partnership Falters,” *New York Times*, October 22, 2006; “Searching for the Exit,” *New York Times*, October 25, 2006; “Iraqi Soldiers Refuse to Go to Baghdad, Defying Order,” *New York Times*, August 29, 2006; “An Army of Some,” *New York Times Magazine*, August 20, 2006; “On Patrol, Iraqis Prove Eager, Erratic and Green,” *New York Times*, August 10, 2006; “Misjudgments Marred U.S. Plans for Iraqi Police,” *New York Times*, May 21, 2006; “How Iraq Police Reform Became Casualty of War,” *New York Times*, May 22, 2006; “In Iraqi Town, Trainees are Also Suspects,” *Washington Post*, April 29, 2006; “Iraqis Readiness Disputed in Hearing,” *Washington Post*, January 20, 2005; “Iraqi Battalion Refuses to ‘Fight Iraqis’,” *Washington Post*, April 11, 2004; “U.S. Needs More Time to Train and Equip Iraqis,” *New York Times*, May 24, 2004; “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>58</sup> SIGIR, *Review of Task Force Shield Programs*, Audit 06-009, April 2006; SIGIR *Report to Congress*, April 30, 2006, p. 28, October 30, 2006, p. 75; DOD, *Measuring Stability and Security in Iraq*, August 2006, p 53.

<sup>59</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.)

more than 73 audits and 65 project assessments, and it has conducted 96 limited onsite inspections as well as dozens of investigations of possible criminal activity.<sup>60</sup>

Some of the most egregious examples of the latter appear to center, not on IRRF reconstruction aid, but on the use of 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>61</sup> 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, citing the wartime conditions under which KBR operated, 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>62</sup>

In November 2006, an audit of the same program conducted by the International Advisory Monitoring Board (IAMB), which monitors the use of Iraqi funds, agreed that the Army was justified in reimbursing KBR but also found that the excessive cost of the program was in large part due to the cost of fuel delivery, accounting for as much as 86 percent of the total cost. In one \$871 million work order, for example, only \$112 million was attributable to the cost of fuel; the rest was for the fleet of tanker trucks which transported it to Iraq from Kuwait. Payment was made for the trucks even when, due to a lack of armed escorts, they sat idle. Rather than an indictment of KBR, the IAMB audit suggests Army mismanagement of the program.<sup>63</sup>

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<sup>60</sup> See SIGIR website [<http://www.sigir.mil/>] for audit reports to date. SIGIR, Report to Congress, October 30, 2006, Section 3.

<sup>61</sup> At an October 18, 2005 congressional hearing (House Government Reform Committee), the DOD IG revealed that all DOD IG office personnel had been withdrawn from Iraq in the previous year; the Army Audit Agency, however, does have auditors in Iraq and is following the KBR LOGCAP contract. For a summary of the Halliburton issues, see Joint Report of the House Committee on Government Reform Minority Staff and Senate Democratic Policy Committee, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion*, June 27, 2005.

<sup>62</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>63</sup> Crowe Chizek and Company, *Updated Report of Agreed-Upon Procedures Regarding the Settlement Between USACE and KBR*, November 16, 2006; “Cost of Taking Fuel to Iraq is (continued...) ”

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>64</sup> On August 18, a federal judge overturned the verdict and fine on the disputed grounds that the CPA was not an entity of the U.S. government, but rather an internationally-run body.<sup>65</sup>

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

- The Basrah Children’s Hospital, expected to cost \$50 million, will run to at least \$98 million and nearly a year behind schedule. Bechtel, the project contractor, has been removed and the project will be completed using local contractors. USAID, the agency responsible, failed to report the cost and delays, in part because it had only one contracting officer and one technical officer to oversee 20 projects worth \$1.4 billion.<sup>66</sup>
- The Baghdad Police College, a \$75 million construction project implemented by Parsons, is riddled with deficiencies, including improperly fabricated wastewater plumbing which poses a health and structural hazard.<sup>67</sup> The Mosul police headquarters, constructed by an Iraqi contractor at a cost of nearly \$1 million, is similarly troubled.<sup>68</sup>

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<sup>63</sup> (...continued)

Questioned in New Audit, *New York Times*, November 7, 2006.

<sup>64</sup> “Contractor Bilked U.S. on Iraq Work,” *Washington Post*, March 10, 2006.

<sup>65</sup> “Verdict Against Iraq Contractor Overturned,” *Washington Post*, August 19, 2006.

<sup>66</sup> SIGIR, Audit 06-026, July 2006; “U.S. Neglect Found in Long-Delayed Iraq Hospital Project,” *Washington Post*, July 29, 2006.

<sup>67</sup> SIGIR, Project Assessment-06-078.1 and 06-079.1, September 27, 2006; “Heralded Iraq Police Academy a ‘Disaster’,” *Washington Post*, September 28, 2006.

<sup>68</sup> “U.S. Agency Cites Flaws in Another Iraqi Construction Project,” *New York Times*, October 12, 2006.

- A \$218 million first responders network is ineffective — communication is not possible between the three established zones of the system and Iraqi citizens cannot call in to request emergency assistance, among other problems.<sup>69</sup>
- After the expenditure of \$186 million, only 6 of 150 planned primary health care centers to be constructed by Parsons were completed and only 14 more were expected to be finished. A contract was awarded to Iraqi firms to complete 121 partially constructed centers.<sup>70</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>71</sup>
- A project to run 16 oil pipelines under the Tigris River failed amidst warnings from a geologist that the subsoil was not conducive to drilling, demonstrating a lack of appropriate oversight by the Army Corps of Engineers. Nearly \$76 million in DFI funds were wasted.<sup>72</sup>
- During a look at four water projects in central Iraq, three of the four reviews found problems, including inadequate design work, insufficient quality control, and the failure of Government project engineers to approve invoices and recommend payment.<sup>73</sup>
- An examination of Task Force Shield, a program to train and manage an oil and electricity infrastructure protection force, found it had been unsuccessful after the expenditure of \$147 million. In part, this outcome was due to the absence of a clear management structure for the various U.S. agencies involved. Further, auditors, reportedly, could not determine how many Iraqis were trained or how many weapons were purchase.<sup>74</sup>

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<sup>69</sup> SIGIR, Audit 06-020, July 2006.

<sup>70</sup> SIGIR, Audit 06-011, April 2006; SIGIR, *Report to Congress*, October 30, 2006, p. 78; “In a Dispute, Army Cancels Rebuilding Contract in Iraq,” *New York Times*, May 13, 2006.

<sup>71</sup> SIGIR, Project Assessments PA-05-05 to 09, in *Report to Congress*, October 30, 2005, p. 53.

<sup>72</sup> SIGIR, Project Assessment SA-2005-001, in *Report to Congress*, January 30, 2006, p. 73-75; “Rebuilding of Iraqi Oil Pipeline as Disaster Waiting to Happen,” *New York Times*, April 25, 2006.

<sup>73</sup> SIGIR, Project Assessment PA-005-001 to 004, in *Report to Congress*, July 30, 2005, p. 60-66.

<sup>74</sup> SIGIR, Audit 06-009, April 2006; “In Shadows, Armed Groups Propel Iraq Toward (continued...)”

- An audit of “design-build” contracts that characterize many of the infrastructure projects found very high administrative costs in some cases. About 55% of KBR work on the RIO project and 43% of a Parsons oil project were consumed by overhead costs. Security is likely one factor in the high level of overhead found here, and enforced idleness while awaiting government direction to begin work is another. However, the audit also found inadequate accounting and billing systems to capture administrative costs in four of five contracts examined.<sup>75</sup>
- Roughly 370,000 weapons purchased with \$133 million in IRRF funds for the use of Iraqi security forces were not accompanied by spare parts or technical repair manuals, and were not registered to insure accountability. (Some of these weapons have reportedly made their way to the black market.)<sup>76</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>77</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

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<sup>74</sup> (...continued)

Chaos,” *New York Times*, May 24, 2006.

<sup>75</sup> SIGIR, Audit 06-028, October 2006; “Idle Contractors Add Millions to Iraq Rebuilding,” *New York Times*, October 25, 2006.

<sup>76</sup> SIGIR, Audit 06-033, October 2006. “Black-Market Weapon Prices Surge in Iraq Chaos,” *New York Times*, December 10, 2006.

<sup>77</sup> “\$1.9 Billion of Iraq’s Money Goes to U.S. Contractors,” *Washington Post*, August 4, 2004.

transparent manner.”<sup>78</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>79</sup>

In its June 2004 audit, KPMG, the accounting firm designated by the IAMB to audit the DFI, noted the CPA’s inadequate accounting systems and records and lack of controls over ministry spending of DFI resources, opening the door for corruption. KPMG also pointed out the use of non-competitive bidding for some contracts funded by the DFI. Subsequent audits highlighted multiple financial irregularities.<sup>80</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>81</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>82</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>83</sup> An April 2005

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<sup>78</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; “Annun Deals a Blow to U.S. Draft Resolution,” *Financial Times*, October 3, 2003.

<sup>79</sup> The IAMB’s mandate was extended to December 31, 2007, under U.N. Security Council Resolution 1723. The IAMB website is at [<http://www.iamb.info/>]; IAMB, Press Release, March 24, 2004; “Monitoring Panel for Iraq Spending Yet to Start Work,” *Financial Times*, February 5, 2004.

<sup>80</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>81</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>82</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>83</sup> According to IG Bowen, the Iraq Commission on Public Integrity is investigating \$1.5 (continued...)



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>84</sup>

In early 2006, it was reported that an examination by the Army Joint Contracting Command of 9,000 contracts supported by about \$5.8 billion in Iraqi money has shown a number of problems, including contracted projects that were not carried out and a lack of supporting documents. As a result, roughly \$230 million that was withheld to finance the contracts reportedly will be returned to the Iraqi government for use on reconstruction projects.<sup>85</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>86</sup> Many focus on the history of the aid program with a view

<sup>83</sup> (...continued)

billion that may have gone missing in the Ministry of Defense. “Special Inspector General Stuart Bowen,” *Washington Post*, November 9, 2005.

<sup>84</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 of Cash Provided to South-Central Iraq*, Audit Report No. 05-006, April 30, 2005, available at SIGIR website [<http://www.sigir.mil>].

<sup>85</sup> “Auditors Find Widespread Waste and Unfinished Work in Iraqi Rebuilding Contracts,” *New York Times*, January 31, 2006.

<sup>86</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

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toward explaining the current state of affairs. Others, like the Iraq Study Group report (see below), seek to improve future outcomes. See the appendix for a collection of many such criticisms.

Another category of assessments are reviews of specific projects, some findings of which are noted in the previous section. Security concerns in Iraq have made difficult the kind of expert and anecdotal reports usually produced in other places by interest groups and the news media. Most project assessments, therefore, have come from the various government auditors.<sup>87</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>88</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>89</sup>

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<sup>86</sup> (...continued)

Fallows, “Why Iraq Has no Army,” *The Atlantic Monthly*, December 2005; Rajiv Chandrasekaran, *Imperial Life in the Emerald City: Inside Iraq’s Green Zone*, Knopf, 2006; and George Packer, *The Assassins’ Gate: America in Iraq*, Farrar, Straus and Giroux, 2005; International Crisis Group, *Reconstructing Iraq*, September 2, 2004, available at [<http://www.crisisgroup.org/home/index.cfm?>]; and T. Christian Miller, *Blood Money*, Little, Brown, and Company, 2006.

<sup>87</sup> For a list of audits, see SIGIR, *Report to Congress*, July 30, 2006, Appendices F and G.

<sup>88</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>89</sup> Glenn Zorpette, “Re-engineering Iraq,” *IEEE Spectrum*, February 2006, available at (continued...)

Some observers have suggested that one problem with assessing the progress of reconstruction is that there is no “big picture” overview. Responsible government agencies provide information regarding how many infrastructure projects are being started and completed, how many small-scale grants are being provided, and how many people are being trained, but there is little detail regarding to what degree the overall national need for drinking water, schools, health care, electricity, and other requirements is being met by the billions of dollars in U.S. resources — not to mention Iraqi and other donor resources — targeted at these needs. When such data has been gathered, mostly by the SIGIR, it suggests that the needs are much larger than donor or other resources currently being made available.<sup>90</sup>

**The Iraq Study Group Recommendations and Other Proposals.** As the Administration, Congress, and the foreign policy community re-think options for U.S. military and diplomatic action in Iraq, some are considering new approaches to the reconstruction effort. In November 2006, the Iraq Study Group published its report. In addition to giving the highest priority to the rapid training and equipping of Iraqi security forces, the Group includes several recommendations regarding economic reconstruction assistance. The Group proposes an increase in economic, as distinguished from security, assistance to \$5 billion a year (Recommendation 64). By comparison, in the first three years of the war, assistance averaged \$5 billion per year, but roughly \$2.4 billion in economic aid, including the CERP, was provided in FY2006. The Group suggested that new funds emphasize capacity building and job creation efforts.

The Study Group also proposes that more should be done to bring international donors into active participation in reconstruction (Recommendation 65). Further, the United States should take the lead in funding the U.N. High Commission for Refugees and other humanitarian activities in Iraq (Recommendation 66). Authority should be provided to merge U.S. funds with those of international donors and Iraqi participants in order to encourage partnerships with them (Recommendation 71).

A number of the Group proposals reflect dissatisfaction with the way in which U.S. assistance is administered. The Group believes that no one individual is responsible for the program and, therefore, suggests that the President create a Senior Advisor for Economic Reconstruction in Iraq to act as the principle contact on this issue (Recommendation 67). They also suggest that the U.S. Ambassador to Iraq have available to him a CERP-like quick-disbursing fund and that he be given authority to rescind funding from programs where the Iraqi government is not an effective partner (Recommendation 68).

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<sup>89</sup> (...continued)

[<http://www.spectrum.ieee.org/feb06/2831>].

<sup>90</sup> Further, “measurements” provided by the Administration have been criticized as highly selective. See *Measuring Stability and Security in Iraq*, Report to Congress in accordance with DOD Appropriations Act 2006, May 2006; and Anthony H. Cordesman, *The Quarterly Report on “Measuring Stability and Security in Iraq”: Fact, Fallacy, and an Overall Grade of “F”*, Center for Strategic and International Studies, June 5, 2006.

Further recommendations that touch on assistance activities include that the Department of Justice, rather than DOD, should take the lead in reforming the Ministry of the Interior (60), that technical assistance in administration and financial management should be provided the Ministry of Oil (86), and that security assistance be made more flexible to allow for better inter-agency (i.e., State-DOD) cooperation (70). A recommendation (69) that the SIGIR's authority be continued has largely been met.

Recently, other suggestions have been offered regarding the reconstruction program. Retired Army General Barry McCaffrey has proposed that \$10 billion a year over five years be provided in economic aid. It is reported that the U.S. Army is pushing for a significant program to employ Iraqis in Baghdad, including an increase in reconstruction projects in parts of the city secured by U.S. and Iraqi troops. And, just prior to his resignation, Secretary Rumsfeld proposed in a memo that reconstruction aid only be provided to areas of the country where there is no violence.<sup>91</sup>

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<sup>91</sup> Barry R. McCaffrey, "Beyond Baker-Hamilton", *Washington Post*, December 13, 2006; "Iraq Army Plans for a Wider Role," *New York Times*, December 13, 2006; "Rumsfeld Called for Change in War Plan," *Washington Post*, December 3, 2006.

## Appendix: Criticisms of Iraq Reconstruction

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

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

some countries from competing for Iraq contracts, in the view of many, further alienated potential international support.

- **Inadequate U.S. civilian administration.** Early on, a British official was quoted as saying of the CPA, “this is the single most chaotic organization I have ever worked for.”<sup>92</sup> The CPA was understaffed, lacking experience and knowledge of the country, in many cases with no background in assistance programs, and too isolated from the Iraqi people (with headquarters in a former palace and requiring a military bodyguard when they ventured outside). The level of aid expertise improved under State Department management, but security concerns continued to limit contact with Iraqis and insufficient staff numbers negatively affected project oversight as well as PRT implementation.
- **Excessive Reliance on the U.S. Military.** Although actual reconstruction is inherently a civilian effort, in Iraq much of it was implemented by military personnel. In January 2003, the President placed sole authority for reconstruction in the hands of DOD, rather than with development assistance or democracy experts at USAID and State. In June 2004, after the State Department was given the lead role, the Army continued to manage about \$10 billion in infrastructure projects, insuring a continued lack of coordination between assistance entities. Utilizing the CERP program, military civil affairs teams continue to influence reconstruction at the grassroots level. Some assert that these are roles for which the military had not been prepared — there is a long learning curve and many mistakes were made — and which emphasize to the Iraqi people the “occupation” character of the U.S. presence. Instead, some critics suggested that a corps of civilian reconstruction specialists should have been deployed around the country. As early as July 2003, the Hamre Assessment Mission report recommended that 18 provincial CPA offices be established with 20-30 civilian staff in each.<sup>93</sup> It was not until mid-2005, that the PRT program was launched. Its spread was delayed by military reluctance to provide security.
- **Poor Accountability.** As discussed earlier in this report, a number of projects were poorly implemented. In some cases, funds may have been misused. What unites many of these accounts, perhaps most notably the CPA’s cavalier treatment of billions in Iraqi-owned funds, is that they could have been prevented by more thorough oversight by government managers.

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<sup>92</sup> “America’s Rebuilding of Iraq Is in Chaos, Say British,” *London Daily Telegraph*, June 17, 2003.

<sup>93</sup> John Hamre, and others. *Iraq’s Post-Conflict Reconstruction: A Field Review and Recommendations*, July 17, 2003, page 5.

- **Ineffective Assistance.** Measurable objectives in critical sectors, such as oil production and electric power generation, were not met. But the full picture of the effectiveness of the reconstruction effort in most sectors is clouded by the impact of instability and conflict.
- **Inadequate Levels of Assistance.** The high cost of conducting reconstruction projects in Iraq: due to protective security spending and large overhead costs — amounting in some cases to half of project totals — meant that amounts appropriated for economic reconstruction did not produce the equivalent in goods and services that one would expect in other aid recipient countries. In short, less bang for the buck. Further, funds originally intended for economic reconstruction, particularly water and electricity programs, were diverted to training of Iraqi security forces.
- **Too Broadly Dispersed Assistance.** The aid effort attempted to do too much in too many sectors from health to electricity to microenterprise to roads. As a result, too few resources were scattered over too many projects to produce a significant impact in any one of them. Assistance should have been concentrated more intensively in key areas such as oil production and governance so that Iraqi funds could have been generated and Iraqi managers could spend them.
- **Poor Contracting and Procurement Processes.** The SIGIR has looked at contracting actions from before the war through the CPA to the present. Among other problems, it points to the failure to involve contracting and procurement personnel in the planning stages of post-conflict reconstruction operations, the lack of emphasis given contracting for smaller projects, the use of sole-source and limited competition contracting, and the failure to give a single unified contracting entity the authority to coordinate all contracting activity.<sup>94</sup>

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<sup>94</sup> SIGIR, *Iraq Reconstruction: Lessons in Contracting and Procurement*, July 2006.