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Iraq: Recent Developments in Reconstruction Assistance

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Curt Tarnoff
Specialist in Foreign Affairs
Foreign Affairs, Defense, and Trade Division

Iraq: Recent Developments in Reconstruction Assistance

Summary

Large-scale reconstruction assistance programs are being undertaken by the United States following the war with Iraq. To fund such programs, Congress approved on April 12, 2003, a \$2.48 billion Iraq Relief and Reconstruction Fund in the FY2003 Supplemental Appropriation. On September 7, President Bush proposed a \$20.3 billion reconstruction aid package, as part of a FY2004 supplemental request. Contributions pledged at the October 24 Madrid donor conference by other donors may be over \$5 billion in grant aid. Security Council Resolution 1483, approved May 22, allows the United States to draw on Iraqi oil sale profits for relief and reconstruction purposes.

Former diplomat L. Paul Bremer III is the head of civilian administration in post-war Iraq. Under him, the Coalition Provisional Authority (CPA), staffed by officials from the U.S. government and other nations, is implementing assistance programs.

U.S. policymakers are negotiating with European allies the terms of a new U.N. Security Council Resolution in an effort to gain greater international military and financial cooperation in the Iraq stability and reconstruction effort. Criticisms of Administration reconstruction efforts include accusations of inadequate security, a failure to rapidly establish an Iraqi-led government, prevention of a larger multilateral role, excessive reliance on the U.S. military, and a lack of openness regarding plans for the reconstruction process and use of funds.

The report will be updated as events warrant. For discussion of the Iraq political situation, see CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-War Governance*. See also CRS Report RL32090, *FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations, Reconstruction Assistance, and Other Activities*.

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Iraq: Recent Developments in Reconstruction Assistance

Large-scale reconstruction assistance programs are being undertaken by the United States in Iraq. This report describes recent developments in this assistance effort. Given the rapidly-evolving situation concerning these aid programs, some of these reported developments are based on press accounts. The report will be updated as events warrant.¹

FY2004 Emergency Supplemental

On September 7, the President announced he would submit to Congress a new request for emergency spending for Iraq. The formal request was submitted on September 17. The \$87 billion request includes \$20.3 billion for reconstruction programs, a significant increase over previously appropriated sums.

Earlier funds have been used to support a broad range of humanitarian and reconstruction efforts. According to the Administration, the new request is intended to fund the most pressing, immediate needs in Iraq, with the aim of having a noticeable impact on the two greatest reconstruction concerns that have been raised since the occupation of Iraq began — security and infrastructure. More than \$5 billion would be targeted at improving the security capabilities of the Iraqi people and government — including training and equipment for border, customs, police, and fire personnel, and to develop a new Iraqi army and a Civil Defense Corps. Enhanced efforts to reform the judicial system would also be made.

Most of the remaining supplemental reconstruction request would go toward rapid improvements in infrastructure, including electricity, oil infrastructure, water and sewerage, transportation, telecommunications, housing, roads, bridges, and hospitals and health clinics. The initiative is intended only to address the most important needs; more long-term concerns in such areas of government reform, agriculture, economic development, and education are not included in the Administration request. A relatively small amount of funds — \$353 million — have been requested for programs designed to encourage the growth of the private sector and jobs training, including establishment of an American-Iraqi Enterprise Fund. Another \$300 million is targeted on grassroots democracy concerns, including local governance, civil society, human rights, and refugees.

The Senate and House approved measures, S. 1689 and H.R. 3289, on October 17 providing supplemental appropriations for Iraq reconstruction, among other items.

¹ For detailed discussion of the Iraq political situation, see CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-War Governance*.

Both bills reduced funding for reconstruction, the House by \$1.655 billion, providing \$18.65 billion, and the Senate by \$1.855, providing \$18.45 billion. Both bills reduce or eliminate specific programs — such as prison construction, provision of trash trucks, postal modernization, construction of new housing communities and a children's hospital, and establishment of an American-Iraqi Enterprise Fund — that Members felt were too costly or unnecessary. The Senate eliminated an additional \$200 million for oil infrastructure rehabilitation, and provides \$10 billion of the reconstruction aid in the form of a loan. The House bill assistance is provided as a grant, but an October 21 nonbinding resolution instructs House conferees to adopt the Senate's loan provision. The Administration has threatened to veto a bill that provides aid as a loan. A House-Senate conference is expected to meet on October 28 to resolve differences between the two measures. For more details on the legislation and the debate, including the issue of providing loans in place of grants, see CRS Report RL32090, *FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations, Reconstruction Assistance, and Other Activities*.

Funding for Assistance: Recent Developments

Until now, the eventual cost of Iraq reconstruction has been based on speculation and educated guesswork. However, in early October, the World Bank and U.N. Development Group released a needs assessment of 14 sectors of the Iraqi government and economy. Resulting World Bank/U.N. cost estimates, derived from assessments conducted since July, were prepared for the benefit of the international donors conference held in Madrid on October 23-24. They establish the targets by which the adequacy of available resources will be judged. The World Bank/U.N. assessments put the cost of reconstruction for the 14 sectors at \$36 billion over four years, a figure that does not include \$19.4 billion estimated by the Coalition Provisional Authority (CPA) for security, oil, and other sectors not covered by the Bank/U.N. assessments. Total World Bank/CPA projected reconstruction costs through 2007 amount to \$55 billion, \$17.5 billion in 2004 alone.²

A national budget for Iraq, formulated by Peter McPherson, the designated U.S. advisor to the Iraqi Ministry of Finance, and covering the rest of 2003, was announced on July 7. It called for expenditures of roughly \$6.1 billion in addition to providing for a Central bank currency reserve of \$2.1 billion for a total requirement of \$8.2 billion. New oil revenue, taxes, and profits from state owned enterprises would make up \$3.9 billion of these costs. The remaining \$4.3 billion deficit would be covered by recently frozen and seized assets (\$2.5 billion), the Development Fund for Iraq (\$1.2 billion), and already appropriated U.S. assistance (\$3.0 billion). Taking into account previous expenditures (\$1.2 billion), Iraq was projected to have roughly \$1.1 billion remaining at the end of December 2003.³

² For the full text of the report online, see the World Bank website at [[http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/\\$File/Joint+Needs+Assessment.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Iraq+Joint+Needs+Assessment/$File/Joint+Needs+Assessment.pdf)].

³ See [<http://www.cpa-iraq.org/Budget2003.pdf>] for text of the budget.

The projected \$55 billion World Bank/CPA cost estimate makes evident that available funds for Iraq reconstruction are insufficient to meet current needs. In addition to new appropriations, reconstruction costs may be supplemented by other sources of funding, such as contributions from other donors, benefits of debt reduction or rescheduling, and profits from oil resources. These sources of funding are discussed below.

U.S. Assistance

In the FY2003 emergency supplemental (P.L. 108-11), \$2.48 billion was appropriated for a special Iraq Relief and Reconstruction Fund for the purpose of aid efforts in a wide range of sectors, including water and sanitation, food, electricity, education, and rule of law. Of this amount, \$743 million was allocated for relief and \$1.7 billion for reconstruction. The conference report gives the President control over the Fund, and amounts may be transferred only to the Department of State, the Agency for International Development (USAID), the Department of the Treasury, the Department of Defense, and the Department of Health and Human Services, subject to the usual notification procedures. The FY2003 supplemental also provides \$489.3 million through the Department of Defense budget for repair of oil facilities.

U.S. Funds Committed to Iraq Relief and Reconstruction as of 6/30/03 (\$ millions)

Iraq Relief and Reconstruction Fund	2,475.0
DOD - Oil Repair*	502.5
DOD - Cost of CPA	599.0
Other Agency Funds**	529.2
Total	4,105.7

Source: 90-Day Update Report to Congress Pursuant to Sec.1506 of Emergency Wartime Supplemental. July 14, 2003.

*Includes \$13.2 million from Defense Cooperation Account.

**Includes USAID (\$460.5million), Department of Treasury (\$2.3 million), and Department of State (\$66.4 million).

Up to October 7, \$2.1 billion in FY2003 funds provided to USAID and the Department of State had been obligated for relief and reconstruction, of which \$1.2 billion was for reconstruction activities. Operational expenses for the Coalition Provisional Authority (CPA), under the Department of Defense budget, were projected to reach \$599 million through September 2003.⁴

⁴ *Iraq Reconstruction and Humanitarian Relief, Weekly Update Number 2*, USAID, October 7, 2003. *90 Day Update Report to Congress Pursuant to Sec. 1506 of Emergency Wartime Supplemental*, July 14, 2003.

Oil Resources and Oil-for-Food Program (OFFP)

Until the start of the war, an estimated sixty percent of Iraqis received their food supplies through the U.N.-supervised Oil-for-Food Program. Since the end of March, the U.N. has taken direct control of the program, setting priorities for and directing delivery of already contracted supplies. U.N. authority over the program was extended for six months beyond the original expiration date of June 3, 2003, by the U.N. Security Council resolution approved May 22. During this period the program will be phased out, and surplus funds will be transferred to the new Development Fund for Iraq (DFI), under the control of the occupying powers. In mid-July, the U.N. announced approval, in consultation with the United States, of \$2 billion in projects using remaining funds from the OFFP, including \$1 billion in oil industry spare parts, \$794 million for electric power, \$54 million for water and sanitation, and \$30 million for youth and sports. Some contracts will reportedly go to France and Russia.⁵

It has been expected that Iraq's oil reserves will help it "shoulder much of the burden for [its] own reconstruction."⁶ The ability of the United States to use oil reserves for more long-term reconstruction purposes was assured by the May 22 Security Council resolution which ended sanctions. The resolution shifted responsibility for oil profits from the U.N. to the United States by establishing a Development Fund for Iraq held by the Central Bank of Iraq. Following the direction of the Security Council, the U.N. transferred \$1 billion in OFFP funds to the DFI. The resolution gave authority for disbursement of the funds to the United States and its allies, in consultation with the Iraqi Governing Council. The CPA established a Program Review Board to prioritize and recommend how DFI resources are used. Although composed of coalition, multilateral bank, and U.N. officials, the multilateral bank members have no vote and the U.N. official serves only as an observer. The U.N. resolution required that an international advisory board to monitor the sale and use of oil be established, but the CPA has 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 has led to international criticism (see criticism section below). The October 16 Security Council resolution recommended that the board be established as a priority and that the DFI should be "used in a transparent manner."⁷ On October 21, the CPA announced that it would soon set up the advisory board.

Efforts are being made to quickly restore Iraq's oil production capacity; some oil exporting resumed in mid-June.⁸ Oil production has been slowed by looting and

⁵ "Patten Urges U.S. to Back Donors' Trust Fund for Iraq," *Financial Times*, July 16, 2003.

⁶ Ari Fleisher, February 18, 2003. *90 Day Update Report to Congress Pursuant to Sec. 1506 of Emergency Wartime Supplemental*, page. 4, July 14, 2003.

⁷ Security Council Resolution 1511, October 16, 2003, paragraph 23. "Oil to Come Under Iraqi Control as U.S. Fails to Form Advisory Board," *Financial Times*, August 19, 2003. "Annan Deals a Blow to U.S. Draft Resolution," *Financial Times*, October 3, 2003.

⁸ Concerns that questions about the legitimacy of the Iraq authority would prevent (continued...)

sabotage. Iraq was expected to sell \$5 billion worth this year, \$3.5 billion of which it was estimated could be deposited in the Development Fund. But these estimates have been, reportedly, downgraded to \$2.0-3.0 billion. Current rates of production are nearing 2 million barrels/day, but Iraqis do not expect to reach 2.5 million barrels until spring and 3 million until the end of 2004. Administration estimates of the prewar level range between 2.5 and 3.0 million barrels. Ambassador Bremer indicated at a Senate hearing on September 22 that he expected Iraq to produce sufficient oil in 2005 to take care of its basic needs and provide additional funds for capital investment.⁹ Undersecretary of State Larson has projected \$12 billion in revenue in 2004 and \$19 billion in 2005.¹⁰ An association of leading banks and financiers, the Institute of International Finance, has predicted that oil revenue will be insufficient to cover the Iraqi operational budget in 2004, leaving nothing for reconstruction.¹¹

Debts and Assets

The United States has sought to obtain support from creditors for Iraq debt relief. Debt estimates vary widely; recently some in the Administration have put it at as much as \$200 billion.¹² The Paris Club organization of creditor nations has estimated Iraqi debt to its members at \$21 billion and as much as \$21 billion more in interest. Of this amount, the United States is owed \$2.2 billion. The London Club of commercial creditors, multilateral banks, and the Gulf States are owed substantial additional sums.¹³

Creditors have agreed to suspend repayment of debt until the end of 2004. But the United States argues that any new Iraqi government should not be burdened with debts associated with the policies of its previous ruler.¹⁴ Some large holders of Iraqi debt are more inclined to reschedule debt than to forgive it. Prior to the donor

⁸ (...continued)

companies from purchasing Iraqi oil were alleviated by a clause in the May 22 U.N. resolution providing immunity for Iraqi sales of oil under most circumstances.

⁹ Testimony to Senate Appropriations Committee. September 22, 2003.

¹⁰ "Donors Weigh Political Cost of Paying for Iraq's Economic Revival," *Financial Times*, October 3, 2003. "The Struggle for Iraq," *New York Times*, October 5, 2003. "Iraq Donors' Meeting to be Multilateral, State's Larson Says," Foreign Press Center Briefing, October 22, 2003.

¹¹ "Donors Heed EU Plea to Pay Through Trust Fund," *Financial Times*, October 3, 2003.

¹² Paul Bremer, Testimony, House Foreign Operations Subcommittee, September 24, 2003.

¹³ "Baghdad's Debt to Paris Club Set at \$21 billion — Plus Interest," *Financial Times*, July 12, 2003.

¹⁴ "G-7 Agrees that Iraq Needs Help with Debt," *Washington Post*, April 13, 2003. "U.S. Plans for Iraqi Economy Hit Friction," *Washington Post*, April 11, 2003. "Restructuring, not Forgiveness," *Financial Times*, April 15, 2003.

conference, both Germany and Russia indicated they wish to have their debts repaid.¹⁵

On March 20, President Bush issued an executive order confiscating non-diplomatic Iraqi assets held in the United States. Of the total assets seized, an estimated \$1.74 billion worth were available for reconstruction purposes, including salaries for civil servants. Another \$795 million in assets located by the United States in Iraq were also used for these purposes. These funds have, reportedly, been exhausted.¹⁶ In addition, foreign governments were reported to hold an estimated \$2.9 billion in seized or frozen assets.¹⁷ It is also reported that Syrian banks may hold \$3 billion in assets. On August 29, Japan transferred \$98 million of an estimated \$150 million in frozen assets to the Development Fund for Iraq, and about \$275 million of an estimated \$585 million in the Bank of International Settlements in Switzerland has been transferred.¹⁸ Security Council Resolution 1511 urges member states to deposit seized assets in the DFI immediately.

Other Donors

Since March, U.N. appeals for postwar humanitarian relief to Iraq totaling \$2.2 billion have been met with nearly \$2 billion in pledges and contributions as of the end of September.¹⁹ U.S. officials have sought to encourage international donor contributions, and international contributions pledged or received by September amounted to \$1.5 billion, according to Ambassador Bremer.²⁰ The Madrid donor conference, held on October 23-24, has produced more than \$5 billion in pledges of grant aid from other donors, including \$1.5 billion by Japan, \$1 billion by Saudi Arabia, \$1 billion by Kuwait, \$835 million by the United Kingdom, \$300 million by Spain, \$231 million by the European Union (EU), \$200 million by South Korea, \$174 million by Italy, and \$150 million by Canada. Additionally, Japan has promised \$3.5 billion in loans and the World Bank has offered between \$3.4 billion and \$5 billion in loans.²¹

¹⁵ "U.S. Seeks Billions in Pledges for Aiding Iraq," Washington Post, October 23, 2003.

¹⁶ Undersecretary for Defense Dov Zaheim. Testimony to Senate Foreign Relations Committee, June 4, 2003. "Urgent U.S. Aid for Coalition As Cost of Rebuilding Iraq Rises," Financial Times, August 30, 2003.

¹⁷ *90 Day Update Report to Congress Pursuant to Sec. 1506 of Emergency Wartime Supplemental.*

¹⁸ "U.S. Believes Syrian Banks Hold \$3 Billion in Iraqi Funds," *New York Times*, October 21, 2003.

¹⁹ U.N. Office for the Coordination of Humanitarian Affairs. *Summary of Requirements and Contributions by Appealing Organization.* September 30, 2003.

²⁰ Down from \$2.5 billion reported in the July 14, 2003, *90 Day Update Report to Congress Pursuant to Sec. 1506 of Emergency Wartime Supplemental.* This figure may also include part of the U.N. appeal donations. Testimony of Paul Bremer to House Foreign Operations Subcommittee, September 24, 2003.

²¹ "Iraq Pledges Roll In," BBC News, October 24, 2003.

Donors have been reluctant to contribute to reconstruction because they have no say in where the funds are to be allocated.²² To deal with this concern, a multi-donor trust fund, the International Reconstruction Fund Facility for Iraq, is being established in conjunction with the Madrid donor conference. It would encourage contributions by keeping them outside the control of the United States, but would support needs identified in the World Bank needs assessment. The fund will have two windows, one run by the Bank and one by the United Nations, the latter of which will allow countries to earmark funds for specific purposes.²³

U.S. Aid Policy Structure on Iraq

To prepare for the use of aid, a post-war planning office — the Office of Reconstruction and Humanitarian Assistance (ORHA) — was established on January 20, 2003, by a presidential directive. On June 1, it was subsumed into the Coalition Provisional Authority (CPA).²⁴ While immediate overall responsibility for the war and management of U.S. military activity in post-war Iraq belongs to the Commander of U.S. Central Command, the CPA is responsible for administration of Iraq and implementing assistance efforts there.²⁵ The Authority is headed by L. Paul Bremer III, appointed by the President on May 6. He reports to Defense Secretary Rumsfeld. The CPA is staffed by officials from agencies throughout the U.S. government as well as personnel from other coalition member nations.²⁶ It has eleven directorates — oil policy, governance, operations and infrastructure, management and budget, economic development, private sector development, civil affairs, interior affairs, USAID, security affairs, and press and public affairs. A Council for International Cooperation provides liaison with NGOs, donor countries, and U.N. agencies and directs humanitarian affairs. In July, the CPA opened a support office in Washington, the Office of the CPA Representative, headed by Reuben Jeffrey III.

Responding to concerns that Iraq policy, including reconstruction, was not well-coordinated among U.S. government agencies, the Administration, in early October, established an “Iraq Stabilization Group” in the White House that will be led by National Security Advisor Condoleezza Rice. Two of the four coordinating committees — economic development and political affairs — involve reconstruction

²² “Patten Urges U.S. to Back Donors’ Trust Fund for Iraq,” *Financial Times*, July 16, 2003. “U.S. Seeks Help With Iraq Costs, But Donors Want a Larger Say,” *New York Times*, July 14, 2003. “Europe Weighs Helping Out in Iraq, But Under Its Own Terms,” *New York Times*, July 16, 2003. “Bush’s Plea for Iraq Aid Falls on Deaf Ears,” *Financial Times*, September 25, 2003.

²³ “World Bank Supports International Reconstruction Fund Facility for Iraq,” World Bank News Release, October 21, 2003. “Donors Heed EU Plea to Pay Through Trust Fund,” *Financial Times*, October 3, 2003.

²⁴ The former head of ORHA, Retired Army Lt. General Jay M. Garner left Iraq on June 1, 2003.

²⁵ For more information about the CPA, see [<http://www.cpa-iraq.org>].

²⁶ As of early June 2003, there were 617 U.S. citizens and 471 coalition members in the CPA.

issues. The move's impact on the reconstruction process, however, is unclear. Secretary Rumsfeld has suggested that it merely directs the NSC to play its normal coordination role. Others suggest that it signals a diminution in Pentagon control over reconstruction decisionmaking.²⁷

Security Concerns

The successful conduct of much relief and reconstruction work is contingent on an environment of order and stability. As the battle phase of the war ended, however, Iraq was besieged by looting and lawlessness. Six months into the U.S. occupation violence persists against both U.S. forces and Iraqis cooperating with the occupation. The August 19 bombing of the U.N. headquarters in Baghdad and the August 29 bombing of the Najaf mosque and assassination of the moderate Shiite cleric Al-Hakim drew media and international attention to the failure of U.S. forces and the CPA to cope with the problem. One likely impact of the continued instability has been an increase in reconstruction costs and delay in implementation. For example, sabotaged oil pipelines must be repaired, and many aid implementors have been withdrawn from the country.²⁸ Further, as institutions of commerce and security have yet to be fully reestablished, the trust of the Iraqi people in U.S. leadership to bring about a democratic transformation in Iraq has been undermined, opening the door to political discontent and opposition.²⁹

U.S. Response

As security concerns have continued to dominate the attention of policymakers, greater efforts have been made to encourage other countries to provide peacekeeping forces. However, participation of other countries has been hindered by previous opposition to the war, lack of a U.N. mandate, and other factors. The U.N. Security Council resolution (1511) approved on October 16 authorizes a multinational force under unified, i.e. U.S., command, and urges nations to contribute to it. But many analysts think it unlikely that the United States will get the military support it seeks. Reversing its previous position, India, for example, announced it would not send troops regardless of the outcome of a resolution.³⁰ Although Turkey agreed on

²⁷ "White House to Overhaul Iraq and Aghan Missions," *New York Times*, October 6, 2003. "Rumsfeld Quick to Dismiss Talk of Reduced Role in Iraq Policy," *New York Times*, October 9, 2003.

²⁸ "Aid Workers Leaving Iraq, Fearing They Are Targets," *New York Times*, October 12, 2003. "Facing 'Different Kind of War', Aid Groups in Iraq Adopt Lower Profile," *Washington Post*, September 29, 2003. "Crossed Wires Deprived Iraqis of Electric Power," *Washington Post*, September 25, 2003. "Iraq Reconstruction Costs Said to Have Doubled," *Washington Times*, July 2, 2003. "Reality Check in Iraq: U.S. Faces a Long Stay," *New York Times*, October 19, 2003.

²⁹ "Iraqis' Bitterness is Called Bigger Threat Than Terror," *New York Times*, September 17, 2003.

³⁰ "Some May Not Want to Send Troops," *USA Today*, September 15, 2003. "India Has (continued...)"

October 8 to send as many as 10,000 troops, opposition by the Iraqi Governing Council has stalled this initiative. There are no official figures; but credible estimates at this time put the number of U.S. troops at between 129,000 and 145,000, British troops at roughly 12,000, and troops from 29 other countries at between 11,000 and 22,000.³¹

About 37,000 Iraqi police, half the goal, have returned to work. About 28,000 police trainees are expected to be sent to Hungary for accelerated training.³² Within one year, a reconstituted Iraqi army of 40,000 — half soldiers and half supply and administrative personnel — is expected to be ready.³³ The first 3,000 troops will have completed a nine-week training course by January. The CPA also proposes that more than 4,500 more border/customs police be recruited and trained; that 20,000 facility protection guards be deployed; and a roughly 10,000 strong Civil Defense Corps to support the coalition forces be established.³⁴

In early September, the Interior Ministry proposed a new 5,000 man Civil Defense Battalion aimed at combating the security threat from militants.³⁵ This move has not yet been approved by CPA Administrator Bremer. Some Iraqi leaders have recently proposed the withdrawal of U.S. forces to their bases and the turnover of military duties to existing Kurdish and Shiite militias that, up to now, the U.S. military has tried to disarm or restrict.³⁶

Reconstruction Assistance: Recent Developments

Among the key policy objectives laid out by the Bush Administration in conjunction with the war in Iraq was the economic and political reconstruction of the country. Discussion and debate within the United States government and the

³⁰ (...continued)

Ruled Out Sending Troops to Iraq, UN Mandate or Not,” *Agence France Presse*, September 12, 2003.

³¹ One report even put the number of U.S. troops at 116,000. “U.S. Reduces Number of Troops in Iraq to 116,000,” *USA Today*, September 11, 2003. “U.S. Cuts its Hopes for Help in Iraq,” *USA Today*, September 15, 2003. “GIs Doubt Foreign Troops’ Readiness,” *Chicago Tribune*, September 7, 2003. “Bush Looks To U.N. to Share Burden on Troops in Iraq,” *New York Times*, September 3, 2003.

³² “Iraqi Police to Train in Hungary,” *International Herald Tribune*, August 26, 2003.

³³ “Iraq’s New Military Taking Shape,” *Washington Post*, September 16, 2003. “Iraqis’ New Army Gets Slow Start,” *New York Times*, September 21, 2003.

³⁴ *Coalition Provisional Authority Request to Rehabilitate and Reconstruct Iraq*, September 2003.

³⁵ “New Ministry to Recruit Paramilitary Force in Iraq,” *Washington Post*, September 2, 2003. “Loyalties in New Iraqi Police Forces Scrutinized,” *Washington Post*, September 4, 2003.

³⁶ “Iraqi Factions Seek to Take Over Security Duties,” *New York Times*, September 19, 2003.

diplomatic community have been ongoing regarding responsibilities for reconstruction programs and the effectiveness of aid implementation. Serious criticisms have mounted over the past six months regarding all aspects of the reconstruction effort.

U.N. Resolution and the Role of the United Nations

On October 16, the U.N. Security Council unanimously approved resolution 1511, addressing continuing post-war occupation issues. The vote was the culmination of weeks of negotiations between the United States and other Council members.

The August 19 bombing of the U.N. mission in Baghdad had highlighted the failure of U.S. forces and the CPA to establish security in Iraq. Following the bombing, two previously announced U.S. objectives — obtaining greater international military support for peacekeeping and donor financial contributions for reconstruction purposes — became significantly more important to U.S. policymakers. In this view, security could best be established if there were a greater military presence and a more visible, high-impact reconstruction effort. To avoid having to bear the financial and military burdens alone, the United States would have to seek greater international support.³⁷ As the support of the U.N., possibly including a stronger U.N. role in Iraq reconstruction, might facilitate U.S. goals in each case, U.S. Administration officials and legislators debated a shift in policy from a continuing post-war position opposing a U.N. role to a moderation or outright reversal of this position.³⁸ (See Background section below for events and views prior to August 19.)

Many countries, especially those that opposed the war, appear to believe it may legitimize the U.S. occupation if they provide substantial military or reconstruction assistance. A number of countries have indicated that they would not be able to participate in a peacekeeping force unless the U.N. provided some “political cover” through a resolution creating a multilateral force. Security concerns as well as absence of a strong U.N. role in governing Iraq have also been suggested as a possible obstacle to large donor contributions toward the reconstruction of Iraq.³⁹

On September 2, the President agreed to seek a U.N. Security Council resolution that might encourage international financial and military support.⁴⁰ Subsequent negotiations with other countries on the Council focused on two key questions — the extent of a U.N. role and the timing of full Iraqi sovereignty. When the leaders of

³⁷ “U.S. Presses U.N. Members to Bear More of Iraq Burden,” *New York Times*, August 22, 2003.

³⁸ “U.S. Abandons Idea of Bigger U.N. Role in Iraq Occupation,” *New York Times*, August 14, 2003.

³⁹ “Countries Resist Aid to Iraq,” *Washington Post*, September 2, 2003.

⁴⁰ With regard to military assistance, the United States is seeking a resolution that backs creation of a U.N. force with the United States in command. “U.S. Wants Larger U.N. Role in Iraq,” *Washington Post*, September 3, 2003.

France, Germany, and Britain met on September 20 to discuss Iraq, among other issues, they all agreed that the U.N. should play a major role and that sovereignty should be transferred to an Iraqi civilian government as soon as possible. However, they did not agree, in Chirac's words, on "the practicalities and the timetable" for this transfer of power.⁴¹ The position of France and Germany is that full authority over Iraq should be transferred from the occupation coalition to the United Nations. In addition, France promoted the view that the transition to full Iraqi sovereignty should occur more rapidly than envisioned by U.S. leaders. The French argued that steps toward handing over power to the Governing Council should begin within a few months. On September 21, President Chirac presented a plan in which symbolic sovereignty would be transferred immediately to the Governing Council, followed by a gradual six- to nine-month process of transferring real power from the CPA to the Iraqis.⁴²

The United States position, as suggested in the President's September 23 speech to the U.N. General Assembly, was that the existing timetable of U.S. control during a process of drafting a constitution and eventual elections should continue, and that the U.N. could play a major, but unspecified, role in supervising the constitution and election efforts.⁴³ This position was viewed by many as unlikely to satisfy critics and unlikely to lead to increased donor contributions.⁴⁴

By late September, the European Commission continued to display a lack of enthusiasm regarding reconstruction and was expected to pledge only \$232 million at the forthcoming donor conference. German Chancellor Schroder, however, agreed with President Bush to put aside differences on the war and work cooperatively in the future. Germany offered to assist with police training.⁴⁵ Russia's President Putin indicated a willingness to assist as well, although he also indicated strong support for an active U.N. role.⁴⁶

Despite the international support for a larger U.N. role, the existing role was further diminished on September 25 as Secretary Annan ordered another reduction in international U.N. staff in Baghdad in response to a second bomb attack on

⁴¹ "3 Leaders' Views on Iraq, Not Quite Unified," *New York Times*, September 21, 2003.

⁴² "French Leader Outlines Two-Stage Proposal," *New York Times*, September 22, 2003.

⁴³ "Bush Open to U.N. Oversight of Iraq Election," *Washington Post*, September 22, 2003.

⁴⁴ "Donors in Madrid Expected to Pledge 'far less' Than \$20 billion Earmarked by U.S.," *Financial Times*, October 1, 2003. "Bush is Criticized at U.N. Over Iraq," *Washington Post*, September 24, 2003. "A Vague Pitch Leaves Mostly Puzzlement," *Washington Post*, September 24, 2003. "U.N. vote on Iraq 'Unlikely' to Produce Many Troops," *Financial Times*, September 17, 2003. "Bush's Plea for Iraq Aid Falls on Deaf Ears," *Financial Times*, September 25, 2003.

⁴⁵ Gerhard Shroder, "Germany Will Share the Burden in Iraq," *New York Times*, September 19, 2003.

⁴⁶ "Putin Ready to Help U.S. on Iraq," *Financial Times*, September 26, 2003.

September 22.⁴⁷ Annan suggested on October 2 that the U.N. might resume its political role if security improved and if a provisional Iraqi government was rapidly established. His reluctance to involve the U.N. under the terms proposed by a draft U.S. resolution appeared to short-circuit the draft which reportedly received a “tepid” response from diplomats.⁴⁸ Although the Administration considered dropping the effort entirely, negotiations continued and a new draft was unanimously approved by the Security Council on October 16.⁴⁹

Chiefly, Resolution 1511 authorizes establishment of a multinational force under unified, i.e. U.S., command and urges nations to contribute to it. It also calls on member states to contribute to training and equipping of Iraqi police and security forces. The resolution further urges members to support reconstruction and contribute to the donor conference. Apart from this language, there are several additional notable points. The resolution emphasizes the temporary nature of the authority exercised by the CPA and supports efforts to move toward Iraqi sovereignty. In this respect, it asks that the Governing Council provide by December 15 a timetable for the drafting of a new constitution and holding of elections. It provides the authority for the U.N. to play a greater role in Iraq reconstruction, especially in offering assistance in the political transition, but only “as circumstances permit,” a reference to existing security concerns. It notes that the Governing Council (and its ministers) “embodies the sovereignty of the State of Iraq during the transitional period.” It urges international financial institutions to “provide their full range of loans” to Iraq. The resolution presses for the establishment of the International Advisory and Monitoring Board that was supposed to be set up to monitor the Development Fund for Iraq, and it calls on countries to immediately transfer funds, i.e. mostly seized Iraqi assets, to the DFI.

In the end, it is unclear what impact the resolution will have on Iraq reconstruction. Most observers did not expect it to generate significant military or financial support. Following the vote, France, Russia, and Germany issued a joint statement that the resolution did not go far enough in pushing a greater U.N. role or a more rapid transfer of power to the Iraqis. They also announced they would not provide military or further economic aid.⁵⁰

Background on U.N. Role. The current debate on the role of the United Nations in post-war Iraq is a continuation of a discussion begun in March 2003 both within the U.S. Government and internationally. As the war ended, the U.S. position

⁴⁷ “U.N. Shifts More Relief Staff Out of Baghdad; Annan Move Seen as Blow to U.S. Bid for Support,” *Washington Post*, September 26, 2003.

⁴⁸ “U.S. Pushes Iraq Resolution at Security Council,” *Washington Post*, October 2, 2003. “New U.S. Text Wins Tepid Response,” *Financial Times*, October 2, 2003. “Annan Outlines Plan for U.N. Role in Iraq,” *Washington Post*, October 1, 2003. “Bush Officials See Long Road to Resolution,” *New York Times*, September 25, 2003.

⁴⁹ For the resolution, see [http://www.un.org/News/dh/iraq/IraqE_15oct.pdf].

⁵⁰ “Unanimous Vote by U.N.’s Council Adopts Iraq Plan,” *New York Times*, October 17, 2003. “Reluctant Yes Vote Aims to Bring Washington Back Into Fold,” *Financial Times*, October 17, 2003.

was that the U.N. may play a major role in humanitarian and other assistance, but should have no political authority. Secretary Powell suggested that the United States and its allies must play the “leading role” in post-war administration because it was they who took on the mission to establish democracy in Iraq. Some observers also argued that unilateral U.S. rule might make reconstruction “quicker and more efficient.” Administration officials, however, disagreed over the role of the U.N. Many in the State Department reportedly argued that a U.N.-run post-war Iraq would attract more financial support from the international community while being more acceptable to the Iraqis.⁵¹

A number of European leaders, including those of France and Germany, argued that administration of Iraq should be turned over as soon as possible to the United Nations.⁵² They argued that prolonged U.S. military control will be opposed by Iraqis and antagonize the Arab world. They supported a role for the U.N. such as it has had in Kosovo. They appeared reluctant to offer reconstruction assistance unless the U.N. was provided a lead role, and there was speculation that they would use the U.S. desire for a U.N. resolution ending sanctions as leverage to win support for a greater U.N. role in reconstruction.⁵³

The European position on the U.N. role was significantly strengthened by the persistent advocacy of British Prime Minister Blair. The issue, raised at the Belfast Summit on April 7-8 as it had been in previous talks between the Prime Minister and President Bush, resulted in a pledge that the U.N. would play a “vital role” in reconstruction. The President described the U.N. role as providing aid, channeling international donor contributions, and suggesting people to serve on the IIA.⁵⁴ The U.N. resolution submitted by the United States to the Security Council on May 9 appeared to match the President’s description, giving the U.N. a purely advisory role on assistance. The United States and Britain in the draft resolution supported the appointment of a U.N. Special Commissioner who would act as liaison between the U.N. and ORHA.

In part because Germany and France were much less inclined to appear as obstacles to U.S. intentions, the U.S. position was not strongly challenged.⁵⁵

⁵¹ “At United Nations, Yet Another Clash Looms Over Iraq,” *Washington Post*, March 26, 2003. “A Partnership for Iraq,” *Washington Post*, April 8, 2003. “Blair to Press Bush over U.N. Role,” *Financial Times*, March 26, 2003.

⁵² “Europeans Urge Key Role for U.N.,” *Washington Post*, April 5, 2003. “Antiwar Trio Says Iraq’s Future Is What Counts,” *Washington Post*, April 12, 2003.

⁵³ “US Should Bear Cost of Rebuilding, Says Berlin,” *Financial Times*, March 26, 2003. “Paris Plans to Regain Place on World Stage,” *Financial Times*, March 27, 2003. “Against France and Russia, Washington Tries to Curb U.N. Role in a Postwar Iraq,” *New York Times*, March 27, 2003. “Lifting of Sanctions Linked to U.N. Role,” *Washington Post*, April 18, 2003.

⁵⁴ “Blair to Press for New UN Resolution over Postwar Rule,” *Financial Times*, April 7, 2003. Transcript of Bush, Blair Press Conference, Belfast, April 8, 2003.

⁵⁵ “Berlin Backs End to Iraq Sanctions in Drive to Improve U.S. Relations,” *Financial Times* (continued...)

Subsequent negotiations only slightly strengthened the U.N. role.⁵⁶ The final resolution gave the United States the nearly complete control it sought over the administration of Iraq's reconstruction.

On May 22, 2003, the U.N. Security Council approved (14-0) resolution 1483 ending sanctions on Iraq.⁵⁷ It recognized the United States and United Kingdom as the occupying powers until an internationally recognized government is in place. It extended the Oil-for-Food program for six months, and transferred \$1 billion to establish a new Development Fund for Iraq. The Fund, the depository of future profits from the sale of oil, would finance reconstruction programs. It would be controlled by the coalition, but be monitored by an international advisory board and audited by independent accountants.

On May 23, Sergio Vieira de Mello, a Brazilian diplomat, was named U.N. Special Representative, and assumed a central role in coordinating U.N. humanitarian and reconstruction activities. He was credited with making the U.N. a more active player in the unfolding Iraqi political process than his formal role would suggest. On July 14, the U.N. announced it would soon send a team of experts to help prepare for elections expected to be held next year. Further, on July 18, in an assessment of the Iraqi situation, U.N. Secretary General Kofi Annan called for the coalition partners to quickly restore power to the Iraqis and produce a clear timetable leading to self-rule.⁵⁸ On August 14, the Security Council approved Resolution 1500 which established the United Nations Assistance Mission for Iraq (UNAMI). It also approved the U.S.-appointed Governing Council as a step in the direction of an internationally recognized sovereign government for Iraq.⁵⁹ On August 19, a bomb destroyed U.N. headquarters, killing Vieira de Mello and leading to the withdrawal from Iraq of more than two-thirds of the 300-member international U.N. staff.

Governance of Post-War Iraq

How Iraq is administered in the post-war period will strongly affect the outcome of U.S. assistance objectives and programs. Under the May 22 Security Council resolution, the United States and United Kingdom are recognized as "occupying powers," responsible for administration until a permanent, internationally recognized government is in place. Although U.S. officials have repeatedly stressed the desire to return the governance of Iraq to its people as soon as possible, there have been predictions, but no official deadlines, for completion of all U.S. objectives. On May

⁵⁵ (...continued)

Times, May 17, 2003.

⁵⁶ "New Revision is Offered for Draft of U.N. Plan," *New York Times*, May 20, 2003.

⁵⁷ For the full text, see [<http://www.un.org/News/dh/iraq/iraq-blue-res-052103en.pdf>].

⁵⁸ "Annan Wants Plan for Iraqi Self-Rule," *Washington Post*, July 19, 2003.

⁵⁹ For the full text, see [<http://ods-dds-ny.un.org/doc/UNDOC/GEN/N03/467/78/PDF/N0346778.pdf?OpenElement>].

9, Secretary Rumsfeld said that U.S. administration might take longer than a year.⁶⁰ Some, including a delegation of Senators returning from Iraq in July, had suggested that the nation-building effort may take years.⁶¹

As noted above, the United States has resisted recent calls from France and Germany for a rapid transfer of sovereignty to an Iraqi government. CPA Administrator Bremer currently envisions a seven-step process leading to transfer of sovereignty to the Iraqi people. The first three steps have already taken place: creation of the 25-member Governing Council which took place on July 13; naming by the Council of a committee to propose a plan for writing a constitution (August 12); and appointment of 25 ministers to run the government (September 3). The final four steps are drafting a constitution; ratifying the constitution by the Iraqi people; electing a government; and transferring power from the coalition authority to the new government.⁶² On September 25, Secretary Powell set a deadline of six months for Iraqis to write a new constitution. Some Governing Council members, however, believe this is too short a time, because the committee to determine how the constitution is written has been unable to agree on a recommendation and has missed a September 30 deadline for reaching a decision.⁶³ A Shiite-backed proposal to elect members of a constitutional convention threatens to delay the process even longer.⁶⁴ The October Security Council resolution asks the Governing Council to provide a timetable by December 15 for drafting the new constitution and holding of elections.

Throughout the summer, the CPA-handpicked Council, fractured along ethnic and religious lines, had been encouraged by the CPA to move forward with its appointments of the cabinet and preparatory committee for the constitution. Although decisions of the Council and the cabinet must ultimately be approved by Bremer, the Council has increasingly taken steps independent of the CPA, including approving a law on de-Baathification and announcing it publicly before the CPA could respond.⁶⁵ Several individual members of the Council pressed the CPA to turn over sovereign power to the Council, thereby making more difficult the U.S. position in discussions regarding a new U.N. resolution.⁶⁶ Further, the Governing Council is said to be unanimously opposed to the use of Turkish troops as peacekeepers. In opposition to the CPA, the Council is supporting the merging of existing party

⁶⁰ "Occupation of Iraq Has No Time Limit," *Washington Post*, May 10, 2003.

⁶¹ "After Tour, Senators Warn U.S. Is Spread Thin in Iraq," *New York Times*, July 4, 2003.

⁶² L. Paul Bremer. "Iraq's Path to Sovereignty," *Washington Post*, September 8, 2003.

⁶³ "Powell Gives Iraq 6 Months to Write New Constitution," *New York Times*, September 26, 2003. "Iraqis Call U.S. Goal on Constitution Impossible," *Washington Post*, September 30, 2003.

⁶⁴ "Iraq Occupation Faces New Challenge," *Washington Post*, October 21, 2003.

⁶⁵ "Iraqi Council's Path Diverges From U.S. Path," *Los Angeles Times*, September 20, 2003. "Iraq Leaders Seek Greater Role Now in Running Nation," *New York Times*, September 27, 2003.

⁶⁶ At least one member has publicly supported the U.S. position, however. "Warning on Swift Self-Rule Timetable," *Financial Times*, September 22, 2003.

militias into a security force under the Ministry of the Interior.⁶⁷ For discussion of the internal politics of Iraq, see CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-War Governance*.

Reconstruction Implementation

Since his appointment in early May, civilian administrator Bremer has taken steps to demonstrate U.S. control and its intention to “remake” Iraq. Among these were the appointment of the Governing Council noted above. Although an Iraqi cabinet is now in place to run the government, one or more U.S. advisers are attached to each of the 25 Iraqi ministries to provide technical expertise.⁶⁸

On July 7, 2003, Bremer announced a \$6.1 billion budget for Iraq through the rest of 2003. This amount is derived from future Iraqi oil sales, frozen and seized assets, and U.S. assistance. Aside from normal operational costs, the budget includes funds for what Mr. Bremer described as “key priorities”: the improvement of security and justice (\$233 million, 4% of the total), electricity (\$294 million, 5%), construction (\$257 million, 4%), health (\$211 million, 3.5%), water and sewerage treatment (\$73 million, 1%), and telecommunications (\$150 million, 2.5%).⁶⁹ These priorities are reflected again in the CPA’s more long-term plans as indicated in its justification of the \$20.3 billion FY2004 supplemental request.⁷⁰ If its full request is met, it would spend \$5 billion on security and justice concerns, including training for the police, army, and other security forces. Infrastructure rehabilitation in a wide range of sectors accounts for nearly \$15 billion of the request. Technical assistance and small-scale grants in such areas as civil society, microenterprise, education, and policy reform make up only a small portion of the request, but, much less costly than infrastructure and security, are likely to be funded out of the Iraq budget, already appropriated U.S. funds, and contributions from other donors.

Actual reconstruction project work on the ground is well underway, but there is no report card measuring the degree to which U.S. reconstruction objectives are being met nationwide. Anecdotal accounts from USAID and government officials, provide a generally positive picture. The dredging operation at the port of Umm Qasr, necessary to allow import of relief and reconstruction materiel and to enable oil exports to flow, has been completed. Neighborhood councils, intended to determine priorities and implement small projects, have been established in 88 Baghdad locations and are being set up in 14 other places throughout the country.

⁶⁷ “U.S. Resists Iraqi Proposal to Merge Party Militias,” *Financial Times*, October 11, 2003. “Iraqi Leaders Condemn Plan for Troops From Turkey,” *New York Times*, October 9, 2003.

⁶⁸ For example, Walter Slocombe (former DOD official) advises the Defense Ministry; Peter McPherson (former USAID Administrator) and David Nummy (Treasury), the Finance Ministry; Robert Reilly (formerly with VOA), the Information Ministry, and Robert McKee, the Oil Ministry.

⁶⁹ “Bremer Announces Iraq’s 2003 National Budget,” *Washington File*, July 7, 2003. *Republic of Iraq: Budget Revenues and Expenses 2003 July-December*, CPA.

⁷⁰ *Coalition Provisional Authority Request to Rehabilitate and Reconstruct Iraq*, Office of the CPA, September 23, 2003.

USAID grants are being provided to meet identified community needs. Sixteen of the 25 ministries have been rehabilitated and reequipped. School materials are being provided, schools inventoried, and hundreds of schools renovated. All schools opened in October. A broad range of economic policy reform efforts are being launched. These and many other reconstruction activities are countered by reports in the press of slow and ineffective implementation.⁷¹

While most reconstruction activities provide needed infrastructure and services, some far-reaching economic and political policy reforms are likely to stir controversy in Iraq, especially as they are viewed as imposed by an occupying administration. In a move to establish an open and free market economy, on September 21, the new Iraqi finance minister announced new laws signed by Ambassador Bremer abolishing all curbs on foreign direct investment except in natural resources. Like donor assistance and oil income, foreign investment would be a way to obtain revenue to meet development needs and stimulate the economy. However, security concerns are likely to prevent significant investment at this stage, no matter how appealing the terms offered. Further, nationalist sentiment in Iraq as in other Arab countries has in the past severely restricted foreign ownership, and investors would have to wonder whether a future Iraqi government might restore restrictions. Already several members of the Governing Council have criticized the reforms as announced by the Finance Minister, while being careful not to attack the CPA itself. According to the *Financial Times*, the reforms are “near universally unpopular,” Iraqi businessmen and unions fearing they would be unable to compete.⁷²

Reconstruction Contract Issues. Reconstruction of Iraq is expected to cost billions of dollars and utilize the services of dozens of U.S. and international companies and NGOs. As a result, government agencies implementing these programs have been besieged by expressions of interest from potential contractors.⁷³

⁷¹ “Heard the Good News From Baghdad?” *Washington Post*, October 5, 2003. Thomas Friedman, “The Least Bad Option,” *New York Times*, October 12, 2003. USAID Iraq Management Team Sectoral Factsheets, September 16, 2003. *Iraq Reconstruction and Humanitarian Relief*, Weekly Update Number 2, USAID, October 7, 2003. “Crossed Wires Deprived Iraqis of Electric Power,” *Washington Post*, September 25, 2003. “Reconstruction,” *Financial Times*, October 23, 2003. “For Hussein’s Ouster, Many Thanks, but Iraqis are Expecting More,” *New York Times*, October 23, 2003.

⁷² “Governing Council Hits at Minister Over Business Reform,” *Financial Times*, September 25, 2003. “Iraq Offering Laws to Spur Investment From Abroad,” *New York Times*, September 21, 2003. “Economic Overhaul for Iraq,” *Washington Post*, September 22, 2003.

⁷³ For information on contract solicitations and business opportunities in Iraq, see the following websites: [<http://www.cpa-iraq.org/>], the Coalition Provisional Authority; [<http://www.export.gov/iraq/>], the Department of Commerce (DOC) Iraq Reconstruction Task Force; [<http://www.usaid.gov/iraq/activities.html>], USAID’s Iraq Reconstruction effort; and [<http://www.hq.usace.army.mil/cepa/iraq/iraq.htm>], website of the U.S. Army Corps of Engineers, the Army branch most directly involved in reconstruction activities on the ground in Iraq to date; and [<http://www.policemission.com>], the site for recruiting of police trainers under the State Department-managed, DynCorp-implemented project. Companies interested in sub-contracting under any of the USAID projects should contact

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Continuing security and other concerns in the unpredictable Iraqi environment may pose problems for firms interested in reconstruction work.

The main contracting agencies for relief and reconstruction activities are the Army Corps of Engineers, which is responsible for oil well repair and maintenance; the Department of State, which is handling police training; and the Agency for International Development (USAID), which is managing the widest range of economic, social, and political development programs. To date, USAID has awarded contracts in seaport and airport administration, capital construction, theater logistical support, public health, primary and secondary education, personnel support, local governance, agricultural development, and higher education.⁷⁴ It has also requested submission of proposals for a second phase of infrastructure reconstruction. Increasingly, the CPA itself is directly soliciting bids for contracts — for equipment and projects — bypassing traditional government channels for related procurement. The *Wall Street Journal* has reported that there are plans for all future contracts to be awarded and managed through a new DOD-run Project Management Office in Baghdad.⁷⁵

An Administration decision applied to the early reconstruction contracts to waive the normal competitive bidding requirements and request bids from specific companies which were seen to have preexisting qualifications received considerable attention by the business community. The closed bidding and lack of transparency disturbed a number of legislators, and some Members of Congress asked the GAO to determine whether contracting agencies are following appropriate procedures.⁷⁶ U.S. officials explained that only a few select firms possess the particular skills that would qualify them for the job specifications for Iraq reconstruction, and that time and security clearances were also critical factors. Foreign entities, potentially excluded by “buy America” provisions of law, and other U.S. firms, they noted, could participate as sub-contractors to the selected American firms. Sub-contractors are likely to compose half or more of the total cost of each contract. Ambassador Bremer has said that all future contracts will be competitively solicited.⁷⁷ Both

⁷³ (...continued)

the winner of the award. For example, construction-related companies can register at [<http://www.bechtel.com>].

⁷⁴ Stevedoring Services of America was selected for seaport administration; International Resources Group for personnel support; Creative Associates for primary and secondary education; Research Triangle for local governance; Bechtel for capital construction; the Air Force Contract Augmentation Program for theater logistical support; ABT Associates for public health; SkyLink Air for airport administration, and Development Alternatives for agricultural development. Grants were also provided to UNICEF for water and sanitation services, WHO for health system strengthening, and several university consortia for higher education development.

⁷⁵ “Pentagon-run Bureau Set to Oversee Rebuilding Iraq,” *Wall Street Journal*, October 14, 2003.

⁷⁶ “‘Open’ Contest Pledged for Iraq Subcontracts,” *Washington Post*, April 18, 2003.

⁷⁷ “Insiders’ New Firm Consults on Iraq,” *New York Times*, September 30, 2003.

House and Senate versions of the FY2004 emergency supplemental contain provisions that restrict the use of non-competitive contracting.

Seeking to encourage economic growth and decrease unemployment, the CPA is making special efforts to insure that Iraqi business has an opportunity to participate in contracts, including putting contract solicitations on its website and appointing business liaison representatives. Bechtel reportedly has provided 102 of 140 subcontracts to Iraqi businesses, thereby providing employment to 40,000 Iraqis.⁷⁸

In particular, it was the sole source contract for oil well repair provided to Kellogg Brown and Root, a subsidiary of Halliburton, whose former chief executive is Vice-President Cheney, that was and continues to be the focus of some media attention, raising concerns of favoritism and reinforcing suspicions that the war was fought for oil. The repair work, conducted by KBR for the Army Corps of Engineers, was valued at \$948 million as of early September. With the war over, the Corps announced that remaining oil repair work would be competitively bid. However, KBR continues to carry out work orders pending a delayed decision on two new contracts worth up to \$500 million each.⁷⁹ Favoritism concerns have persisted as press reports appear regarding well-connected lobbyists seeking to profit from the reconstruction effort.⁸⁰

Criticism of Reconstruction

There has been a chorus of criticism — from American soldiers, coalition partners, analysts, NGOs, U.S. policymakers, and the media — regarding the way in which the reconstruction effort is being carried out. In early July, the Administration itself requested that a team of specialists examine Iraq reconstruction with a critical eye. The resulting report warned that the “window for cooperation may close rapidly” if progress is not made on security, delivery of basic services, and providing opportunity for political involvement. U.S. officials indicated they would take the report’s recommendations seriously.⁸¹ Subsequent incidents demonstrating the continued failure of security, such as the August U.N. headquarters bombing, and slow pace of reconstruction appear to have led the Administration to request its \$20.3 billion supplemental in order to address pressing security and infrastructure concerns and accelerate the political process. However, some Administration officials, Vice-

⁷⁸ “Companies Get Few Days To Offer Bids On Iraq Work,” *New York Times*, October 19, 2003.

⁷⁹ “Bush Seeks \$2.1 Billion More for Iraqi Oil Industry,” *New York Times*, September 13, 2003. “Halliburton’s Deals Greater Than Thought,” *Washington Post*, August 28, 2003. “Halliburton’s Iraq Role is Expanded to Oil Products Distribution,” *Financial Times*, May 8, 2003, “Halliburton Contracts Total \$50 million,” *Financial Times*, April 12, 2003, “U.S. to Request Bids for Work on Oil Fields,” *Washington Post*, April 15, 2003. “Halliburton’s Links Sharpen Bids Dispute,” *Financial Times*, March 27, 2003

⁸⁰ “Lobbyists Set Sights on Money-Making Opportunities in Iraq,” *Washington Post*, October 2, 2003. “Insiders’ New Firm Consults on Iraq,” *New York Times*, September 30, 2003. “The Iraq Reconstruction Bonanza,” *New York Times*, October 1, 2003.

⁸¹ John Hamre, and others. *Iraq’s Post-Conflict Reconstruction: A Field Review and Recommendations*, July 17, 2003.

President Cheney most notably, have insisted that there is no reason to “think that the strategy is flawed or needs to be changed.”⁸²

Disparate critical views can be categorized and summarized as follows:

Inadequate Security. Lack of security and order continues to threaten reconstruction efforts, including supply of electrical power, oil resources, and movement of assistance personnel. As a result, many Iraqis have been angered and alienated by the occupation. Critics point to a lack of readiness on the part of the U.S. military to anticipate security needs and provide support to reconstruction implementors and call for an increase in force deployment, including international help. Some also criticize the early decision of the CPA administrator to disband the Iraqi military as contributing to the initial disorder.⁸³

Slow Establishment of Iraqi-Led Governance. Perhaps as important to many critics as the lack of order has been the slow pace of forming an Iraqi authority which could provide Iraqis with a sense of ownership in the reconstruction and democratic processes. Until September, foreign aid workers had no counterpart in the Iraqi ministries able to make decisions that might advance reconstruction. Appointed, instead of elected or chosen by an Afghan-like national assembly, the Governing Council will have to establish its legitimacy in the eyes of Iraqis and the international community to be fully effective — members are already disputing CPA decisions. Until the Council is embraced by Iraqis, however, serious policy decisions likely to be made by it and the CPA, such as on liberalization of the economy and privatization of state-owned enterprises, may have little long-term legitimacy and support.⁸⁴

Too Fast Establishment of Iraqi-Led Governance. Conversely, some analysts argue that the pace of self-governance may now be too hurried, driven by the timetable of the U.S. presidential election or the need to appease Europeans to obtain Security Council and financial support rather than Iraqi needs. They argue that time must be allowed for democratic institution building.⁸⁵ Some U.N. officials have reportedly questioned the need for a deadline on approving a constitution, noting that a legitimate process might take longer.⁸⁶

⁸² “Bush Team Stands Firm on Iraq Policy,” *Washington Post*, September 15, 2003.

⁸³ “Iraqis’ Bitterness is Called Bigger Threat Than Terror,” *New York Times*, September 17, 2003. “Priorities for Rebuilding Iraq,” *Financial Times*, June 26, 2003. “Two-Way Street on Iraq,” David Ignatius in *Washington Post*, July 4, 2003. “Wolfowitz Concedes Iraq Errors,” *Washington Post*, July 24, 2003. “Free Advice to G.O.P.,” Thomas Friedman in *New York Times*, October 23, 2003.

⁸⁴ “Unrest Grows Over Rebuilding Iraq,” *Financial Times*, June 25, 2003. “Give Iraqis a Say in Running Their Country,” David Phillips in *Financial Times*, July 10, 2003.

⁸⁵ Thomas Carothers in “It’s Too Soon for Democracy,” *Washington Post*, July 20, 2003. “Rumsfeld’s Myopia,” *Washington Post*, September 30, 2003.

⁸⁶ “U.N. Queries U.S. Call for Iraq Constitution,” *Financial Times*, September 27, 2003.

Preventing the U.N. and International Community from Playing a Major Role. As noted earlier, the Administration has sought to keep control of post-war reconstruction in U.S. hands, rather than internationalizing it as had been done in Kosovo and Bosnia. Critics assert that were the U.N. in a position of greater responsibility, it would deflect Iraqi criticism of the United States, legitimize occupation policies, and encourage financial and peacekeeping participation by bilateral donors. Some Members of Congress have criticized the current *modus operandi* because of the financial cost and strain put on the U.S. military. Senator Hagel has urged, “We need to internationalize this as quickly as we can.” Donors, reportedly, have been unresponsive to U.S. pleas for either military or financial assistance, partly because they are not being offered a “seat at the table” in determining the future of Iraq.⁸⁷

Inadequate Civilian Administration. Though a part of the Department of Defense, the civilian reconstruction effort led by ORHA, some assert, was never given sufficiently high priority by the Department’s leaders to receive the security and technical support it needed to be effective. Its successor, the CPA, has also been described as understaffed, lacking experience and knowledge of the country, and too isolated from the Iraqi people (with headquarters in a former palace and requiring a military bodyguard when they venture outside).⁸⁸ Early on, a British official was quoted as saying of the CPA, “this is the single most chaotic organization I have ever worked for.”⁸⁹ Some suggest that post-war planning, although begun as long ago as November 2002, was inept. In its defense, Administration officials argue that they were planning for a humanitarian crisis that never came, and had not expected the problems with reconstruction that they did encounter.⁹⁰

Excessive Reliance on the Military. For some, placing control of reconstruction in the hands of the Pentagon led to the shutting out of those parts of

⁸⁷ Senator Hagel quoted in “U.S. to Form New Iraqi Army,” *Washington Post*, June 24, 2003. “Reluctance to Share Control in Iraq Leaves U.S. On Its Own,” *Washington Post*, September 28, 2003. “Trapped in Vicious Circles in Iraq,” *Financial Times*, July 2, 2003. “Washington Struggles to Top Up Allied Force in Iraq,” *Financial Times*, July 3, 2003. “Facing Reality in Iraq,” *Washington Post*, July 8, 2003. “Kerry Raps Bush Policy on Postwar Iraq,” *Washington Post*, July 11, 2003. “Getting Help in Iraq,” *Chicago Tribune*, July 17, 2003. “American Needs Europe to Win Peace in Iraq,” Robert Hunter in *Financial Times*, July 21, 2003.

⁸⁸ “Iraq Leaders Seek Greater Role Now in Running Nation,” *New York Times*, September 27, 2003.

⁸⁹ “America’s Rebuilding of Iraq Is in Chaos, Say British,” *London Daily Telegraph*, June 17, 2003. “Open War Over, Iraqis Focus on Crime and a Hunt for Jobs,” *New York Times*, September 16, 2003.

⁹⁰ “Bush Never Made Serious Postwar Plans,” Trudy Rubin in *Philadelphia Inquirer*, June 26, 2003. “With Troops Under Fire and the Costs Mounting, Does the U.S. Have the Will for the Long Haul in Iraq?,” *Financial Times*, June 30, 2003. “U.S.-Led Occupation in Iraq Called ‘Stumbling Block’ to Entrepreneurs,” *Washington Times*, June 18, 2003. “We’re Getting in Our Own Way,” *Washington Post*, June 22, 2003. “Appoint the Best to Iraq, Not the Best-Connected,” Michael Massing in *Washington Post*, July 6, 2003. “Unrest Grows Over Rebuilding Iraq,” *Financial Times*, June 25, 2003.

the government familiar with development and cultural concerns whose advice might have avoided some of the problems associated with the first months of the occupation. For example, the State Department's 2002 Future of Iraq Project utilizing dozens of Iraqi experts to anticipate post-war concerns, including the possibility of widespread looting, reportedly was studiously ignored by DOD.⁹¹ As a result of the October shake-up in coordination of Iraq policy, the State Department is expected to greatly increase its representation in the CPA, growing from 55 to 110 staff.⁹²

Although actual reconstruction is inherently a civilian effort, in Iraq much of its early stages were implemented by military personnel. Prior to the war, it was anticipated that the military would fill some initial humanitarian needs — a role the military has played to some degree in other crises. In part because the reconstruction phase of assistance arrived earlier than expected, military civil affairs teams have been making decisions at the grassroots level regarding election of local councils, selection of community leaders, prioritization of needs, and other reconstruction activities. Some assert that these are roles for which they have not been prepared and which emphasize to the Iraqi people the “occupation” character of the U.S. presence. Some critics suggest that a corps of civilian reconstruction specialists should have been deployed around the country.⁹³ Along these lines, the July 17 Assessment Mission report recommended that 18 provincial CPA offices should be established in Iraq, with 20-30 staff in each.⁹⁴

Wasted Funds and Overpriced Contractors. A number of accounts, whose accuracy is not known, have emerged recently suggesting that U.S. and Iraqi funds are being squandered. For example, a congressional delegation was reportedly told that a cement plant's renovation, estimated to cost \$15 million by U.S. engineers, was repaired by Iraqis for \$80,000.⁹⁵ 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.”⁹⁶ Halliburton subsidiary KBR has been challenged recently for receiving \$300 million for importing 190 million gallons

⁹¹ *Iraq: Truth, War, and Consequences*, PBS Frontline, October 9, 2003, [<http://www.pbs.org/wgbh/pages/frontline/shows/truth/fighting/turfwar.html>].

⁹² “State Dept. Study Foresaw Trouble Now Plaguing Iraq,” *New York Times*, October 19, 2003. “Rice to Lead Effort to Speed Iraq Aid,” *Washington Post*, October 7, 2003.

⁹³ “‘Weakness’ in the White House,” *Financial Times*, September 15, 2003. “U.S. Urged to Modify Approach to Postwar Iraq,” *Washington Post*, September 24, 2003. “Inexperienced Hands Guide Iraq Rebuilding,” *Washington Post*, June 25, 2003. “Washington Needs a Colonial Office,” Max Boot in *Financial Times*, July 3, 2003. “British Refuse to Adopt U.S. Peace Tactics,” *London Sunday Times*, June 22, 2003.

⁹⁴ John Hamre, and others. *Iraq's Post-Conflict Reconstruction: A Field Review and Recommendations*, July 17, 2003, page 5. Testimony of Brian Atwood to Senate Foreign Relations Committee, September 23, 2003.

⁹⁵ Representative Henry Waxman, letter to Joshua Bolten, Director of OMB, September 26, 2003.

⁹⁶ “Iraqis Say U.S. Occupation Authority Misspends Million in its Awarding of Contracts,” *New York Times*, October 4, 2003.

of gasoline and other fuels into Iraq — \$1.57 per gallon — compared to the “between 90 cents and 98 cents per gallon” Iraq’s State Oil Marketing Organization says it pays to buy and transport oil to Iraq.⁹⁷ Many expenditures proposed by the CPA in its FY2004 supplemental request have been questioned by Members of Congress, and both House and Senate versions of the legislation reduced or eliminated programs deemed inappropriate or excessively costly.

Lack of a Clear and Open Strategy. The Administration has been criticized for a lack of openness regarding its plans for the reconstruction process, negatively impacting Iraqi trust in the CPA and support for reconstruction aid by the American people. Some attribute problems in reconstruction to “secretive decision-making by the Defense Department civilians who led the planning,” or to a lack of coordination between U.S. government agencies responsible for reconstruction.⁹⁸ Indecision and changes of mind regarding reconstruction policy have been common.⁹⁹ There has been no clear plan for a long-term process leading to final Iraqi government control.¹⁰⁰ The recent formation of an Iraq Stabilization Group in the White House is designed to address coordination concerns. Formation of a long-delayed International Advisory and Monitoring Board to audit Development Fund for Iraq expenditures may help with Iraqi and international concerns regarding a lack of transparency by the CPA.¹⁰¹

On the domestic front, Members of Congress have long complained about the failure of the Administration to provide a clear accounting of anticipated costs and plans for the future of Iraq.¹⁰² For example, there is no publicly available report of planned budgets, obligations, and expenditures from all agencies undertaking reconstruction work. Reporting requirements in House and Senate versions of the FY2004 supplemental may help address these concerns.

⁹⁷ “Halliburton Defends Markup on Oil for Iraq,” Washington in Brief, *Washington Post*, October 22, 2003. “Price of Gasoline for Iraq Questioned,” *Washington Post*, October 16, 2003.

⁹⁸ “White House Admits to Mistakes in Iraq,” *Financial Times*, September 15, 2003. “Wolfowitz Concedes Iraq Errors,” *Washington Post*, July 24, 2003.

⁹⁹ “U.S. Urged to Modify Approach to Postwar Iraq,” *Washington Post*, September 24, 2003. “Reconstruction,” *Financial Times*, October 23, 2003.

¹⁰⁰ Brian Atwood, Testimony. Senate Foreign Relations Committee, September 23, 2003.

¹⁰¹ *Keeping Secrets: America and Iraq’s Public Finances*, Iraq Revenue Watch, Open Society Institute, October 2003. *Iraq: the Missing Billions*, Christian Aid, October 23, 2003.

¹⁰² “Getting Back on Track in Postwar Iraq,” Joseph Lieberman in *Washington Post*, July 7, 2003. “Struggle for Democratic Iraq May Be Long and Costly, Says Senator,” *Washington File*, June 30, 2003. “Facing Reality in Iraq,” *Washington Post*, July 8, 2003.