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

**Updated March 23, 2005**

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# 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 (IRRF) in the FY2003 Supplemental Appropriation. On November 6, 2003, the President signed into law P.L. 108-106, the FY2004 Emergency Supplemental Appropriation, providing \$18.4 billion for Iraq reconstruction. Contributions pledged at the October 24, 2003, Madrid donor conference by other donors amounted to roughly \$3.6 billion in grant aid and as much as \$13.3 billion in possible loans.

On February 14, 2005, the President sent a supplemental appropriations request to Congress that would, among other items, provide an additional \$5.7 billion for the training and equipping of Iraqi security forces. Funds would be controlled by the Secretary of Defense in a new Iraqi Security Forces Fund rather than provided through the State Department-managed IRRF, as is currently the case. The House approved the measure on March 16.

On June 28, 2004, the entity implementing assistance programs, the Coalition Provisional Authority (CPA), dissolved, and sovereignty was returned to Iraq. Security Council Resolution 1546 of June 8, 2004, returned control of assets held in the Development Fund for Iraq to the government of Iraq. U.S. assistance is now provided through the embassy of the United States under Ambassador John Negroponte.

Many reconstruction efforts on the ground are underway, but security concerns have slowed progress considerably. Most reconstruction funding is targeted at infrastructure projects — roads, sanitation, electric power, oil production, etc. Aid is also used to train and equip Iraqi security forces. A range of programs are in place to offer expert advice to the Iraqi government, establish business centers, rehabilitate schools and health clinics, provide school books and vaccinations, etc. However, of the \$18.4 billion appropriated by Congress in October 2003, only \$11.8 billion had been obligated and \$4.0 billion spent by mid-March 2005. Congress approved on September 29 an Administration-proposed re-allocation of \$3.5 billion in previously appropriated reconstruction funds to give greater emphasis to security, employment generation, and debt relief.

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

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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. The report will be updated as events warrant.<sup>1</sup>

## Funding for Reconstruction

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 introduce economic reform and democratic government to post-war Iraq. The best available estimates of the eventual cost of this Iraq reconstruction are provided in an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy. Prepared for the benefit of the international donors conference held in Madrid on October 23-24, 2003, it established the targets by which the adequacy of available resources 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. Combined World Bank and CPA projected reconstruction costs through 2007 amount to \$55 billion.<sup>2</sup>

Several potential “spigots” are available to fund Iraq reconstruction. U.S. foreign aid appropriations were provided in FY2003 and FY2004 in two emergency supplemental bills specifically for Iraq. International donors have also made aid contributions. Iraqi funds, mostly derived from oil export profits, have been employed largely to cover the “normal” operating costs of the Iraqi government, but, where sufficient amounts are available, have been used to address reconstruction needs. Additionally, the reduction or rescheduling of Iraqi debt repayments makes further resources available. These sources of reconstruction funding are discussed below.

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

<sup>2</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>].

**Table 1. U.S. Appropriations for Iraq Relief and Reconstruction**

(\$ millions)

Appropriations	FY2003	FY2004	FY2005	Total
<b>Iraq Relief and Reconstruction Fund</b>	<b>2,475.0</b> (of which 2,475.0 obligated 1/5/05)	<b>18,439.0</b> (of which 11,761.0 obligated 3/16/05)	—	<b>20,914.0</b>
DOD - Oil Repair	802.0	—	—	802.0
DOD - Iraq Army	51.1	—	—	51.1
DOD - CERP	—	140.0	218.0	358.0
Other Agency Funds	478.2	—	—	478.2
<b>Total U.S. Reconstruction Assistance</b>	<b>3,806.3</b>	<b>18,579.0</b>	<b>218.0</b>	<b>22,603.3</b>
CPA/Embassy Operating Expenses	573.7	973.3	—	1,547.0

**Sources:** Section 2207 Report to Congress Pursuant to P.L. 108-106, Jan. 2005; CPA Inspector General, Report to Congress, Pursuant to P.L. 108-106, Jan. 30, 2005; Department of State Working Papers: *Iraq Weekly Status*, Mar. 16, 2005; and CRS calculations.

## U.S. Assistance

In the FY2003 Emergency Supplemental (P.L. 108-11, H.R. 1559/H.Rept. 108-76), signed on April 16, 2003, \$2.48 billion was appropriated for 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, education, and rule of law. The legislation gave the President control over the Fund, and amounts could 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 FY2004 Emergency Supplemental (P.L. 108-106, H.R. 3289/H.Rept. 108-337), signed on November 6, added \$18.4 billion to the IRRF and allowed funds to go directly to the CPA in addition to the above named agencies. While earlier funds had been used to support a broad range of humanitarian and reconstruction efforts, the FY2004 appropriation was largely intended to have an immediate impact on the two greatest reconstruction concerns raised since the occupation of Iraq began — security and infrastructure.

The reconstruction funds were provided entirely as grants, after the Administration threatened to veto any measure that provided aid in the form of loans. The legislation established an Inspector General office to monitor the use of funds

by the CPA, and included extensive reporting requirements regarding expenditures, projects, and other sources of revenue. The bill also provided \$983 million for operating expenses of the CPA.

On September 14, 2004, the Administration asked Congress to approve a significant re-allocation of \$3.46 billion of the \$18.4 billion (see **Reconstruction Priorities** below). Because the desired changes were greater than the supplemental's restriction on how much a specific sector — such as security or health — could be increased (no more than 20%) or decreased (no more than 10%) from the original congressional allocation, a simple notification to the appropriations committees was insufficient. Requiring legislative action in order to accommodate the President's re-allocation plan, Congress included such authority in the FY2005 Continuing Resolution (P.L. 108-309).

Although the IRRF accounts for most U.S. reconstruction aid to Iraq, funds have been drawn from other accounts for related purposes. Department of Defense appropriations were used to cover the FY2003 operational expenses of the CPA and have gone to pay part of the costs for repair of Iraq's oil infrastructure, for training of the Iraqi army, and toward the Commanders Emergency Response Program (CERP). In addition to drawing from the IRRF, USAID has used its own funds to pay for humanitarian programs in Iraq. The FY2005 Defense Appropriations, signed into law (P.L. 108-287, H.R. 4613) on August 5 makes available up to \$300 million in additional funding for the CERP.

## **FY2005 Supplemental and FY2006 Foreign Operations Appropriations Requests**

In February, the Administration made two separate requests to Congress for additional appropriations to fund Iraq reconstruction programs.

**FY2005 Supplemental Request.**<sup>3</sup> The \$75 billion FY2005 emergency supplemental request includes several reconstruction-related items, including \$690 million for costs associated with the U.S. Mission in Iraq, \$24.4 million for USAID operating costs in Iraq, and \$2.5 million for USAID Inspector General costs in the country. The House approved a measure, H.R. 1268, providing for these items at the requested level on March 16.

The most significant reconstruction request is \$5.7 billion for a new DOD account — the Iraq Security Forces Fund — supporting the training and equipping of Iraqi security forces. The plan would be a departure from previous practice in which most security training funds were provided out of the Iraq Relief and Reconstruction Fund (IRRF). Policy responsibility for the IRRF, although originally held by the White House and delegated to the CPA (under DOD authority), has, since the end of the occupation in June 2004, belonged to the State Department. Moving authority for training back to DOD, for this one element of reconstruction aid which currently accounts for a third of total aid, may be controversial, especially with some

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<sup>3</sup> For further details, see CRS Report RL32783, *FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief, and Other Activities*.

foreign policy congressional committees. Under most military assistance programs — Foreign Military Financing, International Military Education and Training Program, the training of the Afghan army — State makes broad policy and DOD implements the programs. Perhaps adding to concerns, the pre-war decision to put DOD in charge of reconstruction policy, and in effect fence off the State Department from policy responsibility, has been a central element in explanations of the failures of occupation Iraq. The House bill adopts the President's formula but requires that the Iraq Security Forces Fund be made available "with the concurrence of the Secretary of State."

**FY2006 Foreign Operations Request.** In another departure from previous practice, the Administration is requesting Iraq reconstruction funds under the regular FY2006 budget instead of funneling requests exclusively through emergency supplementals. The total FY2006 request for Iraq is \$414 million, \$360 million of which is under the Economic Support Fund (ESF) account and is expected to be used for traditional development programs supporting democracy and governance, agriculture, and private sector growth. Another \$26.5 million has been requested under the International Narcotics and Law Enforcement (INCLE) account for activities in the justice and rule of law sectors, \$700,000 for International Military Education and Training (IMET), and \$27 million under the Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) account for anti-terrorism training. Many of these assistance activities are currently funded out of the IRRF.

## Oil Resources and Development Fund for Iraq

Efforts are being made to restore Iraq's oil production capacity. Oil exporting resumed in mid-June 2003, but oil production has been slowed by looting and sabotage. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with a pre-war rate of 2.5 million barrels/day, but as of mid-March stand at 2.09 million barrels/day. The target had been 2.8-3.0 million barrels/day by end of 2004.<sup>4</sup> In its September re-allocation of appropriations, the State Department transferred \$450 million from the emergency supply of oil to Iraqis to efforts to improve oil production infrastructure.

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

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<sup>4</sup> Department of State, *Iraq Status Weekly Working Papers*, March 16, 2005.

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

deposited. Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq now has control over use of DFI funds.<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 on November 22, 2003.<sup>7</sup> The CPA established a Program Review Board in June 2003 to prioritize and recommend how DFI resources were used. 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 detailed information 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.<sup>8</sup>

Many questions have been raised regarding the CPA's use and monitoring of DFI funds. Security Council Resolution 1483 (May 2003) required that an international advisory board to monitor the sale and use of oil be established, but at first the CPA opposed international institution efforts to create a system of "special audits" that would allow the board to look at any issue. CPA failure to establish the board led to international criticism, and Security Council Resolution 1511 (October 2003) recommended that the board be established as a priority and that the DFI should be "used in a transparent manner."<sup>9</sup> On October 21, 2003, 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. On March 24, the IAMB recommended installation of a metering system for oil extraction to prevent diversion, and criticized

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<sup>6</sup> Other Iraqi assets are also expected to be put in the DFI. On March 20, 2003, President Bush issued an executive order confiscating non-diplomatic Iraqi assets held in the United States. Of the total assets seized, an estimated \$1.74 billion worth were available for reconstruction purposes. Another \$926 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. Security Council Resolution 1511 urges member states to deposit seized assets in the DFI immediately.

<sup>7</sup> Since the end of the occupation, another \$9.4 billion, mostly oil revenues, has been added to the DFI. It pays for Iraqi government programs. CPA Inspector General, *Report to Congress*, Jan. 30, 2004, posted at [[http://www.cpa-ig.org/reports\\_congress.html](http://www.cpa-ig.org/reports_congress.html)].

<sup>8</sup> "\$1.9 Billion of Iraq's Money Goes to U.S. Contractors," *Washington Post*, August 4, 2004.

<sup>9</sup> Security Council Resolution 1511, October 16, 2003, para. 23. "Oil to Come Under Iraqi Control as U.S. Fails to Form Advisory Board," *Financial Times*, August 19, 2003; "Annan Deals a Blow to U.S. Draft Resolution," *Financial Times*, October 3, 2003.



the use of non-competitive bidding for contracts funded by the DFI.<sup>10</sup> Security Council Resolution 1546 (June 2004) determined that the IAMB should continue to exist after the turn-over of sovereignty with the addition of an Iraqi government-appointed full voting member.<sup>11</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>12</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>13</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 were critical of the contrast between the slow spending of U.S. funds and the rapid draw-down of the DFI.<sup>14</sup> A January 2005 audit by the U.S. Special Inspector General for Iraq Reconstruction (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>15</sup>

In addition, an October 2004 Pentagon audit of a KBR noncompetitive contract to import oil into Iraq found \$100 million in excess charges of \$875 million examined. Of the \$875 million, \$725 million are DFI funds, and \$72 million in U.S. appropriations. Although the Pentagon has agreed to an IAMB request that it

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<sup>10</sup> The IAMB website is at [<http://www.iamb.info/>]; IAMB, Press Release, March 24, 2004; "Monitoring Panel for Iraq Spending Yet to Start Work," *Financial Times*, February 5, 2004.

<sup>11</sup> Security Council Resolution 1546, June 8, 2004, para. 24.

<sup>12</sup> KPMG Audit dated June 29, 2004, available on-line 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>13</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>14</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>15</sup> *Audit of Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, Report No. 05-004, January 30, 2005, available at SIGIR website [<http://www.cpa-ig.org>].

conduct by this spring a special audit of all noncompetitive contracts funded out of the DFI, it reportedly is moving slowly to meet that request.<sup>16</sup>

## Iraqi Debt

The United States has sought to obtain support from creditors for Iraq debt relief. Iraq's debt, both public and private, is estimated at \$125 billion.<sup>17</sup> The United States has argued that any new Iraqi government should not be burdened with debts associated with the policies of its previous ruler and has supported a near total forgiveness of debt. Some large holders of Iraqi debt — France, Germany, and Russia for instance — have been 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>18</sup>

Several steps have led to a partial resolution of the debt issue. In December 2003, President Bush appointed former Secretary of State James Baker III as his personal envoy responsible for seeking a reduction in debt owed by Iraq. A series of meetings between Baker and the leaders of debt-holding countries in the winter of 2004 led to statements of support, but no firm commitment, for varying levels of relief. In September 2004, after the assumption of sovereignty by Iraq — a sovereign government can negotiate with creditors — Iraq cleared its overdue financial obligations to the IMF and gained access to \$436 million in IMF Emergency Post Conflict Assistance. This could make it easier for Iraq to reach agreement with private and government creditors. Further, Congress approved (P.L. 108-309) \$360 million to cover the costs of cancelling the roughly \$4 billion Iraqi debt obligation owed the United States — the U.S. debt was formally forgiven on December 17 (\$352.2 million was actually required for this purpose). These factors have 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. Under the agreement, 30% would be forgiven now, followed by another 30% after Iraq adopts a three-year IMF reform program, and a final 20% when the program is completed. See CRS Report RS21765, *Iraq: Paris Club Debt Relief*, for further details.<sup>19</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.

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<sup>16</sup> “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>].

<sup>17</sup> Based on Paris Club data. Does not include \$29 billion in unpaid Gulf War reparations. International Monetary Fund, *Iraq: Use of Fund Resources — Request for Emergency Post-Conflict Assistance*, September 24, 2004.

<sup>18</sup> “G-7 Agrees That Iraq Needs Help with Debt,” *Washington Post*, April 13, 2003; “Restructuring, Not Forgiveness,” *Financial Times*, April 15, 2003.

<sup>19</sup> “Major Creditors Agree to Cancel 80% of Iraq Debt,” *New York Times*, November 22, 2004.

donors.<sup>20</sup> The Madrid donor conference, held on October 23-24, 2003, produced a minimum total of \$13.6 billion in grant and loan reconstruction aid pledges from other donors. Of this amount, roughly \$3.0 billion is grant aid, including \$1.4 billion by Japan, \$452 million (in new funds) by the United Kingdom, \$220 million by Spain, \$236 million by the European Union (EU), \$200 million by South Korea, and \$236 million by Italy. In some cases, announced amounts include funds previously contributed. Between \$9.6 and \$13.3 billion in loans were offered, including \$3.5 billion by Japan, between \$3.0 and \$5.0 billion by the World Bank, between \$2.6 and \$4.3 billion by the IMF, and \$500 million by Saudi Arabia.<sup>21</sup>

Of the Madrid pledges, as much as \$1.1 billion has been disbursed bilaterally, most of it as a contribution to the IRFFI (see below).<sup>22</sup> A donor meeting held in Tokyo on October 13-14, 2004, agreed to make efforts to disburse already pledged funds more quickly. No commitment, however, was made by other donors to fulfill a U.S. request that they funnel financial support to the water, sewage, and electricity sectors which lost funding during the September 2004 re-allocation of U.S. resources.<sup>23</sup>

Japan, the second largest donor after the United States, and Britain have been notably active in providing bilateral assistance. Among other things, Japan has provided significant funding for electrical power station rehabilitation, water treatment units and tankers, medical equipment, and firetrucks and police vehicles. Britain has offered considerable technical assistance and related support for improvements in the justice system, governance, and economic policy.<sup>24</sup> On November 6, 2004, the EU pledged an additional \$21 million (not counted above), specifically to support the January elections, including funding for a U.N. force to provide voter protection.<sup>25</sup>

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>26</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

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<sup>20</sup> As of April 5, 2004. 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, [<http://www.reliefweb.int/w/rwb.nsf>].

<sup>21</sup> See "Iraq Pledges Roll In," BBC News, October 24, 2003.

<sup>22</sup> CPA Inspector General, *Report to Congress*, Jan. 30, 2004, p. 97.

<sup>23</sup> "Donors to Iraq Hope to Speed Aid Pledged," *New York Times*, October 15, 2004.

<sup>24</sup> Department of State, *2207 Report to Congress*, October 2004.

<sup>25</sup> "E.U. Pledges Aid to Iraq," *Washington Post*, November 6, 2004.

<sup>26</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.

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 January 2005, donors had committed and deposited about \$1 billion of already pledged assistance to the Facility. To date, the World Bank Fund has financed textbooks, school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>27</sup>

**Role of the United Nations.** In what was perceived by analysts as an about-face in policy, the Bush Administration began in early January 2004 to press the U.N. to return to Iraq and play an active role in the political transition. Since the dual bomb attacks in August and September 2003, Secretary General Kofi Annan had said that the U.N. would not return unless security was assured, its role was well-defined, and that the role was commensurate with the risks involved.<sup>28</sup> However, on January 27, 2004, he approved a “technical” mission, headed by U.N. Iraq envoy Lakhdar Brahimi, that ultimately led to a plan to appoint a transition government which was accepted by the United States and the Governing Council.<sup>29</sup> At the same time that envoy Brahimi was negotiating the transition to sovereignty, a U.N. team headed by Carina Perelli began working on assisting the Iraqi Electoral Commission with 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. Most of the U.N. work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities.<sup>30</sup>

The appointment on July 12, 2004, of Ashraf Jehangir Qazi as the new U.N. Special Representative to Iraq and the August 12 approval of U.N. Security Council Resolution 1557 extending the U.N. Mission for Iraq (UNAMI) for another year suggested a growing U.N. presence and activity in Iraq itself. However, Secretary Annan has cautioned that continuing violence would prevent it from undertaking a wide-ranging assistance program.<sup>31</sup> With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects, and Kofi Annan has proposed that the U.N. help with the constitution-writing process

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<sup>27</sup> CPA Inspector General, *Report to Congress*, January 30, 2005, Appendix G,

<sup>28</sup> “Wary Annan Set to Discuss a Possible U.N. Role in Iraq,” *Washington Post*, January 19, 2004.

<sup>29</sup> “Envoy Urges U.N.-Chosen Iraqi Government,” *Washington Post*, April 15, 2004; “Administration Split Over Role of U.N.,” *Washington Post*, February 18, 2004; “U.N. to Send Expert Team to Help in Iraq, Annan Says,” *New York Times*, January 28, 2004.

<sup>30</sup> “U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis,” *New York Times*, January 26, 2005.

<sup>31</sup> “‘Vicious Cycle of Violence’ Undermining U.N. Efforts to Rebuild Iraq,” *UN News Service*, September 14, 2004.

that is the next step in the transition.<sup>32</sup> To encourage U.N. involvement, the United States supports creation of a 4,000 member force to protect U.N. workers. Member states, however, have reportedly been reluctant to participate in such a force due to political and security considerations. On November 30, the Security Council asked the Secretary General to establish a trust fund account to finance a U.N. protection force in Iraq. The EU has pledged \$12 million for this purpose.<sup>33</sup>

## U.S. Aid Policy Structure on Iraq

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. The United States is continuing to provide an assistance program and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy under an Ambassador. Until mid-March, John Negroponte served as ambassador; a successor has not yet been named. The embassy is expected to employ about 1,000 U.S. and 700 Iraqi staff. A temporary Iraq Reconstruction Management Office (IRMO) has been created within the U.S. embassy to supplant CPA assistance efforts in setting requirements and priorities. It is headed by Ambassador William B. Taylor, Jr., the former Coordinator of U.S. Assistance to Afghanistan and, before that, Europe and Eurasia. The CPA's Program Management Office (PMO), although changing its name to the Project and Contracting Office (PCO), continues to be responsible for contract management and execution for the roughly \$11.3 billion dedicated to infrastructure construction and remains within the Department of Defense, but reports to the Department of State as well as to the Department of the Army. It is now headed by Charles Hess, the former PCO deputy.<sup>34</sup>

Immediate overall responsibility for management of U.S. military activity in Iraq belongs to General George Casey, Jr.. As commander of the multinational forces in Iraq, Casey is responsible for establishing a new relationship between coalition forces and the new Iraqi government and providing training and support to Iraqi security forces. He also serves as principal military adviser to the U.S. ambassador.

With the dissolution of the CPA which was under the Secretary of Defense, the Secretary of State assumes responsibility for assistance. Within the State Department, Robin Raphel is the coordinator for Iraq reconstruction. In February,

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<sup>32</sup> Kofi Annan, "How to Move Iraq Forward," *Washington Post*, February 12, 2005.

<sup>33</sup> "United Nations to Set Up Trust Fund for Iraq," *Washington File*, November 30, 2004. "U.S. and U.N. Are Once Again the Odd Couple Over Iraq," *New York Times*, November 14, 2004; U.N. Security Council Votes to Extend Mandate in Iraq," *Washington Post*, August 13, 2004; "Security Fears are Slowing U.N. Return to Baghdad," *New York Times*, August 6, 2004.

<sup>34</sup> The PCO and IRMO were established by a National Security Presidential Directive of May 11, 2004. See PCO website at [<http://www.rebuilding-iraq.net>].

new Secretary of State Condoleezza Rice sent a team of advisers to Iraq to assess U.S. activities in the country, including reconstruction and the use of U.S. assistance.<sup>35</sup>

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, has been redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the DOD Authorization for FY2005 (P.L. 108-375). The SIGIR is currently Stuart Bowen, Jr. The SIGIR office has about 36 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. In addition to audits and investigations, the SIGIR issued his first report to Congress on March 30, 2004 and has reported quarterly since then. The DOD Authorization extends the SIGIR beyond its originally mandated December 2004 expiration and grants operational authority until 10 months after 80% of the reconstruction funds have been obligated. The SIGIR reports to both the Secretary of Defense and State.<sup>36</sup>

## Security Concerns

The successful conduct of much reconstruction work is contingent on an environment of order and stability. Nearly two years since Operation Iraqi Freedom was launched, violence persists against both U.S. forces and Iraqis in the transition government. Among the effects of the continued instability has been an increase in reconstruction costs. Major pipelines have been sabotaged, shutting down oil exports. As a result, roughly \$887 million in export revenues were lost in the first quarter of this fiscal year. Last year, power was cut to more than 100 electrical lines, and nearly 1,200 electrical towers were felled. In the Sunni triangle, small-scale rehabilitation projects have been destroyed soon after completion. Ensuring security for project personnel has reportedly accounted for as much as 10-20% of the cost of reconstruction activities, draining funds from the purposes for which they were intended.<sup>37</sup>

The instability has frustrated implementation of reconstruction projects. The PCO reports that in central Iraq 16.5% of projects are delayed more than two weeks by security problems.<sup>38</sup> Fearing for their safety, many aid implementors have been withdrawn from the country — in the autumn CARE International, Doctors Without Borders, and the International Rescue Committee. U.N. and bilateral aid donors have

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<sup>35</sup> “Rice Sends Team to Assess Iraq Transition,” *Washington Post*, February 15, 2005.

<sup>36</sup> See [<http://www.cpa-ig.org/>] for reports and audits. CPA Inspector General, *Report to Congress*, January 30, 2005.

<sup>37</sup> State Department, 2207 Report to Congress, January 2005; Charles Hess, DOD News Briefing, December 15, 2004; “Insurgents Wage Precise Attacks on Baghdad Fuel,” *New York Times*, February 21, 2005; “Sabotage Cuts Power to More Than 100 Electrical Lines,” *New York Times*, June 11, 2004.

<sup>38</sup> SIGIR Report to Congress, January 30, 2005.

been reluctant to initiate projects of their own; many, including the U.N., are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.<sup>39</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. In a broader sense, prolonged insecurity has undermined the trust of the Iraqi people in U.S. leadership to bring about a democratic and economic transformation in Iraq, opening the door to further political discontent and opposition.<sup>40</sup>

Throughout the year, as security concerns continued to dominate the attention of policymakers, 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 and other factors. In the wake of the violence and hostage-taking, the Philippines, Honduras, and others withdrew their forces. Hungary and Portugal recently departed, and the Netherlands, Ukraine, Poland, and Italy have announced reductions or departures. President Bush's request that NATO provide forces was rejected at the G-8 summit in June 2004, but NATO agreed to help train 1,000 Iraqi troops and is likely to increase that amount. Although about a third of training positions are currently unfilled, all 26 NATO countries agreed to aid training at a meeting on February 22. Six NATO members refuse to send troops to conduct training inside Iraq, but France and Germany have committed to training 1,500 forces elsewhere.<sup>41</sup> It has been reported that the Administration will greatly increase the use of foreign coalition forces for training purposes rather than providing security in order to encourage them to remain in Iraq.<sup>42</sup>

The number of U.S. troops is currently estimated at roughly 150,000, up 12,000 from November. There are also about 25,000 troops from 27 other nations.<sup>43</sup> According to the State Department, in mid-February there were 55,015 conventional Iraqi police (compared with 85,000 reported in September 2004 — the count now only includes trained forces) of 135,000 thought to be required. In addition, there were 61,586 army forces, a figure which includes the former Iraqi National Guard

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<sup>39</sup> "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>40</sup> "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>41</sup> "NATO Agrees on Modest Plan for Training Iraqi Forces," *New York Times*, February 23, 2005; "NATO and U.S. Plan Aid to Strengthen Iraqi Force," *New York Times*, February 11, 2005; "NATO Agrees to Expansion of Forces Training Soldiers in Iraq," *New York Times*, December 10, 2004.

<sup>42</sup> "U.S. Moves to Preserve Iraq Coalition," *Washington Post*, February 25, 2005.

<sup>43</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], March 21, 2005, page 14; "Senate Panel to Set Hearings on Iraq Insurgency," *Washington Post*, December 15, 2004; Department of State, *Iraq Weekly Status Report*, March 16, 2005.

now integrated into the army. In all, about half of the required 271,041 security force personnel — 145,273 — are currently defined by officials as ready for action. However, according to the chairman of the Joint Chiefs of Staff, only about 40,000 could be said in February to be capable of the most demanding jobs, and Senator Biden has suggested the number may be between 4,000 and 18,000.<sup>44</sup>

During the past year, poorly trained and equipped security forces, dismissals of police for criminal behavior, bribe taking by border police, and thousands of no-shows threatened U.S. plans to increase security using Iraqi personnel. During the April 2004 confrontation in Fallujah, as many as 20 to 25% of the security forces quit, changed sides, or did not perform duties.<sup>45</sup> As a result of these problems, Major General David H. Petraeus was sent to Iraq in mid-April to oversee the organization and training of all Iraqi security forces.<sup>46</sup> A contract dispute to equip Iraqi forces led to a lengthy delay in provision of equipment for Iraqi forces. Statistics show that in mid-July 2004, most security forces had substantially less than the number of weapons, vehicles, communications equipment, and body armor required.<sup>47</sup> Although by late summer equipment was reportedly arriving in large quantities, concerns have continued to be expressed — most recently at the confirmation hearing for Secretary of State — regarding the level of training and availability of equipment for specific forces, especially the police.<sup>48</sup>

More than half of the Administration's September 2004 re-allocation of appropriations is going toward greater spending on security. Among other items, the total increase of \$1.8 billion over the previously allocated level of \$3.2 billion for security is being used to train and equip 45,000 new police, 16,000 new border enforcement personnel, and 20 additional Iraqi National Guard battalions. The FY2005 emergency supplemental request would add another \$5.7 billion for the training and equipping of Iraqi security forces. A new Army assessment reportedly

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<sup>44</sup> Senator Joseph Biden, "Training Iraqis: the Facts," *Washington Post*, February 6, 2005. "Many Iraqi Troops Not Fully Trained, U.S. Officials Say," *New York Times*, February 4, 2005. Department of State, Working Papers: *Iraq Weekly Status Report*, March 16, 2005.

<sup>45</sup> "Iraqi Security Has Come Far, With Far to Go," *Washington Post*, August 1, 2004; "Wanted: Police Academy ASAP," *Washington Post*, May 16, 2004; "Iraqi Battalion Refuses to 'Fight Iraqis'," *Washington Post*, April 11, 2004; "Iraqi Police Suspected in Slaying of Americans," *Washington Post*, March 13, 2004; "Recruits Abandon Iraqi Army," *Washington Post*, December 13, 2003.

<sup>46</sup> "Biggest Task for U.S. General Is Training Iraqis to Fight Iraqis," *New York Times*, June 27, 2004.

<sup>47</sup> Department of Defense, Working Papers: *Iraq Update*, July 13, 2004, pp. 24-25. Department of State, *Iraq Weekly Status Report*, August 18, 2004, p. 21. "U.S. Needs More Time to Train and Equip Iraqis," *New York Times*, May 24, 2004.

<sup>48</sup> "Iraqis Readiness Disputed in Hearing," *Washington Post*, January 20, 2005. "U.S. Says Police in Iraq Need Bolstering," *Washington Post*, November 25, 2004. U.S. Officials Say Iraq's Forces Founder Under Rebel Assaults," *New York Times*, November 30, 2004.



concludes that training must be accelerated and strengthened by providing thousands of additional U.S. military advisers to work alongside Iraqi forces.<sup>49</sup>

## U.S. Reconstruction Assistance

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 have been ongoing regarding the strategy to reach these ends utilizing reconstruction aid funds and the effectiveness of aid implementation.

With the dissolution of the CPA, U.S. influence in post-occupation Iraq is no longer based on dictate but on persuasion by the U.S. Ambassador, with leverage provided by the security support of the U.S. military and billions of dollars in reconstruction aid. U.S. efforts to “remake” Iraq have been facilitated in part by the presence of U.S. advisers attached to each of the Iraqi ministries to provide technical expertise. With ministries now sovereign, U.S. advisers, in the words of one Iraqi government official, have become “consultants.” Reportedly, about 150 Americans remain attached to Iraqi ministries.<sup>50</sup>

## Reconstruction Priorities

Reconstruction priorities have changed over time, mirroring shifting events on the ground. For example, when the CPA decided to accelerate the hand-over of sovereignty soon after passage of the FY2004 supplemental appropriations, it revised its planned allocations, increasing substantially the democratization effort — from \$100 million to \$458 million. By the time of the transition in June 2004, about 22% of total FY2004 IRRF funds were targeted on improving the security capabilities of the Iraqi government, including training and equipment for police, army, and customs personnel. About 67% of funds were aimed at improvements in infrastructure — including electricity, oil production, water and sewerage, transportation, and telecommunications — in order to stabilize the country by creating jobs and stimulating the economy. Technical assistance and small-scale grants in such areas as democratization, civil society, microenterprise, education, economic policy, and health account for the remainder of the appropriated FY2004 funds (about 10%).

The September 14, 2004, Administration-proposed re-allocation of resources, approved by Congress on September 29 in P.L. 108-309, reflects a review conducted by the Iraq Reconstruction and Management Office and the U.S. Embassy country team after the State Department took charge of Iraq non-military policy on June 28, 2004. The review identified security needs, increased oil production, greater employment, and democracy as the highest priorities, while suggesting that many

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<sup>49</sup> “General Seeking Faster Training of Iraq Soldiers,” *New York Times*, January 23, 2005.

<sup>50</sup> “Iraqis Start to Exercise Power Even Before Date for Turnover,” *New York Times*, June 13, 2004; “U.S. Has Leverage, But Wants to Show Iraqis Are in Charge,” *New York Times*, June 29, 2004.

large-scale infrastructure projects were too slow and dependent on an improved security situation to have an immediate impact. Security — mostly training and equipping Iraqi forces — increased by \$1.8 billion. Efforts to increase oil production capacity gained \$450 million. Employment creation — mostly USAID labor-intensive 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 a Paris Club discussion of the Iraq issue, the re-allocation drew on \$352.2 million to subsidize U.S. forgiveness of \$4 billion in bilateral Iraqi debt to the United States.

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

Sector	Current Allocation	Obligations as of 3/16/05	Exp.
<b>FY2004 Supplemental (P.L. 108-106)</b>			
Security and Law Enforcement	5,045	3,675	1,672
Justice, Public Safety, and Civil Society	1,121	729	188
Democracy	832	663	286
Electricity	4,369	2,775	887
Oil Infrastructure	1,701	943	193
Water and Sanitation	2,279	965	88
Transport and Telecommunications	513	333	51
Roads, Bridges, Construction	360	183	53
Health	786	473	51
Private Sector	843	761	435
Education, Refugees, Human Rights, Governance	379	232	64
Administrative Expenses	213	29	29
<b>Total FY2004 Supplemental</b>	<b>18,439</b>	<b>11,761</b>	<b>3,997</b>
<b>FY2003 Supplemental (P.L. 108-11)</b>			
	<b>2,475</b>	<b>2,475</b>	<b>2,150</b>
<b>TOTAL IRRF</b>			
	<b>20,914</b>	<b>14,236</b>	<b>6,147</b>

Sources: Section 2207 Report, January 2005. Department of State, *Iraq Weekly Status Report*, March 16, 2005.

In all, these sectors gained \$3.46 billion of the \$18.44 billion FY2004 supplemental appropriation. That amount was drawn from three sectors to which the funds had originally been allocated — purchases of already refined imported oil (-\$450 million), water and sewerage (-\$1.935 billion), and electricity (-\$1.074 billion). Most of the re-allocated funds — \$2.7 billion — came out of amounts that had been set aside for obligation in FY2005. Therefore, existing contracts were not affected by the re-allocation.

Following this re-allocation, reconstruction aid priorities in Iraq, as determined by the State Department, put 32% of total FY2004 funds into security (versus 22% previously), 16% into democratization and traditional development sectors (10% before), and 51% into economic infrastructure (67%).

In December 2004, the Embassy again reviewed its priorities. It plans to allocate \$211 million for fast-disbursing projects to meet needs for electricity. It also intends to target \$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.

## Reconstruction Programs

A wide range of reconstruction project work is underway. For a variety of reasons, not least of which is the poor security situation, these efforts have produced a somewhat mixed picture. The Iraqi government appears to be a functioning concern, with ministries restocked with equipment following the massive looting that occurred after the initial invasion. Health facilities continue to be rehabilitated, healthcare providers trained, and children immunized. Neighborhood councils have been established in 445 locations throughout the country. More than 2,000 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. School materials have been provided, schools inventoried, and thousands of schools renovated. A broad range of economic policy reform efforts have been initiated. Business centers have been set up throughout the country and a micro-loan program established. Voter education, training of election monitors, and related activities contributed to successful January elections. Construction utilizing FY2004 funds has greatly accelerated in recent months; about 1,700 construction projects have broken ground.<sup>51</sup>

Overall, positive claims for the success of reconstruction programs during the past two years have been countered by reports of slow and ineffective implementation. Of the 2,300 construction projects identified by the Project and Contracting Office a year ago, it appears that only 600 have been completed, and these are generally smaller projects such as school construction. Objectives in critical sectors, such as oil production and electric power generation, have not been met. Electric power in September hovered just above the 100,000 Megawatt Hour level compared to 95,600 MW before the war. It is currently at 91,200 MWh — the

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<sup>51</sup> Another 351 projects using Iraqi AIRP funds have been started. PCO webpage, [<http://www.rebuilding-iraq.net> ] ; Department of State, *Iraq Weekly Status Report*, March 16, 2005; USAID, *Iraq Reconstruction Weekly Update*, March 17, 2005.

goal has been 120,000. Oil production reached a post-war peak in late September at 2.67 million barrels/day, but is currently at 2.1 million barrels/day — the goal was 2.8-3.0 million by December 2004. The one consistent bright spot among reconstruction claims — a successful health program — is marred by reports that acute malnutrition among children has nearly doubled since the coalition invasion in 2003.<sup>52</sup> Anecdotal reports of successful reconstruction programs, not surprisingly, emanate from the Kurdish north and the Shiite south. In the four central provinces where there is significant turmoil and more than 40% of the population resides, reports are less sanguine.<sup>53</sup>

A particular congressional concern has been the rate of implementation.<sup>54</sup> One Administration argument for the \$18.4 billion appropriated in November 2003 was the urgent need to demonstrate progress so as to employ Iraqis and win their hearts and minds. However, as of end of March 2004, only about \$2.2 billion of that \$18.4 billion had been obligated, let alone expended. The obligation and expenditure rate has, however, accelerated notably since November 2004. As of mid-March 2005, \$11.8 billion (64%) had been obligated, and \$4.0 billion (22%) expended.<sup>55</sup> Among reasons for the slow progress were pressures to employ open and competitive bidding for most of the new reconstruction contracts, inter-agency disputes over control of the funds, and a variety of federal regulations. It also took significant time to plan and design construction projects prior to breaking ground. Security concerns, however, have been chiefly responsible for delaying reconstruction further.<sup>56</sup>

To speed up the reconstruction process, in April 2004, CPA-head Bremer initiated the Accelerated Iraqi Reconstruction Program (AIRP) which utilizes Iraqi DFI funds (\$383.8 million) to get work underway in ten cities.<sup>57</sup> The September re-allocation of reconstruction funds was, in part, intended to speed up implementation,

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<sup>52</sup> Department of State, *Iraq Weekly Status Report*, March 16, 2005; “Children Pay Cost of Iraq’s Chaos,” *Washington Post*, November 21, 2004; “U.S. Handing Over An Unfulfilled Iraq,” *Chicago Tribune*, June 27, 2004; “Reality Intrudes on Promises in Rebuilding of Iraq,” *New York Times*, June 30, 2004.

<sup>53</sup> “Iraq’s Kurds Enjoy Self-Rule and Are Trying to Keep It,” *New York Times*, December 31, 2004; “Basra Revival, But It’s Harder Than Expected,” *New York Times*, January 19, 2005.

<sup>54</sup> For example, see hearing on security assistance, House Foreign Operations Subcommittee, Committee on Appropriations, April 29, 2004 and hearing on reconstruction assistance, Senate Foreign Relations Committee, September 15, 2004.

<sup>55</sup> Of the original \$2.475 billion appropriated for the Iraq Relief and Reconstruction Fund in April 2003, only 61%, had been disbursed by end of February 2004, and the percentage remained the same on June 30. Nearly all had been obligated by then. Currently, 87% has been spent. Department of State, *Iraq Weekly Status Report*, March 16, 2005. CPA Inspector General, *Report to Congress*, July 30, 2004.

<sup>56</sup> “Inching Along, One More Piece to Rebuild Iraq,” *New York Times*, October 17, 2004.

<sup>57</sup> “Accelerated Iraq Reconstruction Effort Exceeds Goals and Schedules,” PCO, Iraq, July 4, 2004.

including the expanded use of smaller projects.<sup>58</sup> That effort has been pushed further by a December 2004 targeting of \$457 million specifically to rapid-disbursing grassroots projects. Further, recently-departed Ambassador Negroponte has argued for greater flexibility in the application of federal acquisition regulations.<sup>59</sup> The FY2004 Defense Authorization (P.L. 108-375) permits such regulations to be waived for the CERP program (sec. 1201 (c)).

How much of the nearly \$21 billion in reconstruction assistance reaches Iraq has been an issue of some concern. As noted earlier, one consequence of the unstable and dangerous environment in which reconstruction programs are implemented has been the high cost of providing security to employees. Estimates for security range anywhere from 10% to as much as 50% of project expenses, but actual costs would vary project by project, depending on location, type of activity, and numbers of foreign employees. An additional program cost related to security is insurance for employees, salaries, and housing — all of which are likely higher than in other locations in the world. Corruption and mismanagement, which are thought to be prevalent in Iraq, would also drain project funds. Recently, the Post-Conflict Reconstruction Project at the Center for Strategic and International Studies estimated security costs at 30% of project funds; insurance and salaries at 12%; corruption at 15%; overhead at 10%; and profits at 6%. If these estimates are accurate, actual reconstruction services and infrastructure investments may only account for about 27% of total aid. However, it should be noted that such estimates might vary widely according to the type of aid provided. The CSIS estimate is more likely to apply to large-scale infrastructure construction projects than to projects where the assistance is delivered in the form of a few experts or grassroots community development grants.<sup>60</sup>

While most reconstruction activities provide needed infrastructure and services, some far-reaching economic and political policy reforms promoted by the CPA stirred controversy in Iraq, especially as they were viewed as imposed by an occupying administration. For example, in a move to establish an open and free market economy and obtain revenue to meet development needs, Ambassador Bremer approved new laws in September 2003 abolishing all curbs on foreign direct investment except in natural resources. According to the *Financial Times*, the reforms were “near universally unpopular,” Iraqi businessmen and unions fearing they would be unable to compete.<sup>61</sup> Such laws and regulations could face resistance and reversal under the new sovereign government, although the interim constitution

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<sup>58</sup> “U.S. Seeks to Provide More Jobs and Speed Rebuilding in Iraq,” *New York Times*, July 27, 2004.

<sup>59</sup> “Iraq Commanders Warn That Delays in Civil Projects Undermine Military Mission,” *New York Times*, October 17, 2004.

<sup>60</sup> CSIS, Post-Conflict Reconstruction Project, *Estimated Breakdown of Funding Flows for Iraq’s Reconstruction: How are the Funds Being Spent?*, December 2004.

<sup>61</sup> “Free-Market Iraq? Not So Fast,” *New York Times*, January 10, 2004; “Business Deals May be Invalid, Experts Say,” *Financial Times*, October 29, 2003; “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.

requires approval of a majority of the government's ministers, president, and vice-presidents to overturn existing laws. According to the press, CPA Administrator Bremer issued 97 legal orders in the last two weeks of the occupation.<sup>62</sup>

On the other hand, as a result of the continuing instability and the accelerated agreement to turn over sovereignty, some controversial positions which were favored by Ambassador Bremer and his staff — privatization of state-owned business, elimination of crop subsidies, and an end to the Oil for Food program's free food baskets — were put off entirely. Iraqi government officials would, reportedly, have preferred that the CPA bear the burden of such potentially destabilizing decisions rather than leave them to a new Iraqi government.<sup>63</sup>

A newer reconstruction concern is the effort to rapidly rehabilitate areas, such as Fallujah, which have been the scene of intense military operations against insurgent forces. U.S. officials argue that the post-battle reconstruction effort is as important as the military effort to insure long-term Iraqi government control of these cities. Nevertheless, some observers have criticized the glacial pace of the rehabilitation effort in Najaf, and there are reported complaints of corruption and overpayments for poorly done work. In the case of Fallujah, as of mid-December little reconstruction work had begun; as of mid-March electricity is reportedly available to forty percent of homes and running water and sewage to one third. These basic assistance efforts are being followed by small projects to repair clinics and schools. Then larger projects — many already planned but put on hold during the long period of insurgent domination in the city — will be implemented. Officials estimate a combined Iraqi-U.S. aid effort of perhaps \$120 to \$150 million to reconstruct Fallujah.<sup>64</sup>

**CERP and CHRRP.** Drawn from DFI Iraqi seized assets and oil profits and Department of Defense operational funds rather than reconstruction appropriations, the Commanders Emergency Response Program (CERP) contributes to the reconstruction effort by providing “walking around money” for the roughly 1,600 U.S. military civil affairs officers throughout Iraq. Currently, a total of \$899 million — \$541 million in Iraqi funds and \$358 million in U.S. DOD appropriations — has been made available for this purpose. Provided in the form of small grants — over 36,300 such projects totaling \$662 million as of end of 2004 — the CERP supports

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<sup>62</sup> “U.S. Edicts Curb Power of Iraq's Leadership,” *Washington Post*, June 27, 2004. “Reconstructing Iraq's Economy,” *Washington Quarterly*, Autumn 2004.

<sup>63</sup> “Attacks Force Retreat From Wide-Ranging Plans for Iraq,” *Washington Post*, December 28, 2003; “Iraqis Face Tough Transition to Market-Based Agriculture,” *Washington Post*, January 22, 2004; “Iraq Privatization Postponed for Now,” *Dow Jones Newswires*, October 27, 2003.

<sup>64</sup> National Public Radio, *All Things Considered*, March 21, 2005; Department of Defense, News Briefing, Charles Hess and Bill Taylor, January 19, 2005; DOD briefing, Charles Hess, December 15, 2004; “Residents Trickle Back, But Fallujah Still Seems Dead,” *New York Times*, January 6, 2005; “Rebuilding What the Assault Turns to Rubble,” *Washington Post*, November 10, 2004; “Pace of Rebuilding Najaf Causes Friction,” *New York Times*, October 18, 2004; “In Fallujah's Ruins, Big Plans and a Risk of Chaos,” *New York Times*, December 1, 2004.

a wide variety of reconstruction activities at the village level from renovating health clinics to digging wells to painting schools. 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. The Commanders Humanitarian Relief and Reconstruction Program (CHRRP) uses IRRF funds — \$86 million to date — combined with Iraqi government grants — \$136 million — for similar purposes. CHRRP projects are usually conducted on a larger-scale.<sup>65</sup>

**Reconstruction Implementation Issues.** Dozens of U.S. and international companies and NGOs are participating in the reconstruction of Iraq.<sup>66</sup> The bulk of FY2004-funded programs — the roughly \$11.3 billion dedicated to construction — is managed by the Project and Contracting Office (PCO). The PCO coordinates, manages and monitors contracting and expenditures in six sectors — transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil. The PCO's parent organization, the Department of Defense, is responsible for security training. Together, they account for nearly three quarters of the \$16 billion in FY2004 IRRF appropriations that had been allocated as of mid-December 2004.

Responsible for 18% of allocated FY2004 appropriations (\$2.9 billion), the Agency for International Development (USAID), manages the widest range of economic, social, and political development programs. Its programs include a \$1.8 billion construction project contracted to Bechtel and most activities related to public health, agricultural development, basic and higher education, civil society, local governance, democratization, and policy reform.<sup>67</sup> Other U.S. government agencies involved in the reconstruction effort include the Department of State (accounting for 7% of FY2004 allocations), which continues work begun in 2003 providing police training, and the Treasury Department, which provides economic advice to the transition government.

Seeking to encourage economic growth and decrease unemployment, the CPA made efforts to insure that Iraqi business had an opportunity to participate in contracts, including appointing business liaison representatives and making the extent to which firms planned to utilize Iraqi services a factor in the awarding of contracts. Although U.S. government requirements could be waived for Iraqi contractors, most work for Iraqi business has come in the form of subcontracts. Since the State Department took over reconstruction, an effort has been made to move greater

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<sup>65</sup> CPA Inspector General, *Report to Congress*, January 30, 2005.

<sup>66</sup> For information on contract awards and solicitations, and business opportunities in Iraq, see the following websites: the Iraq Project and Contracting Office [<http://www.rebuilding-iraq.net>], USAID's Iraq Reconstruction effort [<http://www.usaid.gov/iraq/activities.html>]; and the Department of Commerce (DOC) Iraq Reconstruction Task Force [<http://www.export.gov/iraq/>].

<sup>67</sup> The bulk of FY2003 IRRF funds were utilized by USAID. It awarded \$1.8 billion in contracts and grants in the abovementioned sectors, as well as in seaport and airport administration, capital construction, theater logistical support, and personnel support.

amounts of assistance in the form of projects directly contracted to Iraqis. According to the SIGIR, in the first quarter of FY2005, 40% of new contracts were awarded to Iraqi companies.<sup>68</sup> One factor in this decision has been the deleterious impact of security on the activities of the large-scale contractors. In January, Contrack International, holder of a \$325 million roads and bridges construction contract, announced its withdrawal.<sup>69</sup> The State Department plans to replace it with direct contracting with Iraqi firms. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects, and that nearly 167,000 Iraqis are employed under them.<sup>70</sup>

As more large-scale construction projects are completed, there is increasing concern regarding the ability of Iraqis to maintain them physically and fund them financially 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>71</sup> To insure long-term sustainability, the PCO is focusing on what they call capacity development. At this point, each contractor is responsible for providing training to the appropriate personnel in the labor force who will operate and maintain power plants, water systems, etc., and contractors are liable for repairs and equipment replacement for a period of 90 days following project completion. At the Ministry level, the PCO is assisting development of policies and laws conducive to efficient use and maintenance of infrastructure. It is also working to develop the capacity of private sector contractors, especially women-owned businesses, to respond to Iraqi government contracting opportunities in the future.<sup>72</sup>

A lack of transparency in early contracting and periodic reports suggesting that U.S. and Iraqi funds are being squandered have disturbed a number of legislators.<sup>73</sup> As a result, the FY2004 supplemental established an Inspector General for the CPA,

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<sup>68</sup> SIGIR Report to Congress, January 30, 2005, p. 106.

<sup>69</sup> BNA, Inc. Federal Contracts Report, January 11, 2005

<sup>70</sup> Department of State, *Iraq Weekly Status Report*, March 16, 2005.

<sup>71</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, Jan. 21, 2004.

<sup>72</sup> Briefing by PCO on Capacity Development, March 17, 2005.

<sup>73</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, September 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 Misspends Million in its Awarding of Contracts,” *New York Times*, October 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, January 30, 2005, p. 21].



now called the Special Inspector General for Iraq Reconstruction (SIGIR). The SIGIR has issued a number of audits and launched dozens of investigations.<sup>74</sup> Up to now, however, the most egregious examples of waste and corruption appear to center on DOD appropriations and the CPA's use of Iraqi funds (the DFI), not on IRRF reconstruction aid (see DFI section).

## Recent Assessments of Reconstruction

There have been dozens of reports and articles during the past two years that have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid.<sup>75</sup> Two of the most recent ones are indicative of the others. *Reconstructing Iraq*, a September 2004 report from the International Crisis Group, examines the gamut of mistakes that many agree were made prior to and during the occupation. These include the lack of a reconstruction plan; the failure to adequately fund reconstruction early on; unrealistic application of U.S. views to Iraqi conditions by, for example, emphasizing privatization policy; the organizational incompetence of the CPA; shifting deadlines, such as the November decision to end the occupation seven months later; and the inadequate utilization of Iraqis both in making policy and in implementing reconstruction projects. The report draws on these failures to inform its recommendations for the future. Recommendations for the U.S. government include the suggestion that staff with expertise in post-conflict situations be utilized and encouraged to serve in Iraq longer than six months; that Iraqis representing a range of views participate in design and implementation of U.S. reconstruction projects; that development of the Iraqi private sector be emphasized through greater use of Iraqis as subcontractors; and that prime contractors be required to employ Iraqis as much as possible.<sup>76</sup>

*Progress or Peril? Measuring Iraq's Reconstruction* from the Center for Strategic and International Studies (September 2004 and updated on November 12) uses polling and personal interviews to attempt to measure the status of reconstruction from the Iraqi point of view. It finds that security is the predominant issue in Iraqi minds, and that governance is a largely negative picture. It suggests that U.S. efforts are too focused on national level politics and that efforts to support local political bodies are not backed by sufficient funding. A lack of economic opportunity fuels anger and security problems, and the level of social services is also undermining public confidence. An improvement in social well-being — health and education — the only bright spot that the original report highlights, is less positively

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<sup>74</sup> See SIGIR website [<http://www.cpa-ig.org/>] for audit reports to date.

<sup>75</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; and James Fallows, "Blind into Baghdad," *The Atlantic Monthly*, January/February 2004.

<sup>76</sup> International Crisis Group, *Reconstructing Iraq*, September 2, 2004. Available at [<http://www.icg.org/home/index.cfm>].

portrayed in the update. The healthcare system is now viewed as deteriorating. Recommendations include accelerating training of security forces, increasing more direct assistance to Iraqis, giving priority to Iraq's employment crisis, supporting the return of the U.N. to provide election assistance, giving precedence to aid for Iraq's judicial sector, supporting the development of more responsive Kurdish regional governments, mobilizing the Iraqi silent majority to counter the insurgents, and giving Iraqis a stake in the country's oil wealth.<sup>77</sup>

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<sup>77</sup> 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. Available at [<http://www.csis.org/>].