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

**Updated August 12, 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, in April 2003, Congress approved a \$2.48 billion Iraq Relief and Reconstruction Fund (IRRF) in the FY2003 Supplemental Appropriation. In November 2003, the FY2004 Supplemental Appropriation provided an additional \$18.4 billion for the IRRF. The FY2005 Emergency Supplemental signed into law in May 2005 provides \$5.7 billion in a new Iraqi Security Forces Fund for the training and equipping of Iraqi security forces.

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

Many reconstruction efforts on the ground are underway, but security concerns have slowed progress considerably. 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. Of the \$21 billion appropriated to the Iraq Relief and Reconstruction Fund in the FY2003 and 2004 supplementals, \$16.6 billion had been obligated and \$9.5 billion spent by late July 2005.

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 continues to be judged. The World Bank/U.N. assessments put the cost of reconstruction for the 14 sectors at \$36 billion over four years, a figure that does not include \$19.4 billion estimated by the Coalition Provisional Authority (CPA) 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 for Iraq were provided in FY2003, FY2004, and FY2005 in three emergency supplemental bills. 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 Reconstruction**  
(\$ millions)

Appropriations	FY2003	FY2004	FY2005	Total
<b>Iraq Relief and Reconstruction Fund</b>	<b>2,475.0</b> (of which 2,473.3 obligated 1/5/05)	<b>18,439.0</b> (of which 14,160.9 obligated 8/10/05)	—	<b>20,914.0</b>
DOD - Iraq Security Forces Fund	—	—	5,700.0	5,700.0
DOD - Oil Repair	802.0	—	—	802.0
DOD - Iraq Army	51.2	—	—	51.2
DOD - CERP	—	140.0	368.0	508.0
Other Agency Funds	478.2	—	—	478.2
<b>Total U.S. Reconstruction Assistance</b>	<b>3,806.4</b>	<b>18,579.0</b>	<b>6,068.0</b>	<b>28,453.4</b>

**Sources:** *Section 2207 Report to Congress Pursuant to P.L. 108-106*, July 2005; CPA Inspector General, *Report to Congress, Pursuant to P.L. 108-106*, July 30, 2005; Department of State, *Iraq Weekly Status Report*, August 10, 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, \$2.5 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.

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 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept.109-72), signed on May 11, 2005, provides \$5.7 billion for a new DOD account — the Iraq Security Forces Fund — supporting the training and equipping of Iraqi security forces. Previously, most security training funds have been provided out of the 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 large element of reconstruction aid is a sharp departure from historic practice. 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. The conference report on the supplemental adopts the President's formula for the new account but requires that the Iraq Security Forces Fund be made available “with the concurrence of the Secretary of State.”

## **FY2006 Foreign Operations Appropriations**

In another departure from previous practice, the Administration requested Iraq reconstruction funds under traditional foreign aid accounts in the regular FY2006 foreign operations budget instead of funneling requests exclusively through emergency supplementals and for the IRRF. The FY2006 request for Iraq is \$414 million. Of this amount, \$360 million would be under the Economic Support Fund (ESF) account and is expected to be used for traditional development programs supporting local governance (\$85 million), civil society (\$30 million), elections (\$15 million), private sector development (\$90 million), economic reform (\$90 million), and agriculture (\$50 million). 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.

In response, on June 28, the House approved H.R. 3057 (H.Rept. 109-152), eliminating the Administration's Iraq requests, including use of funding for Iraq under the Migration and Refugee Assistance account (estimated at \$43 million) on the grounds that sufficient funds remain unobligated and available through the IRRF. Its bill would allow the Administration to use the IRRF for the purposes outlined in its request. The Senate version of the FY2006 State/Foreign Operations appropriations (S.Rept. 109-96), approved July 20, includes the Administration requests for Iraq. It contains an amendment that would provide \$58 million in ESF funds for democracy building programs divided between the International Republican Institute and the National Democratic Institute.

## Oil Resources and Development Fund for Iraq

Efforts are being made to restore and expand Iraq's oil production capacity. Oil exporting resumed in mid-June 2003, but oil production has been slowed by sabotage. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with a pre-war rate of 2.5 million barrels/day, but as of early August 2005 rates are at 2.2 million barrels/day. The target had been 2.8-3.0 million barrels/day by end of 2004.<sup>3</sup> Even with the rise in oil prices, revenue from oil production is expected to be \$5 billion less than the amount anticipated to cover expenditures in the FY2005 Iraqi government budget. Recognizing the importance of oil revenue to Iraq reconstruction, the State Department, in its September 2004 re-allocation of IRRF appropriations, transferred from other programs an additional \$450 million 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>4</sup> The May 22, 2003, U.N. Resolution 1483 which ended sanctions permitted the occupying coalition to use oil reserves for more long-term reconstruction purposes. The resolution shifted responsibility for oil profits and their disbursal from the U.N. to the United States and its allies by establishing a Development Fund for Iraq (DFI) held by the Central Bank of Iraq and into which oil profits and other Iraqi assets would be deposited. 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>5</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

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<sup>3</sup> Department of State, *Iraq Weekly Status Report*, August 10, 2005.

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

<sup>5</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 \$927 million in assets located by the United States in Iraq were also used for these purposes. In addition, foreign governments were reported to hold an estimated \$3.7 billion in seized or frozen assets, of which \$847 million had been deposited in the DFI by June 28, 2004. Security Council Resolution 1511 urges member states to deposit seized assets in the DFI immediately.

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>6</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>7</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>8</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 the use of non-competitive bidding for contracts funded by the DFI.<sup>9</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>10</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

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<sup>6</sup> Since the end of the occupation, the SIGIR *estimates* another \$17.3 billion, mostly oil revenues, has been added to the DFI. It pays for Iraqi government programs. SIGIR, *Report to Congress*, July 30, 2005.

<sup>7</sup> "\$1.9 Billion of Iraq's Money Goes to U.S. Contractors," *Washington Post*, August 4, 2004.

<sup>8</sup> Security Council Resolution 1511, October 16, 2003, para. 23. "Oil to Come Under Iraqi Control as U.S. Fails to Form Advisory Board," *Financial Times*, August 19, 2003; "Annan Deals a Blow to U.S. Draft Resolution," *Financial Times*, October 3, 2003.

<sup>9</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>10</sup> Security Council Resolution 1546, June 8, 2004, para. 24.



funded by the DFI. Subsequent audits highlighted multiple financial irregularities.<sup>11</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>12</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>13</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. An April 2005 SIGIR audit has concluded that CPA managers of DFI funds distributed in the South-Central region of Iraq could not account for more than \$96.6 million in cash and receipts.<sup>14</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 agreed to an IAMB request that it conduct by this spring a special audit of all noncompetitive contracts funded out of the DFI, it reportedly has moved slowly to meet that request.<sup>15</sup>

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<sup>11</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>12</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>13</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>14</sup> *Audit of Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, Report No. 05-004, January 30, 2005; and *Control of Cash Provided to South-Central Iraq*, Audit Report No. 05-006, April 30, 2005, both available at SIGIR website [<http://www.cpa-ig.org>].

<sup>15</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>].

## 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>16</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>17</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: Debt Relief*, for further details.<sup>18</sup>

## Other Donors

Immediately following the U.S. intervention in Iraq, U.N. appeals for postwar humanitarian relief to Iraq met with \$849 million in grant donations from non-U.S. donors.<sup>19</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

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<sup>16</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>17</sup> G-7 Agrees That Iraq Needs Help with Debt,” *Washington Post*, April 13, 2003; “Restructuring, Not Forgiveness,” *Financial Times*, April 15, 2003.

<sup>18</sup> “Major Creditors Agree to Cancel 80% of Iraq Debt,” *New York Times*, November 22, 2004.

<sup>19</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>].

other donors. Of this amount, roughly \$3.0 billion is grant aid, including \$1.5 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. 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>20</sup> Of the Madrid pledges, as much as \$2.5 billion has been disbursed bilaterally, most of it as a contribution to the IRFFI (see below), and an additional \$436 as IMF assistance.<sup>21</sup> At an international conference held in Brussels in June 2005, donors promised to step up their efforts to assist Iraq, although few new financial pledges were made. A July 2005 follow-up conference in Amman, Jordan, did produce an agreement on the use of the Madrid \$3.5 billion Japanese loan pledge and \$500 million in loans from the World Bank. Iraqi officials at both meetings argued that Iraq is now able to implement development projects and donors need not utilize expensive foreign contractors.<sup>22</sup>

Japan and Britain have been notably active in providing bilateral assistance. Japan, the second largest donor after the United States, has already spent most of the \$1.5 billion in grant aid it pledged. Among other things, it has provided significant funding for electrical power station rehabilitation, water treatment units and tankers, medical equipment, and firetrucks and police vehicles. Britain has offered considerable technical assistance and related support for improvements in the justice system, governance, and economic policy. In November 2004, the EU pledged an additional \$21 million (not counted above), specifically to support the January 2005 elections. In January, the EU pledged another \$260 million for use in 2005.<sup>23</sup> Recently, Iran was reported to have offered Iraq \$1 billion in low-interest loans. Its assistance is expected to target the electricity sector as well as provide funding for an airport in the holy Shiite city of Najaf.<sup>24</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>25</sup> To deal with this concern, a multi-donor trust fund, the International Reconstruction Fund Facility for Iraq (IRFFI), was established on December 11, 2003. It encourages contributions by keeping them outside the control of the United States, but supports needs identified in the World Bank needs assessment and approved by the Iraqi government. The Facility has two windows, one run by the Bank (the World Bank

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<sup>20</sup> See "Iraq Pledges Roll In," BBC News, October 24, 2003.

<sup>21</sup> Department of State. *2207Report to Congress*, July 2005, Appendix II.

<sup>22</sup> "Iraqis Press Donors for Billions More in Reconstruction Aid," *New York Times*, July 19, 2005; "Iraq is Ready for Foreign Aid, Minister Says," *New York Times*, June 20, 2005.

<sup>23</sup> "E.U. Pledges Aid to Iraq," *Washington Post*, November 6, 2004. Department of State, *2207 Report to Congress*, July 2005, Appendix II.

<sup>24</sup> "Iraq to Build Airport with Help from Iran," *Washington Post*, August 3, 2005; "Iran Extends \$1 Billion Credit to Baghdad," *Financial Times*, July 21, 2005.

<sup>25</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.

Iraq Trust Fund) and one by the United Nations (UNDG Iraq Trust Fund). As of July 2005, donors had committed and deposited about \$1 billion to the Facility. To date, the World Bank Fund (\$392 million deposited) has financed textbooks, school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund (\$660 million) is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>26</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>27</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>28</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. Much of the U.N. work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities.<sup>29</sup>

The appointment on July 12, 2004, of Ashraf Jehangir Qazi as the new U.N. Special Representative to Iraq and the August 12, 2004, 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. Security Council Resolution 1619, approved August 11, 2005, extends UNAMI another year and calls on the U.N. to play a leading role in assisting Iraq. With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects, and the U.N. is helping with the constitution-writing process. Currently, there are about 800 U.N. international and local staff in Iraq. On November 30, the Security Council asked the Secretary General to establish a trust fund account to

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<sup>26</sup> Department of State, *2207 Report to Congress*, April 2005, Appendix II.

<sup>27</sup> “Wary Annan Set to Discuss a Possible U.N. Role in Iraq,” *Washington Post*, January 19, 2004.

<sup>28</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>29</sup> “U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis,” *New York Times*, January 26, 2005.

finance a U.N. force in Iraq to protect U.N. personnel. The EU has pledged \$12 million for this purpose.<sup>30</sup>

## **U.S. Assistance Policy Structure on Iraq**

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. 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 Ambassador Zalmay Khalizad. The embassy employs about 1,000 U.S. and 400 Iraqi staff. An Iraq Reconstruction Management Office (IRMO) within the U.S. embassy has supplanted CPA assistance efforts in setting requirements and priorities. It is headed by Ambassador 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 Major General Daniel Long.<sup>31</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 aid.

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the DOD Authorization for FY2005 (P.L. 108-375). The SIGIR is currently Stuart Bowen, Jr. The SIGIR reports to both the Secretary of Defense and State. The SIGIR office has about 39 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. In addition to audits and investigations, the SIGIR issued his first report to Congress on March 30, 2004 and has reported quarterly since then.<sup>32</sup> P.L. 108-375 extends the

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<sup>30</sup> Kofi Annan, "There's Progress in Iraq," *Washington Post*, June 21, 2005; "United Nations to Set Up Trust Fund for Iraq," *Washington File*, November 30, 2004.

<sup>31</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>].

<sup>32</sup> See [<http://www.cpa-ig.org/>] for reports and audits. SIGIR, *Report to Congress*, July 30, (continued...)

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 Senate version of H.R. 3057, the FY2006 Foreign Operations bill, would permit it to function until 10 months after 80% of funds have been expended.

## **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.”<sup>33</sup>

## **Reconstruction Priorities**

Reconstruction priorities have changed over time, mirroring shifting events on the ground. For example, in November 2003, when the CPA decided to accelerate the hand-over of sovereignty 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 Administration-proposed re-allocation of resources, approved by Congress in September 2004 (P.L. 108-309), reflected a review conducted by the Iraq Reconstruction and Management Office and the U.S. Embassy country team after the

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<sup>32</sup> (...continued)  
2005.

<sup>33</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.

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 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 8/10/05	Exp.
<b>FY2004 Supplemental (P.L. 108-106)</b>			
Security and Law Enforcement	5,036	4,544	3,206
Justice, Public Safety, and Civil Society	1,224	979	444
Democracy	905	867	476
Electricity	4,308	2,578	1,406
Oil Infrastructure	1,723	1,211	444
Water and Sanitation	2,157	1,453	290
Transport and Telecommunications	509	388	131
Roads, Bridges, Construction	355	210	128
Health	786	586	182
Private Sector	860	818	484
Education, Refugees, Human Rights, Governance	363	315	128
Administrative Expenses	213	213	213
<b>Total FY2004 Supplemental</b>	<b>18,439</b>	<b>14,161</b>	<b>7,532</b>
<b>FY2003 Supplemental (P.L. 108-11)</b>	<b>2,473</b>	<b>2,473</b>	<b>2,407</b>
<b>TOTAL IRRF</b>	<b>20,914</b>	<b>15,268</b>	<b>6,992</b>

**Sources:** Department of State, *Iraq Weekly Status Report*, August 10, 2005; *2207 Report*, July 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) — sectors where the benefits of planned large-scale projects were viewed as too long-term to make an immediate difference. The re-allocated funds came out of amounts that had not yet been obligated.

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 allocated \$211 million for fast-disbursing projects to meet needs for electricity and it targeted \$246 million for a variety of high visibility and quick disbursing projects to provide essential services in the four post-battle cities of Fallujah, Samarra, Najaf, and Sadr City. Following another review, in March 2005 the State Department reallocated \$832 million of IRRF funds. Of these funds, \$225 million — since changed to \$196 million — is being used for short-term, high visibility, job creation activities, including projects providing essential services in Baghdad (\$100 million), USAID Community Action Program projects (\$100 million), and micro/small business loan programs (\$5 million). The reallocation also includes \$607 million for a number of projects which State expects will make some important reconstruction efforts more sustainable. Among these are operations and maintenance programs in the oil, electricity, and water sectors to insure that training and spare parts are provided to Iraqis so they can manage U.S.-rehabilitated equipment and efforts to complete some work in these sectors where costs have grown due to unanticipated security and newly identified urgent requirements. Most of the reallocated funds again come from canceled long-term energy and water projects.

## Reconstruction Programs and Issues

**Status.** 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 and government officials and staff being trained in budgeting, management, and other work skills. 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 3,120 grassroots projects have been or are being conducted through USAID grants provided to hundreds of community action groups. School materials have been provided, schools inventoried, and thousands of schools renovated. Eighty percent of the 800 planned school construction projects have been completed. A broad range of economic policy reform efforts has 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. Currently, assistance is being provided to facilitate the drawing up of the constitution and the eventual national referendum.



on it. Construction utilizing FY2004 funds has greatly accelerated in the past six months; about 2,145 construction projects have broken ground.<sup>34</sup>

Positive claims for the success of reconstruction programs during the past two years have been countered by reports of slow and ineffective implementation. Although project completion rates now appear to be greatly improved, for more than a year projects were slow to get off the ground. Objectives in critical sectors, such as oil production and electric power generation, have not been met. Electric power was 95,600 Megawatt Hours before the war. It is currently at 102,900 MWh — the goal has been 120,000. Oil production is currently at 2.2 million barrels/day — the goal was 2.8-3.0 million by December 2004. A recent survey reportedly has found that 85% of households lack stable electricity and 54% lack access to clean water. The one consistent bright spot among reconstruction claims — a successful health program — has been marred by reports that acute malnutrition among children has nearly doubled since the coalition invasion in 2003.<sup>35</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>36</sup>

**Rate of Implementation.** A particular congressional concern has been the rate of implementation.<sup>37</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 accelerated notably since November 2004. As of early August 2005, \$14.2 billion (77%) had been obligated, and \$7.5 billion (41%) expended.<sup>38</sup> Among reasons for the slow progress were pressures to employ

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<sup>34</sup> Another 355 projects using Iraqi AIRP funds have been started. PCO webpage, [<http://www.rebuilding-iraq.net>] ; Department of State, *Iraq Weekly Status Report*, August 10, 2005; USAID, *Iraq Reconstruction Weekly Update*, August 11, 2005.

<sup>35</sup> Department of State, *Iraq Weekly Status Report*, August 10, 2005; “Head of Reconstruction Says Unexpected Security Costs Eating Into Budget,” *Washington Post*, May 22, 2005; “Iraqis Wait for Better Days That Never Come,” *Financial Times*, May 3, 2005; “Power Grid in Iraq Far From Fixed,” *Washington Post*, May 1, 2005; “A Promise Unfulfilled: Iraq’s Oil Output is Lagging,” *New York Times*, May 2, 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>36</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>37</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>38</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, 2004. Nearly all had been obligated by then. Currently, (continued...)

open and competitive bidding for most of the new reconstruction contracts and inter-agency disputes over control of the funds. It also took significant time to plan and design construction projects prior to breaking ground. And the slow process of forming the post January-election transition government has stymied Iraqi decision-making affecting projects. Security concerns, however, have been chiefly responsible for delaying reconstruction.

To speed up the reconstruction process, in April 2004, CPA-head Bremer initiated the Accelerated Iraqi Reconstruction Program (AIRP) which utilizes Iraqi DFI funds (\$313 million) to get work underway in ten cities.<sup>39</sup> The September 2004 re-allocation of reconstruction funds was, in part, intended to speed up implementation, including the expanded use of smaller projects.<sup>40</sup> That effort has been pushed further by a December 2004 targeting of \$457 million specifically to rapid-disbursing grassroots projects and the March 2005 reallocation favoring short-term priorities. Further, recently-departed Ambassador Negroponte has argued for greater flexibility in the application of federal acquisition regulations.<sup>41</sup> The FY2004 Defense Authorization (P.L. 108-375) permits such regulations to be waived for the CERP program (sec. 1201 (c)).

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

- The instability has delayed implementation of reconstruction projects.
- Completed reconstruction projects and pre-existing infrastructure have been destroyed. 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 alone. 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.<sup>42</sup>

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<sup>38</sup> (...continued)

97% has been spent. Department of State, *Iraq Weekly Status Report*, August 10, 2005. CPA Inspector General, *Report to Congress*, July 30, 2004.

<sup>39</sup> Department of State, *2207 Report to Congress*, April 2005; "Accelerated Iraq Reconstruction Effort Exceeds Goals and Schedules," PCO, Iraq, July 4, 2004.

<sup>40</sup> "U.S. Seeks to Provide More Jobs and Speed Rebuilding in Iraq," *New York Times*, July 27, 2004.

<sup>41</sup> "Iraq Commanders Warn That Delays in Civil Projects Undermine Military Mission," *New York Times*, October 17, 2004.

<sup>42</sup> 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 (continued...)

- Reconstruction costs have risen due to the need to provide for security and insurance for personnel. According to the State Department, ensuring security for project personnel has likely accounted for as much as 16-22% of the cost of reconstruction activities. As a result, funds have been drained from the purposes for which they were intended, especially affecting projects in the water and sanitation and roads and bridges construction sectors. In recent months, USAID reportedly cancelled two electric power generation programs; the Army Corps of Engineers cut a planned 23 electric substation rehabilitation program to nine. Substantially greater U.S. assistance has been required to train and equip Iraqi troops and police than was previously anticipated.<sup>43</sup>
- Projects to which funds have been committed may cost more to complete than originally anticipated. According to the SIGIR, USAID projects funded with the FY2003 supplemental have been about 20% more expensive than the original estimates, and a sampling of FY2004-funded USAID and PCO projects suggests these may be as much as 50-85% more costly to complete than the initial cost estimates. This trend, likely due at least in part to unexpected security expenses, may severely decrease the number of reconstruction projects the United States is able to undertake in Iraq unless additional funding is provided.<sup>44</sup>
- Implementing organizations and personnel have fled. 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 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>45</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

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<sup>42</sup> (...continued)

More Than 100 Electrical Lines,” *New York Times*, June 11, 2004.

<sup>43</sup> State Department, 2207 Report to Congress, July 2005; SIGIR, *Report to Congress*, July 30, 2005; “Security Costs Slow Iraq Reconstruction,” *Washington Post*, July 29, 2005.

<sup>44</sup> SIGIR, *Report to Congress*, April 30, 2005, p. 75-78. The July 30, 2005, SIGIR Report notes that efforts are currently being made to gather program management data that may elucidate the amount of funds available and/or necessary to complete current and new projects.

<sup>45</sup> “Wolfowitz Says Iraq Violence Impedes Rebuilding Aid,” *Wall Street Journal*, June 1, 2005; “Driven from Iraq, Aid Groups Reflect on Work Half Begun,” *New York Times*, November 15, 2004; “Security Conditions Continue to Hamper U.N. in Iraq,” *Washington File*, August 11, 2004; “Charities Get Ready to Leave,” *London Times*, September 9, 2004.

expertise available to advise the government and NGOs is restricted to those few willing to endure the country's hardships. U.S. agency personnel stay only a short time and therefore institutional knowledge is not maintained. Iraqi experts necessary to successful reconstruction have left — ten percent of registered doctors have reportedly given up work in the past year.<sup>46</sup>

- In a broader sense, prolonged insecurity has undermined the trust of the Iraqi people in U.S. and now transition government leadership to bring about a democratic and economic transformation in Iraq, opening the door to further political discontent and possible civil war.<sup>47</sup>

There are two elements in the effort to provide the security that might allow political and economic reconstruction to take hold — U.S. and coalition peacekeeping forces and the training of Iraqi security forces to replace them. The number of U.S. troops is currently estimated at roughly 142,000. There are also about 23,000 troops from 27 other nations.<sup>48</sup> As violence and hostage-taking increased through 2004 and into 2005, many participating countries, including the Philippines, Hungary, the Netherlands, Ukraine, Poland, and Italy announced reductions or departures. Although NATO rejected the Administration request that it provide forces, it did agree to help train 1,000 Iraqi troops. 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>49</sup>

Thirty-eight percent of total U.S. appropriations for reconstruction — nearly \$11 billion — are aimed at building Iraqi security forces. Most of these funds — \$7.5 billion — have been added since September 2004, as the security situation remained unstable and efforts to train forces appeared inadequate. According to the State Department, in early August there were 66,700 trained and equipped conventional Iraqi police. In addition, there were 78,800 army forces. In all, about 66% of the required 271,041 security force personnel — 178,200 — are currently defined by officials as ready for action. However, reports by officials and observers have

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<sup>46</sup> “Facing Chaos, Iraqi Doctors are Quitting,” *New York Times*, May 30, 2005; SIGIR, *Report to Congress*, July 30, 2005, p. 20.

<sup>47</sup> “In Jaded, Perilous Capital, A Collision of Perceptions,” *Washington Post*, July 29, 2005; “As Violence Deepens, So Does Pessimism,” *Washington Post*, May 18, 2004; “Fueling Anger in Iraq,” *Washington Post*, December 9, 2003; “The Best, Brightest, and Wealthiest Flee Iraq,” *Chicago Tribune*, November 21, 2004.

<sup>48</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], April 27, 2005, page 14; Department of State, *Iraq Weekly Status Report*, July 27, 2005.

<sup>49</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.

suggested that many fewer could be said to be capable of the most demanding jobs.<sup>50</sup> Increasing attention is now being paid by U.S. officials to the lack of adequate logistical capabilities in the Iraqi Ministry of Defense. Problems in paying, feeding, and supplying equipment to troops are compounded by reports of corruption in the Ministry procurement office.<sup>51</sup>

During the past two years, poorly trained and equipped security forces, no-shows and desertions, dismissals of police for criminal behavior, and bribe-taking for obtaining higher rank or for release of insurgent suspects have threatened U.S. plans to increase security using Iraqi personnel.<sup>52</sup> As a result of these problems, Major General David H. Petraeus was sent to Iraq in mid-April 2004 to oversee the organization and training of all Iraqi security forces. In July 2005, he was replaced by Maj. Gen. Martin E. Dempsey.<sup>53</sup>

**Implementing Agencies.** Dozens of U.S. and international companies and NGOs are participating in the reconstruction of Iraq.<sup>54</sup> The bulk of FY2004 IRRF 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 roughly 73% of the \$17.8 billion in FY2004 IRRF appropriations that had been allocated as of June 2005.

<sup>50</sup> "Iraqis Not Ready to Fight Rebels on Own, U.S. Says," *New York Times*, July 21, 2005; "Building Iraq's Army: Mission Improbable," *Washington Post*, June 10, 2005; "As Iraqi Army Trains, Word in Field is It May Take Years," *New York Times*, June 13, 2005; 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 StatusReport*, August 10, 2005.

<sup>51</sup> "Worry Grows as Iraq's Defense Ministry Falls Short of Expectations," *New York Times*, August 3, 2005.

<sup>52</sup> "Iraqi Security Has Come Far, With Far to Go," *Washington Post*, August 1, 2004; "Wanted: Police Academy ASAP," *Washington Post*, May 16, 2004; "Iraqi Battalion Refuses to 'Fight Iraqis'," *Washington Post*, April 11, 2004; "Iraqi Police Suspected in Slaying of Americans," *Washington Post*, March 13, 2004; "Recruits Abandon Iraqi Army," *Washington Post*, December 13, 2003; "U.S. Needs More Time to Train and Equip Iraqis," *New York Times*, May 24, 2004; "Iraqis Readiness Disputed in Hearing," *Washington Post*, January 20, 2005. "U.S. Says Police in Iraq Need Bolstering," *Washington Post*, November 25, 2004. U.S. Officials Say Iraq's Forces Founder Under Rebel Assaults," *New York Times*, November 30, 2004.

<sup>53</sup> "Army Commander in Charge of Training Iraqi Security Gets New Post," *New York Times*, July 23, 2005; "Biggest Task for U.S. General Is Training Iraqis to Fight Iraqis," *New York Times*, June 27, 2004.

<sup>54</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/>].

Responsible for 17% of allocated FY2004 appropriations (\$3.0 billion), the Agency for International Development (USAID), manages the widest range of economic, social, and political development programs. Its programs include a \$1.8 billion construction project contracted to Bechtel and most activities related to public health, agricultural development, basic and higher education, civil society, local governance, democratization, and policy reform.<sup>55</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 (0.2%), which provides economic advice to the transition government.<sup>56</sup>

**Policy Reforms.** 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>57</sup> According to the press, CPA Administrator Bremer issued 97 legal orders in the last two weeks of the occupation alone.<sup>58</sup> Such laws and regulations could face resistance and reversal under the new government, although the interim constitution requires approval of a majority of the government’s ministers, president, and vice-presidents to overturn existing laws.

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 might have preferred that the CPA bear the burden of such potentially destabilizing decisions rather than leave them to a new Iraqi government.<sup>59</sup> Fuel and food subsidies as well as support for

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<sup>55</sup> Most FY2003 IRRF funds — 73% — were utilized by USAID. It awarded \$1.8 billion in contracts and grants in the abovementioned sectors, as well as in seaport and airport administration, capital construction, theater logistical support, and personnel support. All FY2005 funding — \$5.7 billion for Iraqi security force training — is managed by DOD.

<sup>56</sup> SIGIR, *Report to Congress*, July 30, 2005, appendix D.

<sup>57</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.

<sup>58</sup> “U.S. Edicts Curb Power of Iraq’s Leadership,” *Washington Post*, June 27, 2004. “Reconstructing Iraq’s Economy,” *Washington Quarterly*, Autumn 2004.

<sup>59</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*, (continued...)

state-owned enterprises are said to account for as much as \$11 billion annually, nearly half the Iraqi budget. Because these practices divert funds from needed reconstruction for which the United States might have to compensate, Administration officials are reportedly pressuring the Iraqi transition government to face the need for economic policy reform. At a meeting of the U.S.-Iraqi Joint Commission on Reconstruction and Economic Development in July 2005, Iraqi officials agreed to address subsidy issues. However, in early August, the Iraqi cabinet rejected proposals to reduce subsidies.<sup>60</sup>

**Fallujah.** One 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 was 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>61</sup>

**CERP and CHRRP.** Until recently, drawn from DFI Iraqi seized assets and oil profits and Department of Defense funds rather than reconstruction appropriations, the Commander's Emergency Response Program (CERP) contributes to the reconstruction effort by providing "walking around money" for U.S. military civil affairs officers throughout Iraq. Currently, a total of \$1 billion — \$547 million in Iraqi funds and \$508 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 a wide variety of reconstruction activities at the village level from renovating health clinics to

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<sup>59</sup> (...continued)

January 22, 2004; "Iraq Privatization Postponed for Now," *Dow Jones Newswires*, October 27, 2003.

<sup>60</sup> "Despite Crushing Costs, Iraqi Cabinet Lets Big Subsidies Stand," *New York Times*, August 11, 2005; "Iraqi Economy Adds to Tensions with U.S.," *Financial Times*, July 7, 2005; "Iraqis Reluctant to End Love Affair with Fuel Subsidies," *Financial Times*, June 13, 2005.

<sup>61</sup> National Public Radio, *All Things Considered*, March 21, 2005; "Vital Signs of a Ruined City Grow Stronger in Fallujah," *New York Times*, March 26, 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.

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 — \$84 million to date — combined with Iraqi government grants — \$136 million — for similar purposes. CHRRP projects are usually conducted on a larger-scale.<sup>62</sup>

**The Role of Iraqis in Reconstruction: Employment, Outreach, and Project Sustainability.** 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 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>63</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>64</sup> The State Department planned to replace it with direct contracting with Iraqi firms. Efforts have been made as well to give the Iraq Transitional Government some decision-making responsibility over U.S.-funded reconstruction work, including on-site supervision and drafting of contracts. USAID used Iraqi Ministry employees to implement electrical distribution projects in Baghdad. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects, and that about 118,000 Iraqis are employed under them.<sup>65</sup>

As it has sought to involve Iraqis in the reconstruction process, the embassy has expanded its outreach to the provinces. It has encouraged the creation of Iraqi Provincial Reconstruction Development Committees (PRDCs) in provinces throughout the country. The PRDCs are composed of local and national government representatives. At the same time, the embassy has established Provincial Support Teams (PSTs), made up of embassy, PCO, and USAID staff. The intention is that these two entities work together to identify projects which can be implemented and carried out with U.S. financing. As a result, it is hoped local governments may be strengthened while U.S. projects achieve more lasting support. In its June 2005 review of resources, the IRMO has allocated \$241 million of IRRF funds to back the PRDC-PST partnership — \$80 million that will be used through the CERP and \$161

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<sup>62</sup> SIGIR, *Report to Congress*, April 30, 2005, p.100; SIGIR, *Report*, July 30, 2005, App C.

<sup>63</sup> SIGIR, *Report to Congress*, January 30, 2005, p. 106.

<sup>64</sup> BNA, Inc. Federal Contracts Report, January 11, 2005

<sup>65</sup> Department of State, *Iraq Weekly Status Report*, August 10, 2005; State Department, *2207 Report to Congress*, July 2005, p. 2.



million that will go through USAID's Community Action Program (CAP) and Local Governance Program (LGP).<sup>66</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>67</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>68</sup>

**How Much Assistance Reaches Iraq?** 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. In December 2004, 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>69</sup>

**Waste and Fraud.** A lack of transparency in early contracting and periodic reports suggesting that U.S. and Iraqi funds are being squandered have

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<sup>66</sup> Department of State, *2207 Report to Congress*, July 2005, p. 2.

<sup>67</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, Jan. 21, 2004.

<sup>68</sup> Briefing by PCO on Capacity Development, March 17, 2005; State Department, *2207 Report to Congress*, June 2005, p. 5.

<sup>69</sup> CSIS, Post-Conflict Reconstruction Project, *Estimated Breakdown of Funding Flows for Iraq's Reconstruction: How are the Funds Being Spent?*, December 2004.

disturbed a number of legislators.<sup>70</sup> As a result, the FY2004 supplemental established an Inspector General for the CPA, now called the Special Inspector General for Iraq Reconstruction (SIGIR). The SIGIR has issued a number of audits and launched dozens of investigations of possible criminal activity.<sup>71</sup> Up to now, however, the most egregious examples of waste and fraud appear to center not on IRRF reconstruction aid, but on DOD appropriations — especially the Halliburton Kellogg, Brown & Root projects — and on the CPA's use of Iraqi funds (see the DFI section of this report for more details).<sup>72</sup>

One of the more worrying findings to date regarding use of U.S. reconstruction funds has come from a SIGIR project assessment program in which a team with engineering, audit, and investigative experience looked at four water projects in central Iraq. Three of the four reviews found problems, including inadequate design work, insufficient quality control, and the failure of Government project engineers to approve invoices and recommend payment. As a result of this program, SIGIR intends to assess other infrastructure projects throughout the country.<sup>73</sup>

## 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>74</sup> Most focus on the history of the occupation and those problems

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<sup>70</sup> For example, a cement plant's renovation, estimated to cost \$15 million by U.S. engineers, was repaired by Iraqis for \$80,000. [Rep. Henry Waxman, letter to Joshua Bolten, Director of OMB, Sept. 26, 2003.] The Governing Council questioned a decision by the CPA to spend \$1.2 billion training 35,000 police in Jordan rather than in Iraq at, in its view, "a fraction of the cost." ["Iraqis Say U.S. Occupation Authority Misspend Millions in Its Awarding of Contracts," *New York Times*, Oct. 4, 2003.] Press reports suggested that ministry equipment was sold on the streets and reconstruction subcontracts were delivered for bribes. ["Spoils of War," National Public Radio, April 21-23, 2004.] The Department of Defense IG found numerous "irregularities" in contracting procedures followed by DOD acquisition support for the CPA and its predecessor through August 2003. [DOD IG Audit, *Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command*, Report No. D-2004-057, March 18, 2004.] The State Department IG found contractor DynCorp had overcharged \$685,000 for services rendered to the Bureau of International Narcotics and Law Enforcement Affairs police training program [SIGIR report, Jan. 30, 2005, p. 21.]

<sup>71</sup> See SIGIR website [<http://www.cpa-ig.org/>] for audit reports to date. SIGIR, Report to Congress, July 30, 2005, p. 44-69.

<sup>72</sup> For discussion of the Halliburton issues, see Joint Report of the House Committee on Government Reform Minority Staff and Senate Democratic Policy Committee, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion*, June 27, 2005.

<sup>73</sup> SIGIR, Report to Congress, July 30, 2005, p. 60-66.

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

that help explain the current state of affairs. For example, *Reconstructing Iraq*, a September 2004 report from the International Crisis Group, examines the gamut of mistakes that many agree were made prior to and during the occupation. These include the lack of a reconstruction plan; the failure to adequately fund reconstruction early on; unrealistic application of U.S. views to Iraqi conditions by, for example, emphasizing privatization policy; the organizational incompetence of the CPA; shifting deadlines, such as the November decision to end the occupation seven months later; and the inadequate utilization of Iraqis both in making policy and in implementing reconstruction projects. The report then draws on these failures to inform its recommendations for the future, including the suggestion that staff with expertise in post-conflict situations be utilized and encouraged to serve in Iraq longer than six months; that Iraqis representing a range of views participate in design and implementation of U.S. reconstruction projects; that development of the Iraqi private sector be emphasized through greater use of Iraqis as subcontractors; and that prime contractors be required to employ Iraqis as much as possible.<sup>75</sup>

Another category of assessments are reviews of specific projects. Security concerns in Iraq have made difficult the kind of expert and anecdotal reports usually produced in other places by interest groups and the news media. Most project assessments, therefore, have come from the various government auditors. Even these, however, appear constrained by security in the number of site-visits they are able to undertake to review project results. One of four water projects recently assessed by the SIGIR could not be visited due to security concerns, and the SIGIR is conducting some of its assessments by aerial imagery because of the risk to its personnel.<sup>76</sup>

One problem with assessing the progress of reconstruction is that there is no “big picture” overview. Responsible government agencies provide information regarding how many infrastructure projects are being started and completed, how many small-scale grants are being provided, and how many people are being trained, but there is little detail regarding to what degree the overall national need for drinking water, sanitation, health care, electricity, and other requirements is being met by the billions of dollars in U.S. resources targeted at these needs.

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

Baghdad,” *The New Yorker*, November 24, 2003; Kenneth M. Pollack, “After Saddam: Assessing the Reconstruction of Iraq,” *Foreign Affairs*, January/February 2004; John Hamre and others, *Iraq’s Post-Conflict Reconstruction: A Field Review and Recommendations*, Center for Strategic and International Studies, July 17, 2003; James Fallows, “Blind into Baghdad,” *The Atlantic Monthly*, January/February 2004; Center for Strategic and International Studies, Post-Conflict Reconstruction Project, Frederick Barton and Bathsheba Crocker, Co-Directors, *Progress or Peril? Measuring Iraq’s Reconstruction*, September 2004 and November 12 Update; and Larry Diamond, *Squandered Victory: The American Occupation and the Bungled Effort to Bring Democracy to Iraq*, Henry Holt, 2005.

<sup>75</sup> International Crisis Group, *Reconstructing Iraq*, September 2, 2004. Available at [<http://www.icg.org/home/index.cfm>].

<sup>76</sup> SIGIR, Report to Congress, July 30, 2005, p. 60-66. For a recent assessment of several aspects of reconstruction, see GAO, *Rebuilding Iraq: Status of Funding and Reconstruction Efforts*, GAO-05-876, July 2005.