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Iraq: Recent Developments in Reconstruction Assistance

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Iraq: Recent Developments in Reconstruction Assistance

Summary

Large-scale assistance programs are being undertaken by the United States following the war with Iraq. To fund such programs, in April 2003, Congress approved a $2.48 billion Iraq Relief and Reconstruction Fund (IRRF) in the FY2003 Supplemental Appropriation. In November 2003, the FY2004 Supplemental Appropriation provided an additional $18.4 billion for the IRRF. The FY2005 Emergency Supplemental, signed into law in May 2005, provided $5.7 billion in a new Iraqi Security Forces Fund (ISFF) for the training and equipping of Iraqi security forces. The FY2006 Emergency Supplemental, signed in June 2006, provides $3 billion for the ISFF and $1.6 billion for stabilization assistance.

In February 2006, the Administration requested nearly $772 million for Iraq in its FY2007 foreign operations budget, including nearly $479 in ESF for traditional development aid programs. On June 9, the House approved H.R. 5522, providing only $305.8 million in ESF. On July 15, the Senate Appropriations Committee reported its version of the bill, meeting the overall Administration request figure.

Contributions pledged by other donors at the October 2003 Madrid donor conference and in subsequent meetings have amounted to roughly $14.6 billion in grants and loans, of which about $3.5 billion has been disbursed.

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

Many reconstruction efforts on the ground are underway, but security concerns have slowed progress considerably. Of the roughly $34 billion in appropriated funds from all accounts directed at reconstruction purposes, about 33% is targeted at infrastructure projects — roads, sanitation, electric power, oil production, etc. About 40% is used to train and equip Iraqi security forces. A range of programs — accounting for roughly 27% of appropriations — are in place to offer expert advice to the Iraqi government, establish business centers, rehabilitate schools and health clinics, provide school books and vaccinations, etc. Of the nearly $21 billion appropriated to the Iraq Relief and Reconstruction Fund in the FY2003 and 2004 supplementals, $19.7 billion had been obligated and $15.5 billion spent by mid-August 2006.

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

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Following years of authoritarian rule and economic sanctions, the United States and the international community agreed in the spring of 2003 that efforts should be made to rehabilitate economic infrastructure and introduce representative government to post-war Iraq, among other objectives. More recently, the Bush Administration has asserted a "victory" strategy composed of eight objectives, five of which are to: transition Iraq to security self-reliance, help Iraqis form a national compact for democratic government, help Iraq build government capacity and provide essential services, help Iraq strengthen its economy, and help Iraq strengthen the rule of law and promote civil rights.[1] To meet these ends, a large-scale assistance program has been undertaken by the United States in Iraq. This report describes recent developments in this assistance effort.[2]

Funding for Reconstruction

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

Several potential "spigots" are available to fund Iraq reconstruction. U.S. foreign aid appropriations for Iraq have been provided mostly in annual emergency supplemental bills beginning in FY2003. International donors have also made aid contributions. Iraqi funds, largely derived from oil export profits, have been

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[1] U.N. Security Council Resolution 1483, May 22, 2003; National Security Council, *National Strategy for Victory in Iraq*, November 2005.

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

[3] 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].

employed to cover the "normal" operating costs of the Iraqi government, and, when sufficient amounts are available, have been used to address reconstruction needs. Additionally, the reduction or rescheduling of Iraqi debt repayments makes further resources available. These sources of reconstruction funding are discussed below.

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

Appropriations	FY2003	FY2004	FY2005	FY2006	Total
Iraq Relief and Reconstruction Fund (IRRF)	2,473.0	18,439.0	—	5.0	20,917.0 (of which 19,666.4 obligated 8/22/06)
DOD - Iraq Security Forces Fund (ISFF)	—	—	5,391.0	3,007.0	8,398.0 (of which 4,648.0 obligated 6/30/06)
DOD - CERP	—	140.0	718.0	753.0	1,611.0 (of which 853.4 obligated 6/30/06)
DOD - Oil Repair	802.0	—	—	—	802.0
DOD - Iraq Army	51.2	—	210.0	—	261.2
Other Agency Funds	477.8	—	—	—	477.8
Economic Support Fund (ESF)	—	—	—	1,540.4	1,540.4
INL (Int'l Narcotics & Law Enforcement)				91.4	91.4
IFTA (Treasury Dept. Tech Asst.)				13.0	13.0
IMET (Int'l Military Ed & Training)	—	—	—	0.7	0.7
Total U.S. Reconstruction Assistance	**3,804.0**	**18,579.0**	**6,319.0**	**5,415.5**	**34,112.5**

Sources: *Section 2207 Report to Congress Pursuant to P.L. 108-106*, July 2006; CPA Inspector General, *Report to Congress, Pursuant to P.L. 108-106*, July 2006; Department of State, *Iraq Weekly Status Report*, August 23, 2006; and CRS calculations.

U.S. Assistance

To date, the bulk of U.S. assistance has been provided to a special Iraq Relief and Reconstruction Fund (IRRF) for the purpose of aid efforts in a wide range of sectors, including water and sanitation, food, electricity, training and equipping of Iraqi security forces, education, and rule of law. It was established in the FY2003

Emergency Supplemental (P.L. 108-11, H.R. 1559/H.Rept. 108-76), signed on April 16, 2003, with an appropriation of $2.5 billion. A subsequent FY2004 Emergency Supplemental (P.L. 108-106, H.R. 3289/H.Rept. 108-337), signed on November 6, 2003, added $18.4 billion to the IRRF. The Fund was placed under the control of the President.

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

In addition to the IRRF, funds have been drawn from other accounts for related purposes. Department of Defense appropriations have gone to pay part of the costs for repair of Iraq's oil infrastructure, for training of the Iraqi army, and toward the Commanders Emergency Response Program (CERP). In addition to drawing from the IRRF, USAID has used its own funds to pay for humanitarian programs in Iraq.

The FY2005 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept.109-72), signed on May 11, 2005, provided $5.4 billion for a new DOD account — the Iraq Security Forces Fund (ISFF) — supporting the training and equipping of Iraqi security forces. Previously, most security training funds had been provided out of the IRRF. Policy responsibility for the IRRF, originally delegated to the CPA (under DOD authority), had, since the end of the occupation in June 2004, belonged to the State Department as a result of a Presidential directive (NSPD 36, May 11, 2004), which, nonetheless, continued to give DOD the main role in directing security aid. Putting funding for security entirely under DOD, however, is a sharp departure from historic practice. Under most military assistance programs — Foreign Military Financing (FMF) and the International Military Education and Training Program (IMET) — State makes broad policy and DOD implements the programs. The conference report on the supplemental adopted the President's formula for the new account but required that the Iraq Security Forces Fund be made available "with the concurrence of the Secretary of State." The FY2006 Emergency Supplemental adds another $3 billion to the ISFF.

For the regular FY2006 foreign operations appropriations, the Administration again departed from previous practice by requesting $414 million in Iraq reconstruction funds under traditional foreign aid accounts instead of funneling requests exclusively through emergency supplementals and for the IRRF. Of this amount, $360 million was Economic Support Funds (ESF) to be used for traditional development programs supporting local governance, civil society, elections, private sector development, economic reform, and agriculture. Many of these assistance activities had been funded out of the IRRF, and some Members felt that sufficient funds remained unobligated in that account — at the time, $3-5 billion — from which the Administration could draw. As a result, Congress provided (P.L. 109-102, H.R. 3057) only $61 million in funds for Iraq ($60.4 million after rescission) — $5 million for the Marla Ruzicka Iraqi War Victims Fund and $28 million each for the democratization activities of the International Republican Institute and the National Democratic Institute.

For the FY2006 Emergency Supplemental Appropriations, the Administration requested $5.7 billion for reconstruction activities — $3.7 billion for the ISFF; $378 million for the CERP (the $423 request included Afghanistan); and $1.6 billion in so-called "stabilization" assistance for Iraq. The conference report on P.L. 109-234 (H.R. 4939; H.Rept. 109-494), signed into law on June 15, 2006, provides $3 billion for the ISFF, matches the request for the CERP, and nearly matches the $1.6 billion request for "stabilization" aid.[4]

The $1.6 billion "stabilization" appropriation chiefly appears to address three major issues of current concern to those implementing the reconstruction program:

- **Security.** Reconstruction progress has been severely undermined by the insurgency which has directly targeted key infrastructure for destruction. The Administration sought $287 million to help secure oil, electricity, and water infrastructure.

- **Sustainability.** As more large-scale construction projects have been completed with U.S. assistance, there has been increasing concern regarding the financial, organizational, and technical capacity of Iraqis to maintain them in the long run. The appropriation provides $355 million to assist the Iraqis to operate, maintain, and sustain these projects. In the past, this has been accomplished largely by providing training and replacement parts.

- **Provincial Reconstruction Teams (PRTs).** Following the example established in Afghanistan, the State Department is seeking to set-up at least eight PRTs throughout Iraq, up from the five established in the past eight months. PRTs consist of officials from USAID, State, the military, and other agencies who work with Iraqi local government committees to identify economic and political development projects that can be implemented with U.S. financing. While enabling aid workers to escape the isolation of the "green zone" and expand outreach to the provinces, they are also viewed as a way to improve coordination of aid, especially of DOD-CERP funds and State-controlled funding. An appropriation of $675 million is expected to be disbursed by the PRTs, including $165 million to stimulate short-term employment for young adults, $165 for local government, and $20 million for local business development.

The FY2006 supplemental also will provide significant funding to governance, democratization and rule of law programs at all levels of government in Iraq. These efforts include $125 million to help Iraqi ministries improve their ability to operate, $37 million to assist the Iraqi Special Tribunal that is investigating and trying Saddam Hussein and others, $10 million for broad democracy activities such as

[4] The conference report also provides funding for operational and security costs — $220.8 million for the PRTs, $101 million for USAID, and $24 million for the SIGIR.

parliamentary and civil society development, and $13 million to provide Treasury Department technical assistance to the Ministry of Finance and the Central Bank.

The legislation also amends the FY2004 Supplemental to alter the allocation of $18.4 billion that had been approved by Congress for each major reconstruction sector — most recently by statute in September 2004. Periodically, the allocations had been changed to the extent allowed by law without need for further legislation. The supplemental gives the Administration greater flexibility by aligning the legislated allocations with current needs and by making remaining funds available for re-obligation for one year beyond the previous expiration date of end of FY2006 as long as they are initially obligated by end of September 2006. Congress rejected a proposal to allow any obligated funds to be re-obligated regardless of sectoral allocation restrictions.

Congress altered several other features of the original request. Instead of $107 million to construct correctional facilities and provide security for judges, it provides $91.4 million. It funnels $50 million of ESF at specific amounts to a specific list of seven democracy and rule of law NGOs whose funding was expected to end in 2006. It also provides $50 million for USAID's Community Action Program (CAP), of which $5 million is moved to the IRRF for the Marla Ruzicka Iraqi War Victims Fund. Funding for the well-regarded CAP was also expected to run out and not be renewed this year. In report language, the conferees called for compliance with a House provision that directed that no new funding for the PRTs is to be permitted until an assessment of pilot PRTs, a program plan, and other reporting requirements are met by the Department of State.

FY2007 Foreign Operations Appropriations. Despite its lack of success in obtaining full funding for Iraq in the regular FY2006 budget, the Administration requested nearly $773 million in its regular FY2007 foreign operations budget. Most of the request is composed of $478.8 million in ESF to continue programs to sustain U.S.-funded infrastructure, and support democracy, governance, civil society, economic policy reform, private sector, and agriculture programs. An additional $254.6 million is aimed at rule of law programs (International Narcotics and Law Enforcement account - INCLE), $18.2 million is for nonproliferation and anti-terrorism activities (Nonproliferation, Anti-Terrorism, and Demining account - NADR), $20 million is for refugee assistance (Migration and Refugee Assistance account - MRA), and $1.2 million for IMET (International Military Education and Training program).

On June 9, the House approved H.R. 5522 (H.Rept. 109-486), the FY2007 Foreign Operations bill. It cuts the ESF request by $173 million to $305.8 million. In report language, the Appropriations Committee supported the MRA request, but did not comment on Iraq levels for the other accounts. Substantial cuts in the overall INCLE and MRA account requests might affect amounts provided for Iraq. The Committee also directed that $50 million be provided to the USAID Community Action Program.

On July 15, the Senate Appropriations Committee reported its version of the bill (S.Rept. 109-277), matching the total Administration request level. However, it reallocated $108 million in ESF and INCLE funds intended for democracy and rule of law activities to the Democracy Fund to be used in Iraq for the same purposes.

Oil Resources

Oil revenues have been a critical element in reconstruction funding. Prior to the war, the Administration had expected that Iraq's oil reserves would help it "shoulder much of the burden for [its] own reconstruction."[5] 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.[6]

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.

Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq obtained control over use of DFI funds. Oil production accounts for more than 90% of the Iraqi government revenue. However, even with a rise in oil prices, 2005 revenue — about $26 billion — is barely sufficient for operating expenses, putting significant constraints on amounts of funding available to the government for reconstruction programs.[7]

Recognizing the importance of oil revenue to Iraq reconstruction, more than $2.5 billion of total U.S. reconstruction funding has been devoted to efforts to restore and expand oil production infrastructure. Oil exporting resumed in mid-June 2003, but oil production has been slowed by sabotage and corruption. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with an estimated pre-war rate of 2.5 million barrels/day, but rates have fallen since then and, as of mid-August 2006, stand at 2.2 million barrels/day. The CPA target had been

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

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

[7] International Monetary Fund, *Country Report No. 06/301*, August 2006.

2.8-3.0 million barrels/day by end of 2004. The Iraqi government says it hopes to raise production to at least 2.5 million barrels/day in 2006.[8]

After paying for operating budget expenses and a variety of government social programs, very little of Iraq's oil revenue has been left for reconstruction. Fuel and food subsidies as well as support for state-owned enterprises are said to account for as much as $11 billion annually. Because these practices divert funds from needed reconstruction for which the United States might have to compensate, Administration officials have repeatedly pressured the Iraqi transition government to face the need to address the subsidy issue. As part of its agreement with the IMF pursuant to a debt reduction with the Paris Club, Iraq in mid-December 2005 began to take steps to end its subsidy of gasoline, increasing the price of fuel from 5 cents to 40 cents a gallon.[9]

A further concern regarding the amount of oil income available for reconstruction is the extent of corruption and mismanagement in the Iraqi government. A recent audit of the DFI undertaken on behalf of the International Advisory and Monitoring Board (IAMB) has found that controls over export earnings are ineffective and funds are improperly accounted for by government staff. The Comptroller General of the GAO has also suggested that there is "massive corruption" in the Oil Ministry.[10]

Iraqi Debt

At the time of the invasion, Iraq's debt, both public and private, was estimated at $125 billion.[11] Since then, the United States has argued that any new Iraqi government should not be burdened with debts associated with the policies of its previous ruler and has supported a near total forgiveness of debt. Some large holders of Iraqi debt — France, Germany, and Russia for instance — were more inclined to reschedule debt than to forgive it, arguing that, as an oil rich country, Iraq could afford someday to pay its debts.[12]

Several steps led to a partial resolution of the debt issue. A series of meetings in early 2004 between the President's personal envoy for Iraq debt reduction, former Secretary of State James Baker III, and the leaders of debt-holding countries led to

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[8] Department of State, *Iraq Weekly Status Report*, August 23, 2006. "Iraqis Look to Raise Oil Output Next Year," *Financial Times*, December 29, 2005.

[9] "At Gas Stations in Iraq, Price Hike Fuels Outrage," *Washington Post*, December 28, 2005; "Despite Crushing Costs, Iraqi Cabinet Lets Big Subsidies Stand," *New York Times*, August 11, 2005; "Iraqi Economy Adds to Tensions with U.S.," *Financial Times*, July 7, 2005; "Iraqis Reluctant to End Love Affair with Fuel Subsidies," *Financial Times*, June 13, 2005.

[10] "Corruption Cited in Iraq's Oil Industry," *Washington Post*, July 17, 2006; "An Audit Sharply Criticizes Iraq's Bookkeeping," *New York Times*, August 12, 2006.

[11] 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.

[12] G-7 Agrees That Iraq Needs Help with Debt," *Washington Post*, April 13, 2003; "Restructuring, Not Forgiveness," *Financial Times*, April 15, 2003.

statements of support, but no firm commitment, for varying levels of relief. By September 2004, Iraq had both assumed sovereignty and cleared its overdue financial obligations to the IMF, making it easier for Iraq to negotiate an agreement with private and government creditors. Further, Congress approved $360 million (P.L. 108-309) to cover the costs of cancelling the roughly $4 billion Iraqi debt obligation owed the United States. These factors culminated in an agreement by the 19 Paris Club government creditors on November 20, 2004, to write off roughly $31 billion in Iraqi debt, 80% of what it owed to this group. In addition to Paris Club creditors, Iraq owes about $67 billion in other bilateral debt (mostly to Gulf States countries) and $20 billion in commercial debt. Of the latter, about $16 billion is expected to be forgiven in the near future.[13]

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.[14] The Madrid donor conference, held on October 23-24, 2003, produced a minimum total of $13.6 billion in reconstruction aid pledges from other donors — nearly $4 billion in grant aid and $9.6 billion in loans. Later pledges have raised the total non-U.S. offer to $14.6 billion as of June 30, 2006.[15]

Grant aid pledges from other donors include $1.5 billion by Japan, $452 million by the United Kingdom, $220 million by Spain, $715 million by the European Commission, $200 million by South Korea, and $236 million by Italy. Loans have been offered by Japan ($3.5 billion), the World Bank (between $3.0 and $5.0 billion), the IMF (between $2.6 and $4.3 billion), and Saudi Arabia ($500 million). Of these pledges, as much as $3.5 billion has been disbursed, much of it as a contribution to the IRFFI (see below).[16]

Japan and Britain have been notably active in providing bilateral assistance. Japan, the second largest donor after the United States, has already spent most of the $1.5 billion in grant aid it pledged and is about to launch the first $655 million of a $3.5 billion concessional loan. Among other things, it has provided significant funding for electrical power station rehabilitation, water treatment units and tankers, medical equipment, and firetrucks and police vehicles. The loan is funding port and power plant rehabilitation and irrigation improvements. Britain has offered considerable technical assistance and related support for improvements in the justice system, governance, and economic policy.

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

[14] 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.

[15] SIGIR, *Report to Congress*, July 30, 2006, p. 94.

[16] SIGIR, *Report to Congress*, July 30, 2006, p. 93-103.

Among multilateral contributions, the IMF has provided a $436 million loan and approved a $685 million Standby Arrangement on which Iraq can draw. In November 2005, the World Bank announced its first Iraq loan for a $100 million education project, part of an anticipated $500 million loan program.[17]

In 2006, donor reluctance to implement programs due to security concerns and related high costs are being addressed by the Iraqi government. A "donor village" in the protected green zone is being prepared that will offer housing and office space from which development projects can be conducted. The United States has actively assisted in the establishment of this facility.[18]

Iraq Trust Fund. During much of the occupation, donors had been reluctant to contribute to reconstruction because they had no say in where the funds are to be allocated.[19] To deal with this concern, a multi-donor trust fund, the International Reconstruction Fund Facility for Iraq (IRFFI), was established on December 11, 2003. It encourages contributions by keeping them outside the control of the United States, but supports needs identified in the World Bank needs assessment and approved by the Iraqi government. The Facility has two windows, one run by the Bank (the World Bank Iraq Trust Fund) and one by the United Nations (UNDG Iraq Trust Fund). As of June 2006, donors had deposited about $1.37 billion to the Facility. The World Bank Fund ($454 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 ($934 million deposited) is supporting a wide range of projects, most to be implemented by the Iraqi government.[20]

United Nations. In addition to the above donor projects, the United Nations, since its return to Iraq in early 2004, has been largely responsible for providing assistance and guidance to assist the democratization of Iraq, including support to the transitional government and the Iraqi Electoral Commission. U.N. envoy Lakhdar Brahimi helped negotiate the transition to sovereignty, and a U.N. team headed by Carina Perelli assisted the implementation of elections for the National Assembly, successfully held on January 30, 2005. With U.N. assistance the electoral law was drafted, thousands of registrars were trained, 540 registration centers were set up around the country, millions of ballots were printed, 5,300 voting centers established, and thousands of poll watchers trained. Much of the U.N. work was conducted from

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[17] SIGIR, *Report to Congress*, April 30, 2006; "Iraq: World Bank Approves First IDA Credit," World Bank News Release, November 29, 2005.

[18] State Department, *2207 Report to Congress*, July 2006, Appendix II.

[19] "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.

[20] SIGIR, *Report to Congress*, July 2006, p. 98. State Department, *2207 Report to Congress*, July 2006, Appendix II.

outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities.[21]

U.N. Security Council Resolution 1637, approved November 8, 2005, extends the U.N. Mission for Iraq (UNAMI) another year and calls on the U.N. to continue to play a leading role in assisting Iraq. The U.N. helped with the constitution-writing process, the subsequent referendum, and the December 2005 parliamentary election. With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects. Currently, there are about 800 U.N. international and local staff in Iraq.[22]

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

U.S. Assistance Policy Structure on Iraq

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. At that time, broad responsibility for assistance programs moved from the Secretary of Defense to the Secretary of State.[23] At the Department, the Senior Advisor and Coordinator for Iraq is James Jeffrey. In Iraq, the United States provides assistance and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy under Ambassador Zalmay Khalizad. The embassy employs about 1,000 U.S. and locally engaged direct hire staff. An Iraq Reconstruction Management Office (IRMO) within the U.S. embassy has supplanted CPA assistance efforts in setting requirements and priorities. It is headed by Ambassador Joseph A. Saloom.

Responsibility for the activities of the Project and Contracting Office (PCO), formerly the CPA's Program Management Office (PMO), has been taken over by the Army Corps of Engineers, Gulf Region Division (GRD), headed by Brig. Gen. William H. McCoy, Jr.[24] The GRD-PCO is in charge of contract management and execution for the roughly $10 billion dedicated to infrastructure construction.

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[21] "U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis," *New York Times*, January 26, 2005.

[22] 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.

[23] According to National Security Presidential Directive (NSPD) of May 11, 2004. It made the Secretary of State responsible for "continuous supervision and general direction of all assistance for Iraq."

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

Although in the Department of Defense, it reports to the Department of State as well as to the Department of the Army.

Immediate overall responsibility for management of U.S. military activity in Iraq belongs to General George Casey, Jr., commander of the multinational forces in Iraq. He also serves as principal military adviser to the U.S. ambassador. With the policy guidance of the Ambassador, General Casey is responsible for providing training and support to Iraqi security forces. Maj. Gen. Martin E. Dempsey is the officer immediately responsible for overseeing the organization and training of all Iraqi security forces. Although the State Department had assumed control of technical assistance provided to the different Iraq ministries, in October 2005 it ceded responsibility to DOD for the two ministries most closely involved in security matters — Interior and Defense. Among reasons given for this switch are that DOD has greater resources at its disposal and that State has had difficulty filling advisor positions in these ministries, the latter point disputed by some. In most other countries, State has responsibility for training police forces.[25]

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the DOD Authorization for FY2005 (P.L. 108-375). Special Inspector General Stuart Bowen, Jr., reports to both the Secretary of Defense and State. The SIGIR office has about 48 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. In addition to audits and investigations, the SIGIR issued his first report to Congress on March 30, 2004 and has reported quarterly since then.[26] P.L. 108-375 extended the SIGIR beyond its originally mandated December 2004 expiration and granted operational authority until 10 months after 80% of the reconstruction funds have been obligated. The FY2006 Foreign Operations appropriations (P.L. 109-102) permits it to function until 10 months after 80% of FY2004 IRRF funds have been expended. To date, 72% has been expended. An amendment to H.R. 5122, the Defense Authorization, approved by the Senate on June 22, 2006, would consider all FY2006 reconstruction appropriations, regardless of account, as though they were under the IRRF, thereby further extending the life, as well as the authority, of the SIGIR.

U.S. Reconstruction Assistance

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

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[25] "Aid to Iraq Ministries to Shift to Pentagon," *Washington Post*, September 26, 2005.

[26] See [http://www.sigir.mil/] for reports and audits.

Reconstruction Priorities

Reconstruction priorities have changed over time, mirroring shifting events on the ground. For example, in November 2003 when the CPA decided to accelerate the hand-over of sovereignty, it immediately revised the allocation of FY2004 IRRF appropriations that had been legislatively mandated only weeks previously in order to increase substantially the democratization effort — from $100 million to $458 million.

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

Sector	Current allocation	Obligations as of August 22, 2006	Exp.
FY2004 Supplemental (P.L. 108-106)			
Security and Law Enforcement	5,031	4,958	4,618
Justice, Public Safety, and Civil Society	1,308	1,231	900
Democracy	1,014	996	800
Electricity	4,220	3,870	2,522
Oil Infrastructure	1,725	1,687	1,101
Water and Sanitation	2,131	1,644	1,099
Transport and Telecommunications	469	422	307
Roads, Bridges, Construction	334	324	191
Health	785	736	519
Private Sector	805	795	697
Education, Refugees, Human Rights, Governance	410	368	299
Administrative Expenses	213	212	152
Total FY2004 Supplemental	**18,444**	**17,434**	**13,356**
FY2003 Supplemental (P.L. 108-11)	**2,473**	**2,232**	**2,139**
Total IRRF	**20,917**	**19,666**	**15,495**

Sources: Department of State, *Iraq Weekly Status Report*, August 23, 2006.

In September 2004, the Administration proposed and Congress approved (P.L. 108-309) a substantial reallocation of FY2004 IRRF resources, reflecting a review conducted by the IRMO and the U.S. Embassy country team after the State Department took charge of Iraq non-military policy on June 28, 2004.[27] The review

[27] Because the desired changes were greater than the FY2004 supplemental's restriction on how much a specific sector — such as security or health — could be increased (no more (continued...)

identified security needs, increased oil production, greater employment, and democracy as the highest priorities, while suggesting that many large-scale economic infrastructure projects were too slow and dependent on an improved security situation to have an immediate impact.

As a result, security — mostly training and equipping Iraqi forces — increased by $1.8 billion. Efforts to increase oil production capacity gained $450 million. Employment creation — mostly USAID labor-intensive local road, clean water, and other improvement projects — received an additional $280 million. Democracy programs geared toward assisting the pending elections grew by $180 million. General development programs — mostly conducted by USAID in the areas of economic reform, private sector development, and agriculture — increased by $380 million. To demonstrate U.S. commitment to debt reduction prior to Paris Club deliberations, the reallocation drew on $352.2 million to subsidize U.S. forgiveness of $4 billion in bilateral Iraqi debt to the United States.

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

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

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

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[27] (...continued)
than 20%) or decreased (no more than 10%) from the original congressional allocation, a simple notification to the appropriations committees was insufficient. Requiring legislative action in order to accommodate the President's reallocation plan, Congress included such authority in the FY2005 Continuing Resolution (P.L. 108-309). In the FY2006 Emergency Supplemental, Congress again re-set the allocation baseline in order to give the Administration additional programming flexibility.

maintenance of U.S.-rehabilitated equipment in the oil, electricity, and water sectors. Most of the reallocated funds again came from canceled long-term energy and water projects. With dwindling amounts available to the IRRF, recent reallocations have been comparatively small.

While reallocations are pragmatic responses to new events on the ground, their cumulative impact has been to divert funds from previously planned programs — the resulting "reconstruction gap" has been raised as an issue of possible interest by the SIGIR (see below).

Reconstruction Programs and Issues

Status. Reconstruction programs have shown mixed results to date. Although there are many positive outputs — schools rehabilitated, vaccinations provided, etc. — in arguably the most critical sectors — electric power and oil production — the outputs have been less than originally envisioned. Moreover, the impact of these projects on Iraq is hard to estimate, and the extent to which they and other-donor contributions meet the total needs of Iraq has not been fully assessed. Although mismanagement and corruption play a large role in diminishing returns from reconstruction efforts, it has been the lack of stability and the effects of the insurgency that have most affected the course of reconstruction to date.

A brief review of each reconstruction sector:[28]

- **Security and Justice**. About 294,100 police and military security forces have been trained and equipped — the end-strength Iraqi goal has been 326,000. Reports indicate, however, that many are insufficiently trained to required levels of competence. More than 1,200 facilities — police stations, border forts, fire stations, courts, etc. — have been completed. (See below for more.)

- **Healthcare**. The focus of this sector has been to rehabilitate and equip facilities and provide medical services such as immunizations. Health care providers have been trained and facilities equipped. The immunization program has been a success, with nearly 98% of children under five immunized against polio. Twenty hospitals are being refurbished. The most significant shortfalls are that only 20 of a planned 150 clinics will be finished, and the Basrah Children's Hospital has had significant cost overruns and delays.

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[28] SIGIR, *Report to Congress*, July 30, 2006, p. 15-89; Department of State, *2207 Report to Congress*, July 2006; Department of State, *Iraq Weekly Status Report*, August 23, 2006; "U.S. Plan to Build Iraq Clinics Falters," *Washington Post*, April 3, 2006; "Billion-Dollar Start Falls Short in Iraq," *Washington Post*, April 16, 2006; "U.S. Rebuilding in Iraq Found to Fall Short," *New York Times*, January 27, 2006; "Iraq Utilities are Falling Short of Prewar Performance," *New York Times*, February 9, 2006; "Attacks on Oil Industry in Iraq Aid a Vast Smuggling Network, *New York Times*, June 4, 2006.

- **Transportation and Communications**. Key results in this sector are the restoration of the deepwater port at Umm Qasr, and repairs on 82 of 98 railway stations, as well as two international and three regional airports. Although the port has shown considerable activity, only 4% of Iraqi trains run because of security concerns. Further, there are reports that the train stations have been refurbished well below anticipated standards. The SIGIR notes that road repairs are only targeting a very small percentage of total road and bridge work likely to be required (for example, only 10 repaired bridges of 1,156 in poor condition or destroyed). While U.S. assistance has supported modernization of the postal service and rebuilding of the landline telephone network, the strongest advance was due to the private sector provision of mobile phone technology, helping to raise total phone users from 913,000 to over 7 million.

- **Democracy, Education, Agriculture and Private Sector Development**. About 6,800 schools have been rehabilitated and 47,000 teachers trained. Local governance was strengthened through establishment of councils and community associations. More than 3,475 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. Voter education, training of election monitors, and related activities contributed to three successful elections in 2005. These sectors have nearly run out of IRRF funding and must look to other accounts for future activities.

- **Electricity.** U.S.-funded projects have added 2,710 megawatts (MW) to Iraq's generating capacity. Before the war, electric power was 95,600 megawatt hours (MWh). Although now, for the first time in a year, it is above 100,000 MWh, the goal was originally 120,000 MWh. In Baghdad, Iraqis receive fewer hours of electricity than before the war (averaging about 6 hours in mid-August); elsewhere they receive much more than previously (about 11 hours). In addition to the impact of insurgent activity, other challenges to the growth of electrical power are the rising demand for electricity, a lack of centralized monitoring and control systems, poorly maintained infrastructure, and a shortage of fuels to operate power plants.

- **Oil and Gas.** Oil and gas production has remained stagnant and below pre-war levels for some time. The pre-war level of oil production was 2.5 million barrels/day; it currently stands at 2.2 million barrels/day. The goal was 2.8-3.0 million by end of 2004. According to the SIGIR, poor infrastructure, corruption, and difficulty maintaining and operating U.S.-funded projects join the destruction caused by the insurgency as major challenges to the industry.

- **Water and Sanitation**. Water and sanitation sector assistance, according to the IRMO, has provided clean water to 4.2 million more people and sanitation to 5.1 million more than before the war. However, a survey found that 54% of Iraqis lack access to clean water.

The Reconstruction Gap. Many of the projects that were originally promised to the Iraqis and for which funds were appropriated by Congress cannot be completed with the sums allotted under the IRRF. The SIGIR attributes this "reconstruction gap" to a number of factors, including the unexpected higher cost of security to protect projects and project personnel; the higher cost for materials, especially in the oil sector; higher costs due to project delays, many deriving from security disruptions; the reprogramming of planned assistance in sectors such as electricity and water to other sectors such as security and oil production; and the increased need to provide for long-term sustainability of projects.

The consequences of this "gap" for Iraq are significant. For example, the SIGIR has determined that, of 136 projects originally planned in late 2003 for the water sector, only 49 will be completed. Mostly eliminated have been projects in sewerage, irrigation, and dams. Of 425 projects planned in the electricity sector, only 300 will be completed. As the Administration is not proposing to provide further large-scale infrastructure assistance to Iraq, the SIGIR findings point to an increased burden that the Iraqi government will have to face on its own or windows of opportunity for other donors.[29]

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

- The instability has delayed implementation of reconstruction projects. For example, the SIGIR reports that on March 24, 2006, a project manager received an e-mail threatening all employees — as a result, no one came to work the next day.[30]

- Completed reconstruction projects and pre-existing infrastructure have been destroyed. Major pipelines continue to be sabotaged, shutting down oil exports, with the consequent loss of hundreds of millions of dollars in revenue.[31]

- Reconstruction costs have risen due to the need to provide for security and insurance for personnel. Estimates of the portion of project costs devoted to security vary widely; the State Department estimates it at 16%-22%. In any case, project security costs as well as the related need to shift $1.8 billion from water and power

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[29] SIGIR, *Report to Congress*, January 30,2006, page 4.

[30] SIGIR, *Report to Congress*, April 30, 2006, p. 12.

[31] "Mortar Attack Shuts Down Refinery," *Los Angeles Times*, February 2, 2006; "Sabotage Cuts Power to More Than 100 Electrical Lines," *New York Times*, June 11, 2004.

projects to the training and equipping of Iraqi forces has meant that funds have been drained from infrastructure programs. Among other results, USAID cancelled two electric power generation programs; the Army Corps of Engineers cut a planned 23 electric substation rehabilitation program to nine.[32]

- Iraqi government-budgeted funds planned for the operation and maintenance of U.S.-funded infrastructure projects have had to be diverted to pay for security forces, increasing the need for U.S. sustainability assistance.[33]

- 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, due in large part to unexpected security expenses, may severely decrease the number of construction projects the United States is able to undertake in Iraq.[34]

- Implementing organizations and personnel have fled. Fearing for their safety, many aid implementors have been withdrawn from the country. U.N. and bilateral aid donors have been reluctant to initiate projects of their own; many, including the U.N., are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.[35]

- The quality of aid has likely been negatively affected as implementors cannot meet with local people and design and monitor projects as they would in other countries. The pool of foreign expertise available to advise the government and NGOs is restricted to those few willing to endure the country's hardships. U.S. agency personnel stay only a short time and therefore institutional knowledge is not maintained. Iraqi experts necessary to successful

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

[33] Ambassador Jeffrey, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

[34] SIGIR, *Report to Congress*, January 30, 2005 and 2006.

[35] "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.

reconstruction have left — ten percent of registered doctors have reportedly given up work in the past year. According to the U.N., in May 2006, 22 doctors, nurses, and non-medical staff were killed and 50 were wounded.[36]

- In a broader sense, prolonged insecurity has undermined the trust of the Iraqi people in U.S. and now Iraqi government leadership to bring about a democratic and economic transformation in Iraq, opening the door to further political discontent and possible civil war.[37]

There are two elements in the effort to provide the security that might allow political and economic reconstruction to take hold — U.S. and coalition peacekeeping forces and the training of Iraqi security forces to replace them. The number of U.S. troops is roughly 133,000. There are also about 19,000 troops from 27 other nations.[38] Although NATO rejected the Administration request that it provide forces, it did agree to help train Iraqi troops, and all NATO members currently provide training or equipment.[39]

Forty percent of total U.S. appropriations for reconstruction — nearly $14 billion — are aimed at building Iraqi security forces. Most of these funds — $10.5 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 mid-August 2006, there were 115,500 trained and equipped conventional Iraqi police and 127,200 army forces. Officials believe 325,000 security forces are needed to defeat the insurgency. In all, about 294,100 security forces are currently defined by officials as ready for action. However, reports by officials and observers have suggested that many fewer could be said to be capable of the most demanding jobs.[40] During the past three years, poorly trained and

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[36] SIGIR Report to Congress, July 30, 2006, p. 66; "As Death Stalks Iraq, Middle-Class Exodus Begins," *New York Times*, May 19, 2006; "Iraq's Attorneys Practicing in a State of Fear, *Washington Post*, June 10, 2006; "Professionals Fleeing Iraq as Violence, Threats Persist," *Washington Post*, January 23, 2006; "Facing Chaos, Iraqi Doctors are Quitting," *New York Times*, May 30, 2005; SIGIR, *Report to Congress*, July 30, 2005, p. 20; "World Bank Considers Sending Staff Back to Baghdad," *Washington Post*, September 18, 2005.

[37] "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.

[38] *Iraq Index*, Brookings Institution, [http://www.brookings.edu/iraqindex], August 21, 2006, page 22; Department of State, *Iraq Weekly Status Report*, August 23, 2006.

[39] "NATO Reports All 26 Nations are Aiding Iraq with Training, *New York Times*, September 22, 2005.

[40] Department of State, *Iraq Weekly StatusReport*, August 23, 2006; "An Army of Some," *New York Times Magazine*, August 20, 2006; "On Patrol, Iraqis Prove Eager, Erratic and Green," *New York Times*, August 10, 2006; "Misjudgments Marred U.S. Plans for Iraqi Police," *New York Times*, May 21, 2006; "How Iraq Police Reform Became Casualty of (continued...)

equipped security forces, no-shows and desertions, dismissals of police for criminal behavior, bribe-taking for obtaining higher rank or for release of insurgent suspects, and infiltration of police and other units by sectarian militia groups have threatened U.S. plans to increase security using Iraqi personnel.[41]

Early U.S. efforts to support forces specifically intended to protect critical oil and electricity infrastructure are regarded by the SIGIR as failures. Currently, assistance is being used to strengthen a different entity, the Strategic Infrastructure Battalions, Ministry of Defense forces which protect oil fields and pipelines. According to the SIGIR, about 3,400 personnel have completed training.[42]

Implementing Agencies. There are three key implementing agencies in Iraq. The Army Corps of Engineers/Project and Contracting Office (ACE/PCO) is responsible for more than half of FY2004-funded IRRF programs — the roughly $9.6 billion currently dedicated to construction. The ACE/PCO coordinates, manages and monitors contracting and expenditures in six sectors — transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil. The PCO's parent organization, the Department of Defense, is responsible for most security training, including roughly $5 billion in IRRF funds and all $8.4 billion of ISSF funds.

Responsible for nearly three quarters of FY2003 funding and nearly 17% of FY2004 appropriations ($3.0 billion), the Agency for International Development (USAID) manages a wide 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. Other U.S. government agencies involved in the reconstruction effort include the Department of State which has provided police training and the Treasury Department which provides economic advice to the transition government.[43]

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[40] (...continued)
War," *New York Times*, May 22, 2006; "Pentagon Says Iraqi Forces Are Improving, but Still Can't Fight Alone," *New York Times*, October 14, 2005.

[41] "Iraqi Soldiers Refuse to Go to Baghdad, Defying Order," *New York Times*, August 29, 2006; "Police Abuses in Iraq Detailed," *Los Angeles Times*, July 9, 2006; "In Iraqi Town, Trainees are Also Suspects," *Washington Post*, April 29, 2006; "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.

[42] SIGIR, *Review of Task Force Shield Programs*, Audit 06-009, April 2006; SIGIR *Report to Congress*, April 30, 2006, p. 28.

[43] SIGIR, *Report to Congress*, July 30, 2006, Appendix D.

CERP and CHRRP. Drawn from DFI Iraqi seized assets and oil profits and Department of Defense funds rather than IRRF appropriations, the Commander's Emergency Response Program (CERP) contributes to the reconstruction effort by providing "walking around money" for U.S. military civil affairs officers throughout Iraq. Up to now, a total of $2.2 billion — $548 million in Iraqi funds and $1.6 billion in U.S. DOD appropriations — has been made available for this purpose. The CERP supports a wide variety of reconstruction activities at the village level from renovating health clinics to digging wells to painting schools, provided in the form of small grants. In lieu of civilian U.S. government or NGO aid personnel, who are not present in most of the country, commanders identify local needs and dispense aid with few bureaucratic encumbrances. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs. In addition to reconstruction, CERP funds are used for compensation payments to the families of killed or injured Iraqis. The Commanders Humanitarian Relief and Reconstruction Program (CHRRP) uses IRRF funds — $84 million to date — combined with Iraqi government grants — $136 million — for similar purposes. CHRRP projects are usually conducted on a larger-scale.[44]

The Role of Iraqis in Reconstruction. One facet of the U.S. reconstruction effort has been to attempt to encourage economic growth and decrease unemployment by trying to utilize Iraqis to the extent possible in the implementation of projects. In the first year, this involved making Iraqi businessmen aware of contract opportunities and encouraging U.S. contractors to employ Iraqi firms. Although U.S. government requirements could be waived for Iraqi contractors, most work for Iraqi business came in the form of subcontracts for U.S. prime contractors.

When the State Department took over reconstruction in July 2004, however, greater efforts were made to contract project work directly with Iraqis. The SIGIR estimates that about 70%-80% of contracting is now directly with Iraqis.[45] A contributing factor in this effort was the deleterious impact of security on the activities of the large-scale contractors. In January 2005, Contrack International, holder of a $325 million roads and bridges construction contract, announced its withdrawal.[46] Consequently, many bridge and road projects were then implemented directly with the Ministry of Construction, with estimated savings of between 30% and 40%.[47] USAID also used Iraqi Ministry employees to implement electrical distribution projects in Baghdad. The PCO and IRMO have made efforts as well to give the Iraqi Government some decision-making responsibility over U.S.-funded reconstruction work, including on-site supervision and drafting of contracts. They are also working to develop the capacity of private sector contractors, especially women-owned businesses, to respond to Iraqi government contracting opportunities

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[44] SIGIR, *Report to Congress*, July 30, 2006, Appendix C.

[45] Stuart Bowen, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

[46] BNA, Inc. Federal Contracts Report, January 11, 2005

[47] Ambassador Jeffrey, Testimony to House Foreign Operations Subcommittee, September 7, 2005. State Department, *2207 Report to Congress*, October 2005, p. 3.

in the future. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects. About 120,000 Iraqis are employed under all U.S.-funded projects.[48]

Provincial Reconstruction Teams (PRTs). In an effort to expand outreach to the provinces and strengthen local government, the Embassy, in 2005, encouraged the creation of Iraqi Provincial Reconstruction Development Committees (PRDCs) in the 18 governorates throughout the country. The PRDCs are composed of local and national government representatives. At the same time, roughly following the Afghanistan model, the Embassy began establishing Provincial Reconstruction Teams (PRTs), made up of Embassy, PCO, USAID, military, and other agency staff. Five PRTs have been established (from the three already existing Regional Embassy Offices in Kirkuk, Ninewa (Mosul), and Babil (Hillah), as well as in Baghdad and Anbar provinces). The State Department expects to establish a total of 8 U.S.-led PRTs, while two others will be led by Britain (Basrah) and Italy (Nasiriyah). Other coalition partners may host PRTs; remaining PRTs will be managed by Iraqis.[49]

The intention is that the PRDCs and PRTs work together to identify projects which can be implemented and carried out with U.S. financing. As a result, it is hoped local governments may be strengthened while U.S. projects achieve more lasting support. The PRTs will also work closely with provincial governments to strengthen their capacities and enable them to better interact with the central government. An additional benefit of the PRTs is that U.S. agencies may better coordinate their reconstruction programs. In its June 2005 review of resources, the IRMO allocated $241 million of IRRF funds to back the PRDC-PRT partnership — $80 million used through the CERP and $161 million through USAID's Community Action Program (CAP) and Local Governance Program (LGP). The FY2006 supplemental adds $675 million to be disbursed by the PRTs, including $165 million to stimulate short-term employment for young adults, $165 for local government, and $20 million for local business development.

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

A second issue is the availability of qualified U.S. government civilian staff. Early reports suggested that State was having difficulty enticing its personnel to

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[48] Department of State, *Iraq Weekly Status Report,* August 23, 2006.

[49] SIGIR, Report to Congress, July 2006, p. 4 and 6; Department of State, *2207 Report to Congress,* July 2006, p 4. "Military to Protect U.S. Aid Teams in Iraq," *Washington Post*, April 14, 2006.

volunteer for PRT posts; a point recently refuted by the Department.[50] Finally, the House Appropriations Committee has raised the concern that PRTs are very much pilot programs — it is unclear how they are to function in Iraq, whether coordination of the civilian and military funds available will work, and how well their mission of improving the capacity of government can be achieved. The conference report on the FY2006 supplemental embraces the House Committee position directing that *no new funds* be provided until reporting requirements, including assessments of current PRTs and complete program plans, are met.

Ministerial Assistance Teams (MATs). Much effort and assistance has previously gone into improving the capabilities of government ministries, including equipping and training personnel at all levels of service. Ministry officials and staff, however, remain deficient in knowledge of modern administrative systems and management practices. An initiative of the Embassy is the creation of Ministerial Assistance Teams composed of the senior consultants that have long been assigned to each Ministry, their Iraqi counterparts, and U.S. and international experts. The MATs will focus on trying to improve the performance of the core functions of key Ministries, by identifying basic needs of each Ministry, developing action plans to address these needs, and providing any training and technical assistance required. The FY2006 supplemental provides $125 million in additional funds for this effort.[51]

Infrastructure Sustainability. As more large-scale construction projects — power plants, water and sanitation systems, oil facilities, etc. — are completed, there has been increasing concern regarding the ability of Iraqis to maintain and fund their operations once they are handed-over to Iraqi authorities. A "principal objective" of PCO contracting has always been the "swift transition of the reconstruction effort to Iraqi management and control."[52] To insure long-term sustainability, the PCO and IRMO are focusing on what they call capacity development — providing training to the appropriate personnel in the labor force who will operate and maintain facilities and insuring sufficient funds are available for repairs and equipment replacement following project completion. At the Ministry level, the IRMO is assisting development of policies and laws conducive to efficient use and maintenance of infrastructure. The SIGIR has pressed the embassy to encourage ministries to develop strategic plans for sustainment of its infrastructure.[53]

According to the SIGIR, the State Department has identified $425 million in IRRF funds that have been already been spent or are programmed to be used to help sustain projects. In addition, the FY2006 supplemental provides $355 million for this purpose. Another $134 million has been requested in the FY2007 budget.

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

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[50] "Rice's Rebuilding Plan Hits Snags," *Washington Post*, January 15, 2006.

[51] Department of State, *2207 Report to Congress*, April 2006, p. 2.

[52] Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, Jan. 21, 2004.

[53] Briefing by PCO on Capacity Development, March 17, 2005; State Department, *2207 Report to Congress*, June 2005, p. 5.

annually to operate and maintain U.S.-sponsored projects.[54] Whether the Iraqi government can shoulder the burden of additional costs — it is already running a deficit — will likely depend on the level of resources it is able to draw on from oil profits and international donors.

Accountability, Waste, and Fraud

A lack of transparency in early contracting and numerous reports in the media suggesting that reconstruction funds were being squandered led to the establishment in the FY2004 supplemental of an Inspector General for the CPA, now called the Special Inspector General for Iraq Reconstruction (SIGIR).[55] The SIGIR has issued more than 65 audits and 56 project assessments, and it has conducted 96 limited onsite inspections as well as dozens of investigations of possible criminal activity.[56] Up to now, the most egregious examples of the latter appear to center, not on IRRF reconstruction aid, but on the use of DOD appropriations — especially the Halliburton Kellogg, Brown & Root (KBR) projects — and on the CPA's use of Iraqi funds (see the DFI section below).[57]

The main exceptions are cases involving use of IRRF funds blended with Iraqi or DOD funds. A KBR contract to repair oil fields and import gasoline and other oil products into Iraq (Restore Iraqi Oil — RIO), funded by about $900 million in U.S. funds — both DOD and IRRF — and $1.5 billion in Iraqi money, led to findings by Defense Contract Audit Agency auditors disputing $263 million in charges. Either

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[54] SIGIR, *Transition of Iraq Relief and Reconstruction Fund Projects to the Iraqi Government*, Audit 06-017, July 2006.

[55] 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.)

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

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

the charges were inflated — KBR paid a Kuwait company 40% more for gasoline than the U.S. military pays — or they were unsupported by documentation. In the end, the Army decided to ignore its auditors and pay KBR all but $10.1 million of the disputed charges, a percentage reportedly considered unusually low in such cases.[58]

On March 9, 2006, Custer Battles, a contractor on the project that distributed the new Iraqi currency, was found guilty of fraud. Although the contract let by the CPA was for roughly $20 million, the judge controversially ruled that Custer Battles could only be charged for fraud relating to the $3 million which was U.S. taxpayer money — the rest were Iraqi funds and not under U.S. jurisdiction. The contractor received a $10 million fine.[59] On August 18, a federal judge overturned the verdict and fine on the disputed grounds that the CPA was not an entity of the U.S. government, but rather an internationally-run body.[60]

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

- The Basrah Children's Hospital, expected to cost $50 million, will run to at least $98 million and nearly a year behind schedule. Bechtel, the project contractor, has been removed and the project is expected to be completed using local contractors. USAID, the agency responsible, failed to report the cost and delays, in part because it has only one contracting officer and one technical officer to oversee 20 projects worth $1.4 billion.[61]

- A $218 million first responders network is ineffective — communication is not possible between the three established zones

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[58] "Army to Pay Halliburton Unit Most Costs Disputed by Audit, *New York Times*, February 27, 2006; "Now You See It: An Audit of KBR," *New York Times*, March 20, 2005; Defense Contract Audit Agency, Audit Report 3311, October 8, 2004, available at Government Reform Committee minority website [http://www.democrats.reform.house.gov]. In December 2005, the IAMB called on the United States to "seek resolution" with the Iraqi government — possibly make repayment — on up to $208 million of the Iraqi funds that went to KBR for work questioned by the DCAA. "U.S. Owes $208 Million to Iraq, U.N. Audit Finds," *Washington Post*, November 6, 2005.

[59] "Contractor Bilked U.S. on Iraq Work," *Washington Post*, March 10, 2006.

[60] "Verdict Against Iraq Contractor Overturned," *Washington Post*, August 19, 2006.

[61] SIGIR, Audit 06-026, July 2006; "U.S. Neglect Found in Long-Delayed Iraq Hospital Project," *Washington Post*, July 29, 2006.

of the system and Iraqi citizens cannot call in to request emergency assistance, among other problems.[62]

- After the expenditure of $186 million, only 6 of 150 planned primary health care centers were completed and only 14 more expected to be finished. Although an estimated $36 million would allow completion of another 121 partially constructed centers, insufficient IRRF funding is now available for this purpose.[63]

- An assessment of five electrical substations was positive for the substations themselves, but found that installation of distribution lines to the end users, part of the original plan, had to be eliminated (presumably due to funding reallocations) and, therefore, the benefits of the new substations will not be derived until the Ministry of Electricity can perform the work.[64]

- A project to run 16 oil pipelines under the Tigris River failed amidst warnings from a geologist that the subsoil was not conducive to drilling, demonstrating a lack of appropriate oversight by the Army Corps of Engineers.[65]

- During a look at four water projects in central Iraq, three of the four reviews found problems, including inadequate design work, insufficient quality control, and the failure of Government project engineers to approve invoices and recommend payment.[66]

- An examination of Task Force Shield, a program to train and manage an oil and electricity infrastructure protection force, found it had been unsuccessful after the expenditure of $147 million. In part, this outcome was due to the absence of a clear management structure for the various U.S. agencies involved. Further, auditors, reportedly, could not determine how many Iraqis were trained or how many weapons were purchase.[67]

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[62] SIGIR, Audit 06-020, July 2006.

[63] SIGIR, Audit 06-011, April 2006; "In a Dispute, Army Cancels Rebuilding Contract in Iraq," *New York Times*, May 13, 2006.

[64] SIGIR, Project Assessments PA-05-05 to 09, in *Report to Congress*, October 30, 2005, p. 53.

[65] SIGIR, Project Assessment SA-2005-001, in *Report to Congress*, January 30, 2006, p. 73-75; "Rebuilding of Iraqi Oil Pipeline as Disaster Waiting to Happen, *New York Times*, April 25, 2006.

[66] SIGIR, Project Assessment PA-005-001 to 004, in *Report to Congress*, July 30, 2005, p. 60-66.

[67] SIGIR, Audit 06-009, April 2006; "In Shadows, Armed Groups Propel Iraq Toward Chaos," *New York Times*, May 24, 2006.

The Development Fund for Iraq (DFI). Many questions have been raised regarding the CPA's use and monitoring of DFI funds. Although the funds were derived from Iraqi, mostly oil, resources, under Security Council Resolution 1483 (May 2003) the CPA had complete control over them during the occupation and responsibility under international law to insure they were used appropriately. To prioritize and recommend how DFI resources were used, the CPA established a Program Review Board in June 2003. Although composed of coalition, multilateral bank, and U.N. officials, the multilateral bank members had no vote and the U.N. official served only as an observer. The Program Review Board published brief minutes of its meetings but little detail regarding the nearly 2,000 contracts it awarded utilizing Iraqi funds. Reportedly, U.S. contractors received as much as $1.9 billion of DFI funds, of which Halliburton subsidiary Kellogg, Brown & Root (KBR) was awarded $1.7 billion (mostly the RIO project noted above).[68]

Security Council Resolution 1483 required that an international advisory board to monitor the sale and use of oil be established, but at first the CPA opposed international institution efforts to create a system of "special audits" that would allow the board to look at any issue. CPA failure to establish the board led to international criticism, and Security Council Resolution 1511 (October 2003) recommended that the board be established as a priority and that the DFI should be "used in a transparent manner."[69] Soon after, the CPA announced that it would allow the advisory board to go forward and the first meeting of the International Advisory and Monitoring Board (IAMB) was held on December 5, 2003. However, a delay in appointing accountants by the CPA continued to prevent work up to early February 2004. In March 2004, the IAMB recommended installation of a metering system for oil extraction to prevent diversion (still not implemented), and criticized the use of non-competitive bidding for contracts funded by the DFI.[70]

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.[71] A representative on the IAMB accused the Administration of withholding information on non-competitive contracts, and repeated requests to U.S. agencies for

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[68] "$1.9 Billion of Iraq's Money Goes to U.S. Contractors," *Washington Post*, August 4, 2004.

[69] 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.

[70] 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.

[71] KPMG Audit dated June 29, 2004, available online at IAMB website [http://www.iamb.info/]; Iraq Revenue Watch, *Disorder, Negligence and Mismanagement: How the CPA Handled Iraq Reconstruction Funds*, Report no. 7, September 2004; Iraq Revenue Watch, *Audit Finds More Irregularities and Mismanagement of Iraq's Resources*, December 2004; "Big Spender," *Financial Times*, December 10, 2004.

information on sole-sourced contracts funded by the DFI were not answered.[72] The organization Christian Aid accused the CPA of being "in flagrant breach of the U.N. resolution" giving it use of DFI funds. "Last minute" spending by the CPA of $2.5 billion in DFI resources in the weeks prior to the turn-over of sovereignty also drew critical attention. Among other things, the spending went for equipment for security forces, vocational training, and oil and electric infrastructure, and local projects. Iraqi officials, too, were critical of the contrast between the slow spending of U.S. funds and the rapid draw-down of the DFI.[73]

A January 2005 audit by the SIGIR seems to have confirmed the IAMB accusations with a finding that the CPA "provided less than adequate controls" for $8.8 billion of DFI resources it moved through Iraqi ministries.[74] An April 2005 SIGIR audit concluded that CPA managers of DFI funds distributed in the South-Central region of Iraq could not account for more than $96.6 million in cash and receipts. An October 2005 audit found that South-Central personnel could not account for more than $20.5 million in Rapid Regional Response Program funds and made $2.6 million in excessive payments. In late 2005, several U.S. citizens were criminally charged with respect to the handling of these funds — one has pled guilty.[75]

In early 2006, it was reported that an examination by the Army Joint Contracting Command of 9,000 contracts supported by about $5.8 billion in Iraqi money has shown a number of problems, including contracted projects that were not carried out and a lack of supporting documents. As a result, roughly $230 million that was withheld to finance the contracts will be returned to the Iraqi government for use on reconstruction projects.[76]

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[72] 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.

[73] 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.

[74] According to IG Bowen, the Iraq Commission on Public Integrity is investigating $1.5 billion that may have gone missing in the Ministry of Defense. "Special Inspector General Stuart Bowen," *Washington Post*, November 9, 2005.

[75] Among other things, the SIGIR found a $500,000 contract in Karbala that was not carried out, a $1 million grant for training librarians that was not delivered, and a half constructed $7.3 million police academy. "Guilty Plea in Iraq Bid-Rigging," Washington Post, February 2, 2006; "Special Inspector General Stuart Bowen," *Washington Post*, November 9, 2005; "U.S. Accuses Pair of Rigging Iraq Contracts," *Washington Post*, November 18, 2005; "2nd Army Officer Charged in Iraq Rebuilding Scandal," *New York Times*, December 16, 2005; *Management of Rapid Regional Response Program Grants in South-Central Iraq*, Report No. 05-015, October 25, 2005; *Audit of Oversight of Funds Provided to Iraqi Ministries through the National Budget Process*, Report No. 05-004, January 30, 2005; and *Control of Cash Provided to South-Central Iraq*, Audit Report No. 05-006, April 30, 2005, available at SIGIR website [http://www.sigir.mil].

[76] "Auditors Find Widespread Waste and Unfinished Work in Iraqi Rebuilding Contracts,"

(continued...)

Assessments of Reconstruction

There have been dozens of reports and articles during the past three years that have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid.[77] The majority focus on the history of the occupation with a view toward explaining the current state of affairs or offering suggestions on how to avoid that outcome in future. The most recent example — *Lessons in Contracting and Procurement* — comes from the SIGIR. It looks at all contracting actions from before the war through the CPA to the present. Based on mistakes made in Iraq, it recommends, among other things, that contracting and procurement personnel should be involved in the planning stages of post-conflict reconstruction operations, that contracting for smaller projects should be emphasized, that sole-source and limited competition contracting should be avoided, and that a single unified contracting entity should coordinate all contracting activity.[78]

Another category of assessments are reviews of specific projects, some findings of which are noted in the previous section. Security concerns in Iraq have made difficult the kind of expert and anecdotal reports usually produced in other places by interest groups and the news media. Most project assessments, therefore, have come from the various government auditors.[79] Even these, however, appear constrained by security in the number of site-visits they are able to undertake to review project results. One of four water projects assessed by the SIGIR in 2005 could not be visited due to security concerns, and the SIGIR is conducting some of its assessments by aerial imagery because of the risk to its personnel. GAO investigators were not

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[76] (...continued)
New York Times, January 31, 2006.

[77] Among the most incisive are Anthony Cordesman, *Cleaning Up the Mess*, Center for Strategic and International Studies, July 7, 2004; David Rieff, "Blueprint for a Mess," *New York Times Magazine*, November 2, 2003; George Packer, "War After War: Letter from Baghdad," *The New Yorker*, November 24, 2003; Kenneth M. Pollack, "After Saddam: Assessing the Reconstruction of Iraq," *Foreign Affairs*, January/February 2004; John Hamre and others, *Iraq's Post-Conflict Reconstruction: A Field Review and Recommendations*, Center for Strategic and International Studies, July 17, 2003; James Fallows, "Blind into Baghdad," *The Atlantic Monthly*, January/February 2004; Center for Strategic and International Studies, Post-Conflict Reconstruction Project, Frederick Barton and Bathsheba Crocker, Co-Directors, *Progress or Peril? Measuring Iraq's Reconstruction*, September 2004 and November 12 Update; Larry Diamond, *Squandered Victory: The American Occupation and the Bungled Effort to Bring Democracy to Iraq*, Henry Holt, 2005; James Fallows, "Why Iraq Has no Army," *The Atlantic Monthly*, December 2005; and George Packer, *The Assassins' Gate: America in Iraq*, Farrar, Straus and Giroux, 2005; and International Crisis Group, *Reconstructing Iraq*, September 2, 2004, available at [http://www.crisisgroup.org/home/index.cfm?].

[78] SIGIR, *Iraq Reconstruction: Lessons in Contracting and Procurement*, July 2006, is the second of a series of "lessons learned" reports. The first, entitled *Lessons in Human Capital*, was released January 2006.

[79] For a list of audits, see SIGIR, *Report to Congress*, April 30, 2006, Appendices E and F.

even able to visit Iraq while preparing a 2005 report on water and sanitation programs.[80]

An exception to the dearth of private sector accounts of specific project work is a February 2006 report by a professional from the Institute of Electrical and Electronics Engineers who appears to have been given unusual access to power plants and officials in the electric power sector. In brief, the author highlights reasons for the long-reported failure of assistance to bring electric power at least up to pre-war standards. Among these are the specific targeting of electrical infrastructure by insurgents, the lack of maintenance skills by Ministry of Electricity workers, and management and personnel problems in the Iraqi government, made worse by the presence of thousands of fictitious employees drawing paychecks. Less well known reasons are the low levels of revenue flowing to the Ministry due to limited use of electric metering and a low rate structure. U.S.-funded construction is also directly faulted for poor planning, including a mismatch between the generator technologies provided to Iraq and the fuel available to it. In one case, the best fuel for the generators — natural gas — was being burned off at an oil field just across the street from the power plant, and no effort had been made to capture it for use. The assessment is a reminder that the provision of equipment alone is insufficient — multiple factors must be addressed to bring significant improvements.[81]

Some observers have suggested that one problem with assessing the progress of reconstruction is that there is no "big picture" overview. Responsible government agencies provide information regarding how many infrastructure projects are being started and completed, how many small-scale grants are being provided, and how many people are being trained, but there is little detail regarding to what degree the overall national need for drinking water, schools, health care, electricity, and other requirements is being met by the billions of dollars in U.S. resources — not to mention Iraqi and other donor resources — targeted at these needs. When such data has been gathered, mostly by the SIGIR, it suggests that the needs are much larger than donor or other resources made available.[82]

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[80] SIGIR, *Report to Congress*, July 30, 2005, p. 60-66. For an assessment of several aspects of reconstruction, see GAO, *Rebuilding Iraq: Status of Funding and Reconstruction Efforts*, GAO-05-876, July 2005. Also, GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, GAO-05-872, September 2005.

[81] Glenn Zorpette, "Re-engineering Iraq," *IEEE Spectrum*, February 2006, available at [http://www.spectrum.ieee.org/feb06/2831].

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