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

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# Iraq: Recent Developments in Reconstruction Assistance

## Summary

Large-scale reconstruction assistance programs are being undertaken by the United States following the war with Iraq. To fund such programs, Congress approved on April 12, 2003, a \$2.48 billion Iraq Relief and Reconstruction Fund in the FY2003 Supplemental Appropriation. On November 6, 2003, the President signed into law P.L. 108-106, the FY2004 Emergency Supplemental Appropriation, providing \$18.4 billion for Iraq reconstruction. Contributions pledged at the October 24, 2003, Madrid donor conference by other donors amounted to roughly \$3.6 billion in grant aid and as much as \$13.3 billion in possible loans.

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

Many reconstruction efforts on the ground are underway, but security concerns have slowed progress considerably. Most reconstruction funding is targeted at infrastructure projects — roads, sanitation, electric power, oil production, etc. Aid is also used to train and equip Iraqi security forces. A range of programs are in place to offer expert advice to the Iraqi government, establish business centers, rehabilitate schools and health clinics, provide school books and vaccinations, etc. However, of the \$18.4 billion appropriated by Congress in October 2003, only \$10.6 billion had been obligated and \$2.7 billion spent by mid-January 2005. Congress approved on September 29 an Administration-proposed re-allocation of \$3.5 billion in previously appropriated reconstruction funds to give greater emphasis to security, employment generation, and debt relief.

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

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# Iraq: Recent Developments in Reconstruction Assistance

Large-scale reconstruction assistance programs are being undertaken by the United States in Iraq. This report describes recent developments in this assistance effort. The report will be updated as events warrant.<sup>1</sup>

## Funding for Reconstruction

Following years of authoritarian rule and economic sanctions, the United States and the international community agreed in the spring of 2003 that efforts should be made to introduce economic reform and democratic government to post-war Iraq. The best available estimates of the eventual cost of this Iraq reconstruction are provided in an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy. Prepared for the benefit of the international donors conference held in Madrid on October 23-24, 2003, it established the targets by which the adequacy of available resources will be judged. The World Bank/U.N. assessments put the cost of reconstruction for the 14 sectors at \$36 billion over four years, a figure that does not include \$19.4 billion estimated by the Coalition Provisional Authority (CPA) for security, oil, and other sectors not covered by the Bank/U.N. assessments. Combined World Bank and CPA projected reconstruction costs through 2007 amount to \$55 billion.<sup>2</sup>

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

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

<sup>2</sup> For the full text of the report online, see the World Bank website at [<http://siteresources.worldbank.org/INTIRAQ/Overview/20147568/Joint%20Needs%20Assessment.pdf>].

**Table 1. Funds Committed/Pledged to Iraq Relief and Reconstruction**

(\$ millions)

United States Assistance — Apps.	FY2003	FY2004	FY2005	Total
<b>Iraq Relief and Reconstruction Fund</b>	<b>2,475.0</b> (of which 2,475.0 obligated 1/5/05)	<b>18,439.0</b> (of which 10,598.0 obligated 1/19/05)	—	<b>20,914.0</b>
DOD - Oil Repair	802.0	—	—	802.0
DOD - Iraq Army	51.2	—	—	51.2
DOD - CERP	—	140.0	218.0	358.0
Other Agency Funds	478.9	1.9	—	480.8
CPA/Embassy Administration	684.6	983.0	—	1,667.6
<b>Total U.S. Assistance</b>	<b>4,491.7</b>	<b>19,563.9</b>	<b>218.0</b>	<b>24,273.6</b>

<b>Iraq Resources</b> (as of 9/30/04)	
U.S. Vested Funds	1,724.0
U.S. Seized Funds	927.0
Development Fund for Iraq (DFI)	25,782.0
<b>Total Iraq Resources</b>	<b>28,433.0</b>

<b>Other Donors</b> (as of 1/5/05)	
Humanitarian Funds	849.0
Reconstruction Grants & Loans Pledged at Madrid Conference	13,588.9 (of which at least 9,000.0 are loans)
<b>Total Other Donor Grants &amp; Loans</b>	<b>14,437.9</b>

**Sources:** Section 2207 Report to Congress Pursuant to P.L. 108-106, Jan. 2005; CPA Inspector General, Report to Congress, Pursuant to P.L. 108-106, Oct. 30, 2004; Department of State Working Papers: *Iraq Weekly Status*, Jan. 19, 2005; and CRS calculations.

## U.S. Assistance

In the FY2003 Emergency Supplemental (P.L. 108-11, H.R. 1559/H.Rept. 108-76), signed on April 16, 2003, \$2.48 billion was appropriated for a special Iraq Relief and Reconstruction Fund (IRRF) for the purpose of aid efforts in a wide range of sectors, including water and sanitation, food, electricity, education, and rule of law. The legislation gave the President control over the Fund, and amounts could be transferred only to the Department of State, the Agency for International

Development (USAID), the Department of the Treasury, the Department of Defense, and the Department of Health and Human Services, subject to the usual notification procedures.

The FY2004 Emergency Supplemental (P.L. 108-106, H.R. 3289/H.Rept. 108-337), signed on November 6, added \$18.4 billion to the IRRF and allowed funds to go directly to the CPA in addition to the above named agencies. While earlier funds had been used to support a broad range of humanitarian and reconstruction efforts, the FY2004 appropriation was largely intended to have an immediate impact on the two greatest reconstruction concerns raised since the occupation of Iraq began — security and infrastructure.

The reconstruction funds were provided entirely as grants, after the Administration threatened to veto any measure that provided aid in the form of loans. The legislation established an Inspector General office to monitor the use of funds by the CPA, and included extensive reporting requirements regarding expenditures, projects, and other sources of revenue. The bill also provided \$983 million for operating expenses of the CPA. Exceptions to the rule of full and open competition for contracts have to be justified and notified to Congress.

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

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

An FY2005 supplemental request that will likely be delivered to Congress in February is expected to contain funding for the training and equipping of Iraqi security forces.

## **Oil Resources and Development Fund for Iraq**

Efforts are being made to restore Iraq's oil production capacity. Oil exporting resumed in mid-June 2003, but oil production has been slowed by looting and sabotage. In September 2004, rates of production reached a peak of 2.67 million barrels/day compared with a pre-war rate of 2.5 million barrels/day, but as of mid-

January stand at 2.09 million barrels/day. The target had been 2.8-3.0 million barrels/day by end of 2004.<sup>3</sup> The Administration's re-allocation of appropriations subtracts \$450 million from the emergency supply of oil to Iraqis and adds it to efforts to improve the oil production infrastructure.

Prior to the war, the Administration had expected that Iraq's oil reserves would help it "shoulder much of the burden for [its] own reconstruction."<sup>4</sup> The May 22, 2003, U.N. Resolution 1483 which ended sanctions permitted the occupying coalition to use oil reserves for more long-term reconstruction purposes. The resolution shifted responsibility for oil profits and their disbursal from the U.N. to the United States and its allies by establishing a Development Fund for Iraq (DFI) held by the Central Bank of Iraq and into which oil profits and other Iraqi assets would be deposited. Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq now has control over use of DFI funds.<sup>5</sup>

As of June 28, total DFI deposits amounted to about \$20.7 billion in oil proceeds and other repatriated funds. In addition to the Oil for Food Program's monthly food baskets, responsibility for which was transferred to the coalition on November 22, 2003, DFI funds were used to support a wide range of reconstruction activities, including the currency exchange program, oil and electricity infrastructure repair, and purchase of firefighting equipment. Up to the transition at the end of June, roughly \$14 billion in DFI resources had been expended and \$6.6 billion remained in the DFI, but virtually all of it was committed to supporting the 2004 Iraqi budget.<sup>6</sup>

Many questions have been raised regarding the CPA's use and monitoring of DFI funds. Security Council Resolution 1483 (May 2003) required that an international advisory board to monitor the sale and use of oil be established, but at first the CPA opposed international institution efforts to create a system of "special audits" that would allow the board to look at any issue. CPA failure to establish the board led to international criticism, and Security Council Resolution 1511 (October 2003) recommended that the board be established as a priority and that the DFI

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<sup>3</sup> Department of State, *Iraq Status Weekly Working Papers*, January 19, 2005.

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

<sup>5</sup> Other Iraqi assets are also expected to be put in the DFI. On March 20, 2003, President Bush issued an executive order confiscating non-diplomatic Iraqi assets held in the United States. Of the total assets seized, an estimated \$1.74 billion worth were available for reconstruction purposes. Another \$926 million in assets located by the United States in Iraq were also used for these purposes. In addition, foreign governments were reported to hold an estimated \$3.7 billion in seized or frozen assets, of which \$847 million had been deposited in the DFI by June 28. Security Council Resolution 1511 urges member states to deposit seized assets in the DFI immediately.

<sup>6</sup> Since the end of the occupation, another \$5 billion, mostly oil revenues, has been added to the DFI. It pays for Iraqi government programs. CPA Inspector General, *Report to Congress*, October 30, 2004, posted at [[http://www.cpa-ig.org/reports\\_congress.html](http://www.cpa-ig.org/reports_congress.html)].

should be “used in a transparent manner.”<sup>7</sup> On October 21, 2003, the CPA announced that it would allow the advisory board to go forward and the first meeting of the International Advisory and Monitoring Board (IAMB) was held on December 5, 2003. However, a delay in appointing accountants by the CPA continued to prevent work up to early February 2004. On March 24, the IAMB recommended installation of a metering system for oil extraction to prevent diversion, and criticized the use of non-competitive bidding for contracts funded by the DFI.<sup>8</sup> Security Council Resolution 1546 (June 2004) determined that the IAMB should continue to exist after the turn-over of sovereignty with the addition of an Iraqi government-appointed full voting member.<sup>9</sup>

The CPA established a Program Review Board in June 2003 to prioritize and recommend how DFI resources are used. Although composed of coalition, multilateral bank, and U.N. officials, the multilateral bank members had no vote and the U.N. official served only as an observer. The Program Review Board published brief minutes of its meetings, but little detailed information regarding the nearly 2,000 contracts it awarded utilizing Iraqi funds. Reportedly, U.S. contractors received as much as \$1.9 billion of DFI funds, of which Halliburton subsidiary Kellogg Brown & Root was awarded \$1.7 billion.<sup>10</sup>

In its June 2004 audit, KPMG, the accounting firm designated by the IAMB to audit the DFI, noted the CPA’s inadequate accounting systems and records and lack of controls over ministry spending of DFI resources, opening the door for corruption. KPMG also pointed out the use of non-competitive bidding for some contracts funded by the DFI. Subsequent audits have highlighted multiple financial irregularities.<sup>11</sup> A representative on the IAMB has accused the Administration of withholding information on non-competitive contracts, and repeated requests to U.S. agencies for information on sole-sourced contracts funded by the DFI have not been answered.<sup>12</sup> The organization Christian Aid has accused the CPA of being “in flagrant breach of the U.N. resolution” giving it use of DFI funds. “Last minute”

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<sup>7</sup> Security Council Resolution 1511, October 16, 2003, para. 23. See “Oil to Come Under Iraqi Control as U.S. Fails to Form Advisory Board,” *Financial Times*, August 19, 2003; “Annan Deals a Blow to U.S. Draft Resolution,” *Financial Times*, October 3, 2003.

<sup>8</sup> The IAMB website is at [<http://www.iamb.info/>]; IAMB, Press Release, March 24, 2004; “Monitoring Panel for Iraq Spending Yet to Start Work,” *Financial Times*, February 5, 2004.

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

<sup>10</sup> “\$1.9 Billion of Iraq’s Money Goes to U.S. Contractors,” *Washington Post*, August 4, 2004.

<sup>11</sup> KPMG Audit dated June 29, 2004, available on-line at IAMB website [<http://www.iamb.info/>]; Iraq Revenue Watch, *Disorder, Negligence and Mismanagement: How the CPA Handled Iraq Reconstruction Funds*, Report no. 7, September 2004; Iraq Revenue Watch, *Audit Finds More Irregularities and Mismanagement of Iraq’s Resources*, December 2004; “Big Spender,” *Financial Times*, December 10, 2004.

<sup>12</sup> Press Release, “Statement by the International Advisory and Monitoring Board on Iraq,” September 8, 2004; “U.S. Won’t Turn Over Data for Iraq Audits,” *Washington Post*, July 16, 2004.



spending by the CPA of \$2.5 billion in DFI resources in the weeks prior to the turn-over of sovereignty has also drawn 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 have been critical of the contrast between the slow spending of U.S. funds and the rapid draw-down of the DFI.<sup>13</sup>

## Iraqi Debt

The United States has sought to obtain support from creditors for Iraq debt relief. Iraq's debt is estimated at \$125 billion.<sup>14</sup> The Paris Club of government creditors has estimated Iraq's debt to its members at \$42 billion, including both principal and interest. Including arrears and contingent liabilities, the total Iraq debt owed the United States totals about \$4 billion. The London Club of commercial creditors, multilateral banks, and the Gulf States are owed substantial additional sums. 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.<sup>15</sup> Some large holders of Iraqi debt — France, Germany, and Russia for instance — have been more inclined to reschedule debt than to forgive it, arguing that, as an oil rich country, Iraq could afford someday to pay its debts.

Several steps have led to a partial resolution of the debt issue. One was the December 2003 appointment by President Bush of former Secretary of State James Baker III as his personal envoy responsible for seeking a reduction in debt owed by Iraq. A series of meetings between Baker and the leaders of debt-holding countries in the winter of 2004 led to statements of support for varying levels of relief, but no comprehensive agreement on the debt issue was reached at that time. Another factor was the assumption of sovereignty by Iraq. A sovereign government can negotiate with creditors. On September 22, 2004, Iraq cleared its overdue financial obligations to the IMF and, within one week, gained access to \$436 million in IMF Emergency Post Conflict Assistance. This could make it easier for Iraq to reach agreement with private and government creditors. Further, as part of the Administration's reallocation proposal, Congress approved in P.L. 108-309 \$360 million to cover the costs of cancelling the roughly \$4 billion Iraqi debt obligation owed the United States — the U.S. debt was formally forgiven on December 17. These factors have culminated in an agreement by the 19 Paris Club members on November 20, 2004, to write off roughly \$31 billion in Iraqi debt, 80% of what it owed to this group.

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<sup>13</sup> Christian Aid, *Fuelling Suspicion: the Coalition and Iraq's Oil Billions*, June 2004; "U.S. Is Quietly Spending \$2.5 Billion from Iraqi Oil Revenue to Pay for Iraqi Projects," *New York Times*, June 21, 2004; *Section 2207 Report*, OMB, July 2, 2004; "U.S. Funds for Iraq are Largely Unspent," *Washington Post*, July 4, 2004.

<sup>14</sup> Based on Paris Club data. Does not include \$29 billion in unpaid Gulf War reparations. International Monetary Fund, *Iraq: Use of Fund Resources — Request for Emergency Post-Conflict Assistance*, September 24, 2004.

<sup>15</sup> "U.S. Moves Closer to Relief of Iraqi Debts to West," *New York Times*, October 3, 2004; "G-7 Agrees That Iraq Needs Help with Debt," *Washington Post*, April 13, 2003; "Restructuring, Not Forgiveness," *Financial Times*, April 15, 2003.

Under the agreement, 30% would be forgiven now, followed by another 30% after Iraq adopts a three-year IMF reform program, and a final 20% when the program is completed. See CRS Report RS21765, *Iraq: Paris Club Debt Relief*, for further details.<sup>16</sup>

## Other Donors

Since March 2003, U.N. appeals for postwar humanitarian relief to Iraq have been met with \$849 million in donations from non-U.S. donors.<sup>17</sup> The Madrid donor conference, held on October 23-24, 2003, produced roughly \$3.6 billion in pledges of grant reconstruction aid from other donors, including \$1.4 billion by Japan, \$452 million (in new funds) by the United Kingdom, \$220 million by Spain, \$236 million by the European Union (EU), \$200 million by South Korea, and \$236 million by Italy. In some cases, announced amounts include funds previously contributed. Additionally, between \$9.6 and \$13.3 billion in loans were offered, including \$3.5 billion by Japan, between \$3.0 and \$5.0 billion by the World Bank, between \$2.6 and \$4.3 billion by the IMF, and \$500 million by Saudi Arabia.<sup>18</sup> State Department estimates indicate that as much as \$428 million has been disbursed bilaterally, \$927 million provided through the IRFFI, and another \$436 million disbursed as a loan through the IMF.<sup>19</sup> A donor meeting held in Tokyo on October 13-14, 2004, agreed to make efforts to disburse already pledged funds more quickly. No commitment, however, was made by other donors to fulfill a U.S. request that they funnel financial support to the water, sewage, and electricity sectors which lost funding during the recent re-allocation of U.S. resources.<sup>20</sup>

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

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<sup>16</sup> "Major Creditors Agree to Cancel 80% of Iraq Debt," *New York Times*, November 22, 2004.

<sup>17</sup> As of April 5, 2004. Includes appeal and outside-appeal aid from all donor countries, except the United States. U.N. Office for the Coordination of Humanitarian Affairs. *Total Humanitarian Assistance for Iraq Crisis 2003*. April 5, 2004, [<http://www.reliefweb.int/w/rwb.nsf>].

<sup>18</sup> See "Iraq Pledges Roll In," BBC News, October 24, 2003.

<sup>19</sup> CPA Inspector General, *Report to Congress*, October 30, 2004, pp. 71-73.

<sup>20</sup> "Donors to Iraq Hope to Speed Aid Pledged for Projects," *New York Times*, October 15, 2004.

<sup>21</sup> Department of State, *2207 Report to Congress*, October 2004.

specifically to support the January elections, including funding for a U.N. force to provide voter protection.<sup>22</sup>

During much of the occupation, donors had been reluctant to contribute to reconstruction because they had no say in where the funds are to be allocated.<sup>23</sup> To deal with this concern, a multi-donor trust fund, the International Reconstruction Fund Facility for Iraq (IRFFI), was established on December 11, 2003. It encourages contributions by keeping them outside the control of the United States, but supports needs identified in the World Bank needs assessment and approved by the Iraqi government. The Facility has two windows, one run by the Bank (the World Bank Iraq Trust Fund) and one by the United Nations (UNDG Iraq Trust Fund). As of January 2005, donors had committed about \$1 billion of already pledged assistance to the Facility, \$927 million of which was already deposited. To date, the World Bank Fund has financed textbooks, school rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training.<sup>24</sup>

## U.S. Aid Policy Structure on Iraq

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. The United States is continuing to provide an assistance program and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy under Ambassador John Negroponte. The embassy is expected to employ about 1,000 U.S. and 700 Iraqi staff. A temporary Iraq Reconstruction Management Office (IRMO) has been created within the U.S. embassy to supplant CPA assistance efforts. It is headed by Ambassador William B. Taylor, Jr., the former Coordinator of U.S. Assistance to Afghanistan and, before that, Europe and Eurasia. The CPA's Program Management Office (PMO), although changing its name to the Project and Contracting Office (PCO), continues to be responsible for program management and contracts and remains within the Department of Defense, but reports to the Department of State as well as to the Department of the Army. It is now headed by Charles Hess, the former PCO deputy.<sup>25</sup>

Immediate overall responsibility for management of U.S. military activity in Iraq belongs to General George Casey, Jr.. As commander of the multinational forces in Iraq, Casey is responsible for establishing a new relationship between coalition forces

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<sup>22</sup> "E.U. Pledges Aid to Iraq," *Washington Post*, November 6, 2004.

<sup>23</sup> "U.S. Seeks Help With Iraq Costs, But Donors Want a Larger Say," *New York Times*, July 14, 2003; "Bush's Plea for Iraq Aid Falls on Deaf Ears," *Financial Times*, September 25, 2003.

<sup>24</sup> CPA Inspector General, *Report to Congress*, October 30, 2004, Appendix G,

<sup>25</sup> The PCO and IRMO were established by a National Security Presidential Directive of May 11, 2004. See PCO website at [<http://www.rebuilding-iraq.net>].

and the new Iraqi government and providing training and support to Iraqi security forces. He also serves as principal military adviser to the U.S. ambassador.

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

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, has been redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the recently enacted DOD Authorization for FY2005 (P.L. 108-375). The SIGIR is currently Stuart Bowen, Jr. The SIGIR office has about 83 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. The SIGIR issued his first report to Congress on March 30, 2004.<sup>26</sup> The DOD Authorization extends the SIGIR beyond its originally mandated December 2004 expiration and grants operational authority until 10 months after 80% of the reconstruction funds have been obligated. The SIGIR reports to both the Secretary of Defense and State.<sup>27</sup>

## Security Concerns

The successful conduct of much reconstruction work is contingent on an environment of order and stability. Nearly two years since Operation Iraqi Freedom was launched, violence persists against both U.S. forces and Iraqis in the transition government. Among the effects of the continued instability has been an increase in reconstruction costs. Major pipelines have been sabotaged, shutting down oil exports. As a result, roughly \$887 million in export revenues were lost in the first quarter of this fiscal year. In the past year, power was cut to more than 100 electrical lines, and nearly 1,200 electrical towers were felled. In the Sunni triangle, small-scale rehabilitation projects have been destroyed soon after completion. Ensuring security for project personnel has reportedly accounted for as much as 10-20% of the cost of reconstruction activities, draining funds from the purposes for which they were intended.<sup>28</sup>

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<sup>26</sup> See [<http://www.cpa-ig.org/>] for a copy and for subsequent quarterly reports and audits.

<sup>27</sup> CPA Inspector General, *Report to Congress*, October 30, 2004.

<sup>28</sup> State Department, 2207 Report to Congress, January 2005. Charles Hess, DOD News Briefing, December 15, 2004; CPA Inspector General, *Report to Congress*, March 30, 2004; "Security Companies: Shadow Soldiers in Iraq," *New York Times*, April 19, 2004; "Two Pipeline Blasts Halt Oil Exports at Top Iraq Port," *New York Times*, June 16, 2004; "Violence in Iraq Curbs Work of 2 Big Contractors," *New York Times*, April 22, 2004; "Saboteur Attacks Iraqi Phone Center," *Washington Post*, March 4, 2004; "In Iraq, Contractors' Security Costs Rise," *Washington Post*, February 18, 2004; "Sabotage Cuts Power to More Than 100 Electrical Lines," *New York Times*, June 11, 2004; "Insurgents Blow Up an Iraqi Oil Pipeline," *New York Times*, November 3, 2004; "Town Reflects Rising Sabotage in Iraq," *Washington Post*, December 9, 2004.

The instability has frustrated implementation of reconstruction projects. Fearing for their safety, many aid implementors have been withdrawn from the country — in the past few months CARE International, Doctors Without Borders, and the International Rescue Committee. U.N. and bilateral aid donors have been reluctant to initiate projects of their own; many, including the U.N., are running programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible. World Bank loans are unlikely to be made until its staff can safely visit project sites.<sup>29</sup> Insuring peaceful elections in January may also be difficult — Iraqi officials say 270,000 Iraqi security personnel are needed to police the polls; only 145,000 are expected to be trained by that time.<sup>30</sup>

The quality of aid has likely been negatively affected as implementors cannot meet with local people and design and monitor projects as they would in other countries. The pool of foreign expertise available to advise the government and NGOs is restricted to those few willing to endure the country's hardships. In a broader sense, prolonged insecurity has undermined the trust of the Iraqi people in U.S. leadership to bring about a democratic and economic transformation in Iraq, opening the door to further political discontent and opposition.<sup>31</sup>

Throughout the year, as security concerns continued to dominate the attention of policymakers, efforts have been made to encourage other countries to provide peacekeeping forces. However, participation of other countries has been hindered by previous opposition to the war and other factors. In the wake of the violence and hostage-taking, the Philippines, Honduras, and others withdrew their forces. Hungary has announced its imminent departure. President Bush's request that NATO provide forces was rejected at the G-8 summit in June 2004, but NATO agreed to help train Iraqi troops and plans to send 300 trainers by the end of 2004. Six NATO members, including France and Germany, have refused to send troops to conduct training inside Iraq.<sup>32</sup>

The number of U.S. troops is currently estimated at roughly 150,000, up 12,000 from November, to provide support for the Iraqi election at the end of January. There are also about 25,300 troops from 28 other nations.<sup>33</sup>

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<sup>29</sup> "Driven from Iraq, Aid Groups Reflect on Work Half Begun," *New York Times*, November 15, 2004; "Security Conditions Continue to Hamper U.N. in Iraq," *Washington File*, August 11, 2004; "Charities Get Ready to Leave," *London Times*, September 9, 2004.

<sup>30</sup> "Iraq Falls Short on Vote Security," *New York Times*, November 23, 2004.

<sup>31</sup> "As Violence Deepens, So Does Pessimism," *Washington Post*, May 18, 2004; "Fueling Anger in Iraq," *Washington Post*, December 9, 2003; "The Best, Brightest, and Wealthiest Flee Iraq," *Chicago Tribune*, November 21, 2004.

<sup>32</sup> "NATO Agrees to Expansion of Forces Training Soldiers in Iraq," *New York Times*, December 10, 2004. "NATO Vows to Speed Sending 300 Troops to Train Iraqi Forces," *New York Times*, October 14, 2004; "Leaders Dispute NATO Role in Iraq," *Washington Post*, June 10, 2004; "NATO Ready to Help Train Iraqi Forces," *New York Times*, July 31, 2004.

<sup>33</sup> *Iraq Index*, Brookings Institution, [<http://www.brookings.edu/iraqindex>], January 24, (continued...)

According to the State Department, in mid-January there were 55,059 conventional Iraqi police (compared with 85,000 reported in September 2004 — presumably the count now only includes trained forces) of 135,000 thought to be required. In addition, there were 36,827 Iraqi National Guard (formerly Civil Defense Corps) personnel patrolling with coalition forces, 14,786 customs/border police. A 7,598 member Iraqi army conventional force is expected to increase to 24,425 over time. In all, about 46% of the required 271,041 security force personnel are currently defined by officials as ready for action.<sup>34</sup>

During the past year, poorly trained and equipped security forces, dismissals of police for criminal behavior, bribe taking by border police, and thousands of no-shows threatened U.S. plans to increase security using Iraqi personnel. During the April 2004 confrontation in Fallujah, as many as 20 to 25% of the security forces quit, changed sides, or did not perform duties.<sup>35</sup> As a result of these problems, Major General David H. Petraeus was sent to Iraq in mid-April to oversee the organization and training of all Iraqi security forces.<sup>36</sup> A dispute — now resolved — over a contract to equip Iraqi forces led to a lengthy delay in provision of radios, body armor, and vehicles. Statistics show that in mid-July 2004, most security forces had substantially less than the number of weapons, vehicles, communications equipment, and body armor required. Although by late summer equipment was reportedly arriving in large quantities, reports persist that the security forces are under-equipped.<sup>37</sup>

Concerns have continued to be expressed — most recently at the confirmation hearing for Secretary of State — regarding the level of training and availability of equipment for specific forces, especially the police.<sup>38</sup> More than half of the Administration's September 2004 re-allocation of appropriations is going toward greater spending on security. Among other items, the total increase of \$1.8 billion over the previously allocated level of \$3.2 billion for security is being used to train

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<sup>33</sup> (...continued)

2005, page 13; "Senate Panel to Set Hearings on Iraq Insurgency," *Washington Post*, December 15, 2004; Department of State, *Iraq Weekly Status Report*, January 19, 2005.

<sup>34</sup> Department of State, Working Papers: *Iraq Weekly Status Report*, January 19, 2005.

<sup>35</sup> "Iraqi Security Has Come Far, With Far to Go," *Washington Post*, August 1, 2004; "Wanted: Police Academy ASAP," *Washington Post*, May 16, 2004; "Iraqi Battalion Refuses to 'Fight Iraqis'," *Washington Post*, April 11, 2004; "Iraqi Police Suspected in Slaying of Americans," *Washington Post*, March 13, 2004; "Recruits Abandon Iraqi Army," *Washington Post*, December 13, 2003.

<sup>36</sup> "Biggest Task for U.S. General Is Training Iraqis to Fight Iraqis," *New York Times*, June 27, 2004.

<sup>37</sup> "Delivery Delays Hurt U.S. Effort to Equip Iraqis," *New York Times*, March 22, 2004. Department of Defense, Working Papers: *Iraq Update*, July 13, 2004, pp. 24-25. Department of State, *Iraq Weekly Status Report*, August 18, 2004, p. 21. "U.S. Needs More Time to Train and Equip Iraqis," *New York Times*, May 24, 2004.

<sup>38</sup> "Iraqis Readiness Disputed in Hearing," *Washington Post*, January 20, 2005. "U.S. Says Police in Iraq Need Bolstering," *Washington Post*, November 25, 2004. U.S. Officials Say Iraq's Forces Founder Under Rebel Assaults," *New York Times*, November 30, 2004.

and equip 45,000 new police, 16,000 new border enforcement personnel, and 20 additional Iraqi National Guard battalions. A new Army assessment reportedly concludes that training must be accelerated and strengthened by providing thousands of additional U.S. military advisers to work alongside Iraqi forces.<sup>39</sup>

## The Role of the United Nations

In what was perceived by analysts as an about-face in policy, the Bush Administration began in early January 2004 to press the U.N. to return to Iraq and play an active role in the political transition. Although France, Germany, and Russia, among others, had long been urging the United Nations to assume a more active role in Iraq, especially in assisting the political transition, U.N. Secretary General Kofi Annan had been unwilling, since the dual bomb attacks in August and September 2003, to approve a renewed U.N. presence. Annan had said that the U.N. would not return unless security was assured, its role was well-defined, and that the role was commensurate with the risks involved.<sup>40</sup> On January 27, 2004, he approved a “technical” mission, headed by U.N. Iraq envoy Lakhdar Brahimi to evaluate the political situation in the country. After repeated visits, Brahimi proposed a plan to appoint a transition government which was accepted by the United States and the Governing Council.<sup>41</sup>

At the same time that envoy Brahimi was negotiating the transition to sovereignty, a U.N. team headed by Carina Perelli began working on assisting the Iraqi Electoral Commission with the implementation of elections for a 275-member National Assembly, scheduled for January 30, 2005. On January 26, the U.N. announced completion of its mission to help prepare Iraq for those elections — thousands of registrars were trained, 540 registration centers were set up around the country, millions of ballots were printed, 5,300 voting centers established, and thousands of poll watchers trained. Most of the U.N. work was conducted from outside Iraq, with only about 40 expatriates in Iraq and 600 Iraqi employees implementing activities.<sup>42</sup>

The appointment on July 12 of Ashraf Jehangir Qazi as the new U.N. Special Representative to Iraq and the August 12 approval of U.N. Security Council Resolution 1557 extending the U.N. Mission for Iraq (UNAMI) for another year suggested a growing U.N. presence and activity in Iraq itself. However, Secretary

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<sup>39</sup> “General Seeking Faster Training of Iraqi Soldiers,” *New York Times*, January 23, 2005.

<sup>40</sup> “Wary Annan Set to Discuss a Possible U.N. Role in Iraq,” *Washington Post*, January 19, 2004.

<sup>41</sup> “Envoy Urges U.N.-Chosen Iraqi Government,” *Washington Post*, April 15, 2004; “Administration Split Over Role of U.N.,” *Washington Post*, February 18, 2004; “Annan Sets Conditions for Sending U.N. Team to Iraq,” *Washington Post*, January 22, 2004; “U.N. to Send Expert Team to Help in Iraq, Annan Says,” *New York Times*, January 28, 2004.

<sup>42</sup> “U.N. Says Mission Accomplished and That Legitimacy is Now in Hands of Iraqis,” *New York Times*, January 26, 2005. “U.N. To Increase Its Staff in Iraq for Elections,” *New York Times*, December 16, 2004.

Annan has cautioned that continuing violence would prevent it from undertaking a wide-ranging assistance program and Mr. Qazi has indicated that security is the “key operating principle.”<sup>43</sup> U.S. policy is to encourage U.N. involvement, and the United States supports creation of a 4,000 member force to protect U.N. workers. Member states, however, have reportedly been reluctant to participate in such a force due to political and security considerations. On November 30, the Security Council asked the Secretary General to establish a trust fund account to finance a U.N. protection force in Iraq. The EU has pledged \$12 million for this purpose.<sup>44</sup>

## U.S. Reconstruction Assistance

Among the key policy objectives laid out by the Bush Administration in conjunction with the war in Iraq was the economic and political reconstruction of the country. Discussion and debate within the United States government and abroad have been ongoing regarding the strategy to reach these ends utilizing reconstruction aid funds and the effectiveness of aid implementation.

With the dissolution of the CPA, U.S. influence in post-occupation Iraq is no longer based on dictate but on persuasion by Ambassador Negroponte, with leverage provided by the security support of the U.S. military and billions of dollars in reconstruction aid. U.S. efforts to “remake” Iraq have been facilitated in part by the presence of U.S. advisers attached to each of the Iraqi ministries to provide technical expertise. With ministries now sovereign, U.S. advisers, in the words of one Iraqi government official, have become “consultants.” Reportedly, about 150 Americans remain attached to Iraqi ministries.<sup>45</sup>

## Reconstruction Priorities

Reconstruction priorities have changed over time. The CPA’s reconstruction priorities were reflected in the FY2004 supplemental appropriation approved by Congress in October 2003. By the time of the transition in June 2004, about 22% of total funds were targeted on improving the security capabilities of the Iraqi government, including training and equipment for police, army, and customs personnel. About 67% of funds were aimed at improvements in infrastructure — including electricity, oil production, water and sewerage, transportation, and telecommunications — in order to stabilize the country by creating jobs and

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<sup>43</sup> “‘Vicious Cycle of Violence’ Undermining U.N. Efforts to Rebuild Iraq,” *UN News Service*, September 14, 2004.

<sup>44</sup> “United Nations to Set Up Trust Fund for Iraq,” *Washington File*, November 30, 2004. “U.S. and U.N. Are Once Again the Odd Couple Over Iraq,” *New York Times*, November 14, 2004; “U.N. Security Council Votes to Extend Mandate in Iraq,” *Washington Post*, August 13, 2004; “Security Fears are Slowing U.N. Return to Baghdad,” *New York Times*, August 6, 2004.

<sup>45</sup> “Iraqis Start to Exercise Power Even Before Date for Turnover,” *New York Times*, June 13, 2004; “U.S. Has Leverage, But Wants to Show Iraqis Are in Charge,” *New York Times*, June 29, 2004.



stimulating the economy. Technical assistance and small-scale grants in such areas as democratization, civil society, microenterprise, education, economic policy, and health account for the remainder of the appropriated FY2004 funds (about 10%).

The November 2003 agreement to accelerate the hand-over of sovereignty to Iraqis led the Administration to revise plans in January 2004 for the use of appropriations. With the exception of the oil sector where emergency supply efforts were cut by nearly \$200 million, the broad categories of assistance were largely unaffected. However, a number of funding changes were made within sectors. The most significant change was an increase in the democratization effort — from \$100 million to \$458 million — reflecting the more intensive plan to prepare Iraqis to take-over. In addition, roughly a third of the total appropriation — \$5.8 billion, mostly intended for electric power and water and sanitation rehabilitation — was extended out to FY2005. By April 2004, the CPA had slightly revised its allocations, including adding \$184 million for administrative expenses for operating costs of the post-June 28 U.S. Mission in Iraq (taken from the water resources sector) and estimating a more rapid spending plan, now leaving \$4.6 billion for FY2005.<sup>46</sup>

The September 14, 2004, Administration-proposed re-allocation of resources, approved by Congress on September 29 in P.L. 108-309, reflects a review conducted by the Iraq Reconstruction and Management Office and the U.S. Embassy country team after the State Department took charge of Iraq non-military policy on June 28. The review identified security needs, increased oil production, greater employment, and democracy as the highest priorities, while suggesting that many large-scale infrastructure projects were too slow and dependent on an improved security situation to have an immediate impact. Security — mostly training and equipping Iraqi forces — increased by \$1.8 billion. Efforts to increase oil production capacity gained \$450 million. Employment creation — mostly USAID labor-intensive road, clean water, and other improvement projects — received an additional \$280 million. Democracy programs geared toward assisting the pending elections grew by \$180 million. General development programs — mostly conducted by USAID in the areas of economic reform, private sector development, and agriculture — increased by \$380 million. To demonstrate U.S. commitment to debt reduction prior to a Paris Club discussion of the Iraq issue, the re-allocation drew on \$360 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). Most of the re-allocated funds — \$2.7 billion — came out of amounts that had been set aside for obligation in FY2005. Therefore, existing contracts are not affected by the re-allocation.

Following this re-allocation, reconstruction aid priorities in Iraq, as determined by the State Department, put 32% of total FY2004 funds into security (versus 22%

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<sup>46</sup> See *Section 2207 Reports*, OMB, January, April and July 2004 for details.

previously), 16% into democratization and traditional development sectors (10% before), and 51% into economic infrastructure (67%).

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

Sector	Current Allocation	Obligations as of 1/19/05	Exp.
<b>FY2004 Supplemental (P.L. 108-106)</b>			
Security and Law Enforcement	5,045	3,356	1,322
Justice, Public Safety, and Civil Society	1,121	595	140
Democracy	832	606	191
Electricity	4,369	2,676	631
Oil Infrastructure	1,701	939	131
Water and Sanitation	2,279	885	36
Transport and Telecommunications	513	323	29
Roads, Bridges, Construction	360	183	35
Health	786	506	28
Private Sector	843	328	70
Education, Refugees, Human Rights, Governance	379	171	44
Administrative Expenses	213	29	29
<b>Total FY2004 Supplemental</b>	<b>18,439</b>	<b>10,598</b>	<b>2,687</b>
<b>FY2003 Supplemental (P.L. 108-11)</b>			
	<b>2,475</b>	<b>2,475</b>	<b>1,907</b>
<b>TOTAL IRRF</b>			
	<b>20,914</b>	<b>13,073</b>	<b>4,594</b>

Sources: *Section 2207 Report*, January 2005. Department of State, *Iraq Weekly Status Report*, January 19, 2005.

In December 2004, the Embassy again reviewed its priorities. It plans to allocate \$211 million for fast-disbursing projects to meet needs for electricity. It also intends to target \$246 million for a variety of high visibility and quick disbursing projects to provide essential services in the four post-battle cities of Fallujah, Samarra, Najaf, and Sadr City.

## Reconstruction Programs

A wide range of reconstruction project work is underway. For a variety of reasons, not least of which is the poor security situation, these efforts have produced a somewhat mixed picture. The Iraqi government appears to be a functioning

concern, with ministries restocked with equipment following the massive looting that occurred after the initial invasion. Health facilities are being rehabilitated, healthcare providers trained, and children immunized. Neighborhood councils have been established in 445 locations throughout the country. More than 2,000 grassroots projects have been conducted through USAID grants provided to hundreds of community action groups. School materials have been provided, schools inventoried, and thousands of schools renovated. A broad range of economic policy reform efforts have been initiated. Business centers have been set up throughout the country and a micro-loan program established. Voter education, training of election monitors and related activities to support the January elections is moving forward. More than 1,200 construction projects using FY2004 funds have broken ground.<sup>47</sup> Reports of successful reconstruction programs, not surprisingly, emanate from the Kurdish north and the Shiite south. In those four central provinces where there is significant turmoil and more than 40% of the population resides, reports are less sanguine.<sup>48</sup>

Overall, positive claims for the success of reconstruction programs during the past 21 months have been countered by reports of slow and ineffective implementation. Of the 2,300 construction projects identified by the Project and Contracting Office, 1,196 have been started, but only a few hundred appear to have been completed. Objectives in critical sectors, such as oil production and electric power generation, have not been met. Electric power in September hovered just above the 100,000 Megawatt Hour level compared to 95,600 MW before the war. It is currently at 86,049 MWh — the goal has been 120,000. Oil production reached a post-war peak in late September at 2.67 million barrels/day, but is currently at 2.1 million barrels/day — the goal was 2.8-3.0 million by December 2004. Most of the Iraqi police have not yet been trained. The one consistent bright spot among reconstruction claims — a successful health program — is now marred by reports that acute malnutrition among children has nearly doubled since the coalition invasion in 2003.<sup>49</sup>

A particular congressional concern has been the rate of implementation.<sup>50</sup> One Administration argument for the \$18.4 billion appropriated in November 2003 was

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<sup>47</sup> Another 354 projects using Iraqi AIRP funds have been started. Department of State, *Iraq Weekly Status Report*, January 19, 2005; USAID, *Iraq Reconstruction Weekly Update*, January 19, 2005.

<sup>48</sup> “Iraq’s Kurds Enjoy Self-Rule and Are Trying to Keep It,” *New York Times*, December 31, 2004; “Basra Revival, But It’s Harder Than Expected,” *New York Times*, January 19, 2005.

<sup>49</sup> Department of State, *Iraq Weekly Status Report*, January 19, 2005; “Children Pay Cost of Iraq’s Chaos,” *Washington Post*, November 21, 2004; Anthony Cordesman, “Figures Indicate Challenging Transition Ahead in Iraq,” *Scholar Statement*, June 25, 2004, Center for Strategic and International Studies; “U.S. Handing Over An Unfulfilled Iraq,” *Chicago Tribune*, June 27, 2004; “Reality Intrudes on Promises in Rebuilding of Iraq,” *New York Times*, June 30, 2004; “To Many, Mission Not Accomplished,” *Washington Post*, June 3, 2004.

<sup>50</sup> For example, see hearing on security assistance, House Foreign Operations Subcommittee, Committee on Appropriations, April 29, 2004 and hearing on reconstruction assistance, Senate Foreign Relations Committee, September 15, 2004.

the urgent need to demonstrate progress so as to employ Iraqis and win their hearts and minds. However, as of end of March 2004, only about \$2.2 billion of that \$18.4 billion had been obligated, let alone expended. As of January 19, 2005, \$10.6 billion (57%) had been obligated, and \$2.7 billion (15%) expended.<sup>51</sup> Among reasons for the slow progress were pressures to employ open and competitive bidding for most of the new reconstruction contracts, last year's inter-agency disputes over control of the funds, and a variety of federal regulations. It also took significant time to plan and design construction projects prior to breaking ground. Security concerns, however, have been chiefly responsible for delaying reconstruction further.<sup>52</sup>

To speed up the reconstruction process, in April CPA Ambassador Bremer initiated the Accelerated Iraqi Reconstruction Program (AIRP) which utilizes Iraqi DFI funds (\$383 million) to get work underway in ten cities. The AIRP effort is coordinated with the use of CERP funds (see below).<sup>53</sup> The September re-allocation of reconstruction funds was, in part, intended to speed up implementation, including the expanded use of smaller projects.<sup>54</sup> That effort has been pushed further by a December 2004 targeting of \$457 million specifically to rapid-disbursing grassroots projects. Further, Ambassador Negroponte has argued for greater flexibility in the application of federal acquisition regulations.<sup>55</sup> The FY2004 Defense Authorization (P.L. 108-375) permits such regulations to be waived for the CERP program (sec. 1201 (c)).

While most reconstruction activities provide needed infrastructure and services, some far-reaching economic and political policy reforms promoted by the CPA stirred controversy in Iraq, especially as they were viewed as imposed by an occupying administration. For example, in a move to establish an open and free market economy and obtain revenue to meet development needs, Ambassador Bremer approved new laws in September 2003 abolishing all curbs on foreign direct investment except in natural resources. According to the *Financial Times*, the reforms were "near universally unpopular," Iraqi businessmen and unions fearing they would be unable to compete.<sup>56</sup> Such laws and regulations could face resistance

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<sup>51</sup> Of the original \$2.475 billion appropriated for the Iraq Relief and Reconstruction Fund in April 2003, only 61%, had been disbursed by end of February 2004, and the percentage remained the same on June 30. Nearly all had been obligated by then. Currently, 77% has been spent. Department of State, *Iraq Weekly Status Report*, January 19, 2005. CPA Inspector General, *Report to Congress*, July 30, 2004.

<sup>52</sup> "Inching Along, One More Piece to Rebuild Iraq," *New York Times*, October 17, 2004.

<sup>53</sup> "Accelerated Iraq Reconstruction Effort Exceeds Goals and Schedules," PCO, Iraq, July 4, 2004; CPA Inspector General, *Report to Congress*, October 30, 2004.

<sup>54</sup> "U.S. Seeks to Provide More Jobs and Speed Rebuilding in Iraq," *New York Times*, July 27, 2004.

<sup>55</sup> "Iraq Commanders Warn That Delays in Civil Projects Undermine Military Mission," *New York Times*, October 17, 2004.

<sup>56</sup> "Free-Market Iraq? Not So Fast," *New York Times*, January 10, 2004; "Business Deals May be Invalid, Experts Say," *Financial Times*, October 29, 2003; "Governing Council Hits at Minister Over Business Reform," *Financial Times*, September 25, 2003; "Iraq Offering (continued...)"

and reversal under the new sovereign government, although the interim constitution requires approval of a majority of the government's ministers, president, and vice-presidents to overturn existing laws. According to the press, CPA Administrator Bremer issued 97 legal orders in the last two weeks of the occupation.<sup>57</sup>

On the other hand, as a result of the continuing instability and the accelerated agreement to turn over sovereignty, some controversial positions which were favored by Ambassador Bremer and his staff — privatization of state-owned business, elimination of crop subsidies, and an end to the Oil for Food program's free food baskets — were put off entirely. Iraqi government officials would, reportedly, have preferred that the CPA bear the burden of such potentially destabilizing decisions rather than leave them to a new Iraqi government.<sup>58</sup>

A newer reconstruction concern is the effort to rapidly rehabilitate areas, such as Fallujah, which have been the scene of intense military operations against insurgent forces. U.S. officials argue that the post-battle reconstruction effort is as important as the military effort to insure long-term Iraqi government control of these cities. Nevertheless, some observers have criticized the glacial pace of the rehabilitation effort in Najaf, and there are reported complaints of corruption and overpayments for poorly done work. In the case of Fallujah, as of mid-December little reconstruction work had begun, and statements by U.S. officials in January suggest that, while electricity and water are re-established in parts of the city, it may be several months before coverage is complete. These basic assistance efforts are being followed by small projects to repair clinics and schools. Then larger projects — many already planned but put on hold during the long period of insurgent domination in the city — will be implemented. Officials estimate a combined Iraqi-U.S. aid effort of perhaps \$120 to \$150 million to reconstruct Fallujah.<sup>59</sup>

**Commanders Emergency Response Program (CERP).** Drawn from DFI Iraqi seized assets and oil profits and Department of Defense operational funds rather than reconstruction appropriations, the CERP contributes to the reconstruction effort by providing “walking around money” for the roughly 1,600 U.S. military civil affairs officers throughout Iraq. Until the FY2005 DOD appropriation of up to \$300

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<sup>56</sup> (...continued)

Laws to Spur Investment From Abroad,” *New York Times*, September 21, 2003; “Economic Overhaul for Iraq,” *Washington Post*, September 22, 2003.

<sup>57</sup> “U.S. Edicts Curb Power of Iraq’s Leadership,” *Washington Post*, June 27, 2004. “Reconstructing Iraq’s Economy,” *Washington Quarterly*, Autumn 2004.

<sup>58</sup> “Attacks Force Retreat From Wide-Ranging Plans for Iraq,” *Washington Post*, December 28, 2003; “Iraqis Face Tough Transition to Market-Based Agriculture,” *Washington Post*, January 22, 2004; “Iraq Privatization Postponed for Now,” *Dow Jones Newswires*, October 27, 2003.

<sup>59</sup> Department of Defense, News Briefing, Charles Hess and Bill Taylor, January 19, 2005; DOD briefing, Charles Hess, December 15, 2004; “Residents Trickle Back, But Fallujah Still Seems Dead,” *New York Times*, January 6, 2005; “Rebuilding What the Assault Turns to Rubble,” *Washington Post*, November 10, 2004; “Pace of Rebuilding Najaf Causes Friction,” *New York Times*, October 18, 2004; “In Fallujah’s Ruins, Big Plans and a Risk of Chaos,” *New York Times*, December 1, 2004.

million in additional funds for the CERP (of which \$218 million has now been provided), roughly \$685 million — \$546 million from Iraqi resources — had been made available for this purpose. Provided in the form of small grants — over 34,512 such projects totaling \$578 million as of early October — the CERP supports a wide variety of reconstruction activities at the village level from renovating health clinics to digging wells to painting schools. In lieu of civilian U.S. government or NGO aid personnel, who are not present in most of the country, commanders identify local needs and dispense aid with few bureaucratic encumbrances. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs.<sup>60</sup>

**Reconstruction Contract Issues.** Dozens of U.S. and international companies and NGOs are participating in the reconstruction of Iraq.<sup>61</sup> (Many contractors are also participating in military support operations — these are not discussed in this report). In connection with implementation of the FY2004 Supplemental, the CPA set up an Iraq Program Management Office (PMO). In post-occupation Iraq, it is now called the Project and Contracting Office (PCO). The PCO coordinates infrastructure construction and monitors contracting and expenditures in six sectors — transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil.

To some extent, the PCO has supplanted government agencies traditionally responsible for reconstruction program contracting as it implements the bulk of the FY2004-funded programs. The main contracting agencies implementing FY2003 programs are the Army Corps of Engineers, responsible for oil well repair and maintenance; the Department of State, handling police training; and the Agency for International Development (USAID), managing the widest range of economic, social, and political development programs. Using FY2003 funds, USAID has awarded \$1.8 billion in contracts and grants in seaport and airport administration, capital construction, theater logistical support, public health, primary and secondary education, personnel support, local governance, agricultural development, and higher education. Utilizing FY2004 funding, it is responsible for \$2.3 billion to date, including a \$1.8 billion construction project contracted to Bechtel. USAID continues to be responsible for most activities related to social services, civil society, and policy reform.

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<sup>60</sup> CPA Inspector General, *Report to Congress*, October 30, 2004; “Soldiering On to Rebuild Iraq,” *Washington Post*, February 21, 2004; “The GI’s Weapon of Choice in Iraq: Dollars,” *Christian Science Monitor*, January 29, 2004; “A Different Street Fight in Iraq,” *Washington Post*, May 27, 2004.

<sup>61</sup> For information on contract awards and solicitations, and business opportunities in Iraq, see the following websites: the Iraq Project and Contracting Office [<http://www.rebuilding-iraq.net>]; USAID’s Iraq Reconstruction effort [<http://www.usaid.gov/iraq/activities.html>]; the Department of Commerce (DOC) Iraq Reconstruction Task Force [<http://www.export.gov/iraq/>]; the U.S. Army Corps of Engineers [<http://www.hq.usace.army.mil/cepa/iraq/iraq.htm>]; and the site for recruiting of police trainers under the State Department-managed, DynCorp-implemented project [<http://www.policemission.com>]. Companies interested in sub-contracting under any projects should contact the winner of the award.

Recently, it was reported that the PCO would gradually hand over its responsibilities to the Army Corps of Engineers. However, the extent and reason for this decision has not yet been made public. It has been suggested that the difficulty of conducting large-scale construction projects in an insecure Iraq and the trend toward providing more small-scale assistance has made the PCO less useful.<sup>62</sup>

Seeking to encourage economic growth and decrease unemployment, the CPA made special efforts to insure that Iraqi business had an opportunity to participate in contracts, including putting contract solicitations on its website and appointing business liaison representatives. The extent to which firms planned to utilize Iraqi services was a factor in the awarding of contracts. Although U.S. government requirements could be waived for Iraqi contractors, most work for Iraqi business has come in the form of subcontracts. Since the State Department took over reconstruction, an effort has been made to move greater amounts of assistance in the form of projects directly contracted to Iraqis. One factor in this decision has been the deleterious impact of security on the activities of the large-scale contractors. Recently, Contract International, holder of a \$325 million roads and bridges construction contract, announced its withdrawal.<sup>63</sup> The State Department plans to replace it with direct contracting with Iraqi firms. The PCO claims that hundreds of Iraqi firms are currently working on U.S.-funded reconstruction projects, and that over 101,000 Iraqis are employed under them.<sup>64</sup>

An Administration decision applied to the FY2003 reconstruction contracts to waive the normal competitive bidding requirements and request bids from specific companies which were seen to have preexisting qualifications received considerable attention by the business community in 2003. U.S. officials explained then that only a few select firms possessed the particular skills that would qualify them for the job specifications for Iraq reconstruction, and that time and security clearances were also critical factors. Other U.S. firms and foreign entities potentially excluded by “buy America” provisions of law, they noted, could participate as sub-contractors to the selected American firms.

Most FY2004-funded contracts are being competitively solicited, and the FY2004 supplemental contains a provision requiring notification and justification to Congress of any waiver of competitive rules. On December 5, 2003, Deputy Secretary of Defense Paul Wolfowitz issued a determination and findings report, essentially limiting eligibility for prime contracts using FY2004 funds to U.S. firms and those of 62 countries — including Iraq, coalition partner, and force contributing nations. His rationale for barring other countries’ firms, including Germany and France, was that it was “necessary for the protection of the essential security interests of the United States.” Countries excluded from prime contracts could still participate as sub-contractors. In what has been interpreted as an effort to gain greater international cooperation on Iraq as well as a mark of State Department control over

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<sup>62</sup> “U.S. Army to Expand Role in Iraq’s Civil Engineering,” *New York Times*, January 14, 2005.

<sup>63</sup> BNA, Inc. Federal Contracts Report, January 11, 2005

<sup>64</sup> Department of State, *Iraq Weekly Status Report*, January 19, 2005.

Iraq policy following the June 28 transition, Administration officials indicated in mid-2004 that the limitation on country eligibility would be reversed.<sup>65</sup>

The closed bidding and lack of transparency in early contracting and later reports suggesting that U.S. and Iraqi funds are being squandered disturbed a number of legislators.<sup>66</sup> The FY2004 supplemental established an Inspector General for the CPA. The CPA Inspector General has issued a number of audits and launched dozens of investigations.<sup>67</sup>

In particular, it was the sole source contract for oil well repair (“Restore Iraqi Oil” — RIO project) provided to Kellogg Brown and Root (KBR), a subsidiary of Halliburton, whose former chief executive is Vice-President Cheney, that was the focus of media attention, raising concerns of favoritism and reinforcing suspicions that the war was fought for oil. The repair work for this contract, conducted by KBR for the Army Corps of Engineers, was valued at \$2.5 billion to March 2004.<sup>68</sup> In summer 2003, the Corps announced that remaining oil repair work would be competitively bid. However, KBR continued to carry out work orders on a non-competitive basis pending a decision, finally reached on January 16, 2004, on two new contracts collectively worth up to \$2.0 billion.<sup>69</sup> One of the new contracts — worth up to \$1.2 billion — was awarded to KBR.

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<sup>65</sup> “U.S. to End Ban on War Opponents from Getting Iraq Contracts,” *Bloomberg*, September 8, 2004; “Wider Support Prompts U.S. Rethink on Contracts,” *Financial Times*, July 21, 2004; “Pentagon Bars Three Nations From Iraqi Bids,” *New York Times*, December 10, 2003; “U.S. Pressed Over Iraq Contracts Ban,” *Financial Times*, December 12, 2003.

<sup>66</sup> For example, a cement plant’s renovation, estimated to cost \$15 million by U.S. engineers, was repaired by Iraqis for \$80,000. [Rep. Henry Waxman, letter to Joshua Bolten, Director of OMB, September 26, 2003.] The Governing Council questioned a decision by the CPA to spend \$1.2 billion training 35,000 police in Jordan rather than in Iraq at, in its view, “a fraction of the cost.” [“Iraqis Say U.S. Occupation Authority Misspends Million in its Awarding of Contracts,” *New York Times*, October 4, 2003.] Press reports suggest that ministry equipment is sold on the streets and reconstruction subcontracts are delivered for bribes. [“Spoils of War,” National Public Radio, April 21-23, 2004.] The Department of Defense Inspector General found numerous “irregularities” in contracting procedures followed by DOD acquisition support for the CPA and its predecessor through August 2003. Department of Defense Inspector General — Audit, Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command, Report No. D-2004-057, March 18, 2004.

<sup>67</sup> CPA Inspector General, *Report to Congress*, October 30, 2004. See CPA-IG website [<http://www.cpa-ig.org/>] for audit reports to date.

<sup>68</sup> \$815 million of this sum is Iraqi resources; \$1.7 billion is from U.S. appropriations. The figure does not include its profit margin of between 2% and 7%. U.S. Army Corps of Engineers, *March 2003 Contract Obligation Status*, [<http://www.hq.usace.army.mil/cepa/iraq/oilfires.htm>].

<sup>69</sup> Jane Mayer, “Contract Sport,” *New Yorker*, February 16, 2004; “U.S. Delays Awarding 2 Iraq Repair Contracts,” *Washington Post*, October 30, 2003; “Bush Seeks \$2.1 Billion More for Iraqi Oil Industry,” *New York Times*, September 13, 2003; “Halliburton’s Deals Greater Than Thought,” *Washington Post*, August 28, 2003; “Halliburton’s Iraq Role is Expanded to Oil Products Distribution,” *Financial Times*, May 8, 2003.



KBR has also been the focus of two DOD audits — one related to its work providing logistics support to the U.S. military under its competitively-bid LOGCAP contract and the other for the importation of fuel for use by Iraqis under the RIO project. In the latter case, KBR is suspected of overcharging by \$61 million.<sup>70</sup> Former KBR staff have come forward with accusations of wasteful spending.<sup>71</sup> State Department documents reportedly suggest that U.S. diplomats pressured KBR to use the more expensive Kuwaiti contractor for fuel imports.<sup>72</sup>

**Recent Assessments of Reconstruction.** There have been dozens of reports and articles during the past two years that have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid.<sup>73</sup> Two of the most recent ones are indicative of the others. *Reconstructing Iraq*, a September 2004 report from the International Crisis Group, examines the gamut of mistakes that many agree were made prior to and during the occupation. These include the lack of a reconstruction plan; the failure to adequately fund reconstruction early on; unrealistic application of U.S. views to Iraqi conditions by, for example, emphasizing privatization policy; the organizational incompetence of the CPA; shifting deadlines, such as the November decision to end the occupation seven months later; and the inadequate utilization of Iraqis both in making policy and in implementing reconstruction projects. The report draws on these failures to inform its recommendations for the future. Recommendations for the U.S. government include the suggestion that staff with expertise in post-conflict situations be utilized and encouraged to serve in Iraq longer than six months; that Iraqis representing a range of views participate in design and implementation of U.S. reconstruction projects; that development of the Iraqi private sector be emphasized through greater use of Iraqis as subcontractors; and that prime contractors be required to employ Iraqis as much as possible.<sup>74</sup>

*Progress or Peril? Measuring Iraq's Reconstruction* from the Center for Strategic and International Studies (September 2004 and updated on November 12)

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<sup>70</sup> In the former case, Halliburton is repaying the government \$27.4 million in overcharges. "Halliburton Will Repay U.S. Excess Charges for Troops' Meals," *New York Times*, February 3, 2004; "Pentagon Asks for Probe of KBR Oil Deal," *Washington Post*, January 16, 2004.

<sup>71</sup> "Halliburton Staff Called to Testify on Wasteful Spending," *Financial Times*, June 16, 2004.

<sup>72</sup> "Halliburton May Have Been Pressured by U.S. Diplomats to Disregard High Fuel Prices," *New York Times*, November 11, 2004.

<sup>73</sup> Among the most incisive are Anthony Cordesman, *Cleaning Up the Mess*, Center for Strategic and International Studies, July 7, 2004; David Rieff, "Blueprint for a Mess," *New York Times Magazine*, November 2, 2003; George Packer, "War After War: Letter from Baghdad," *The New Yorker*, November 24, 2003; Kenneth M. Pollack, "After Saddam: Assessing the Reconstruction of Iraq," *Foreign Affairs*, January/February 2004; John Hamre and others, *Iraq's Post-Conflict Reconstruction: A Field Review and Recommendations*, Center for Strategic and International Studies, July 17, 2003; and James Fallows, "Blind into Baghdad," *The Atlantic Monthly*, January/February 2004.

<sup>74</sup> International Crisis Group, *Reconstructing Iraq*, September 2, 2004. Available at [<http://www.icg.org/home/index.cfm>].

uses polling and personal interviews to attempt to measure the status of reconstruction from the Iraqi point of view. It finds that security is the predominant issue in Iraqi minds, and that governance is a largely negative picture. It suggests that U.S. efforts are too focused on national level politics and that efforts to support local political bodies are not backed by sufficient funding. A lack of economic opportunity fuels anger and security problems, and the level of social services is also undermining public confidence. An improvement in social well-being — health and education — the only bright spot that the original report highlights, is less positively portrayed in the update. The healthcare system is now viewed as deteriorating. Recommendations include accelerating training of security forces, increasing more direct assistance to Iraqis, giving priority to Iraq's employment crisis, supporting the return of the U.N. to provide election assistance, giving precedence to aid for Iraq's judicial sector, supporting the development of more responsive Kurdish regional governments, mobilizing the Iraqi silent majority to counter the insurgents, and giving Iraqis a stake in the country's oil wealth.<sup>75</sup>

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<sup>75</sup> Center for Strategic and International Studies, Post-Conflict Reconstruction Project, Frederick Barton and Bathsheba Crocker, Co-Directors, *Progress or Peril? Measuring Iraq's Reconstruction*, September 2004, and November 12 Update. Available at [<http://www.csis.org/>].