



# Iraq: Reconstruction Assistance

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March 12, 2009

Congressional Research Service

7-5700

[www.crs.gov](http://www.crs.gov)

RL31833

**CRS Report for Congress**

*Prepared for Members and Committees of Congress*

## Summary

A large-scale assistance program has been undertaken by the United States in Iraq since mid-2003. To date, about \$49 billion has been appropriated for Iraq reconstruction. Most recently, in June 2008, Congress approved over \$4 billion for Iraq reconstruction in an FY2008/2009 supplemental appropriations bill, H.R. 2642 (P.L. 110-252). The FY2009 regular foreign operations appropriations (P.L. 111-8, Division H, H.R. 1105, signed by the President on March 11, 2009) provides no economic aid to Iraq with the exception of demining assistance. Security aid and most economic aid are provided in supplemental appropriations bills.

Contributions pledged by other donors at the October 2003 Madrid donor conference and in subsequent meetings have amounted to roughly \$17 billion in grants and loans.

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

A significant number of reconstruction activities, especially those involving construction of road, sanitation, electric power, oil production, and other infrastructure, are completed or near completion. Security concerns slowed progress and added considerable expense to these efforts.

Reconstruction priorities and funding mechanisms have changed over time. The Iraq Relief and Reconstruction Fund (IRRF), the main U.S. assistance account in the first few years, is no longer available, and most large-scale infrastructure programs are no longer funded. However, many small-scale, targeted community-level infrastructure efforts are funded under the Commander's Emergency Response Program (CERP) and the Economic Support Fund (ESF). The key emphases of the aid program are the training of Iraqi forces and programs assisting the development of Iraqi governing capacities and supporting the work of the Provincial Reconstruction Teams (PRTs).

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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## Most Recent Developments

On March 11, 2009, the President signed into law P.L. 111-8, the FY2009 Omnibus appropriations, providing regular FY2009 economic assistance (H.R. 1105, Division H). With the exception of demining assistance, it provides no funds for Iraq reconstruction. Most economic and security assistance for Iraq has been provided to date under emergency supplemental legislation.

Although the Obama Administration's February 26, 2009, budget presentation does not include hard numbers for its Iraq regular FY2010 or FY2009 supplemental requests, it does indicate that, when the details are presented in the next weeks, the budget will increase assistance to Iraqis displaced from their homes because of the war, and will "realign" assistance to ensure "that Iraqis can assume more responsibility for their own political and economic future."

On October 14, 2008, the Duncan Hunter National Defense Authorization Act for FY2009 was signed into law (S. 3001, P.L. 110-417). It bans the use of ISFF funds for infrastructure projects and restricts the use of the CERP for this purpose by setting a maximum limit on project cost at \$2 million.

## Introduction

Following years of authoritarian rule and economic sanctions in Iraq, 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.<sup>1</sup> To meet these ends, a large-scale assistance program has been undertaken by the United States in Iraq. This program, funded through a mix of appropriations accounts, will likely be scrutinized closely in the 111<sup>th</sup> Congress. This report describes recent developments in this assistance effort and key issues of potential interest to Congress.<sup>2</sup>

## Funding for Reconstruction

Several "spigots" have been available to fund Iraq reconstruction during the period from 2003 to the present. 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 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 has made further resources available. These sources of reconstruction funding are discussed below.

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<sup>1</sup> U.N. Security Council Resolution 1483, May 22, 2003.

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

## U.S. Assistance

Over the years, U.S. assistance to Iraq has been provided through multiple appropriations accounts (see **Table 1** for funding levels). In the first several years of the U.S. effort in Iraq, the bulk of U.S. assistance was provided through a specially created Iraq Relief and Reconstruction Fund (IRRF), placed under the direct control of the President, supporting aid efforts in a wide range of sectors, including water and sanitation, electricity, oil production, training and equipping of Iraqi security forces, education, democracy, and rule of law. The Fund, established in the April 2003 FY2003 Emergency Supplemental (P.L. 108-11, H.R. 1559/H.Rept. 108-76) and replenished in the November 2003 FY2004 Emergency Supplemental (P.L. 108-106, H.R. 3289/H.Rept. 108-337), eventually totaled nearly \$21 billion.

A new DOD account supporting the training and equipping of Iraqi security forces, the Iraq Security Forces Fund (ISFF), was set up under the May 2005 FY2005 emergency supplemental (P.L. 109-13, H.R. 1268/H.Rept. 109-72). 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 assistance entirely under DOD, however, was 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.”

Another DOD account, the Commander’s Emergency Response Program (CERP), has provided immediate reconstruction and humanitarian assistance at the local level to support the work of U.S. military commanders. A Business Task Force, attempting to rehabilitate state-owned enterprises to stimulate the Iraqi economy and increase employment, has been funded out of the DOD Iraq Freedom Fund account.

By FY2006, the Economic Support Fund (ESF) account had replaced the IRRF as the main spigot of U.S. economic aid, provided in support of a wide variety of economic development and governance efforts, but not funding the large-scale infrastructure programs or the security forces training that characterized much of the IRRF. ESF, in particular, was a key component of the so-called “surge” initiative, announced in January 2007. It largely funds the programs implemented by the Provincial Reconstruction Teams (PRTs), including local governance support; programs implemented by USAID, such as improvements to community infrastructure, job training, vocational education, and micro-loans; and supports programs at the national level, including Ministerial capacity development, agriculture and private sector reform, and strengthening of the judicial process and democratization efforts.

In addition to ESF, the International Narcotics and Law Enforcement account (INCLE) has supported “rule of law” efforts, the Democracy Fund supports a range of democratization and civil society efforts, and the Treasury Department Technical Assistance program offers experts on financial issues to the government of Iraq. Humanitarian refugee and displaced persons concerns have been addressed by programs funded under the Migration and Refugee (MRA) and International Disaster Assistance (IDA) accounts.

Most funding for Iraq reconstruction has been appropriated under emergency supplemental appropriations legislation, because it is “off-budget” and does not compete with other aid priorities in the regular aid bill. Efforts to “regularize” the economic assistance program for Iraq by requesting funds in the traditional annual foreign operations appropriations bill have met with limited success. The first such effort, in 2005 for the FY2006 foreign operations bill (P.L. 109-102, H.R. 3057), saw only \$60.4 million (after rescission) provided of a \$414 million request, because some Members felt that sufficient funds remained unobligated in the IRRF—at the time, \$3-\$5 billion—from which the Administration could draw to pay for continuing reconstruction. Iraq programs received an allocation of only \$176.3 million of an \$734 million FY2007 regular foreign operations request as a consequence of the continuing appropriations resolution (H.R. 5631/P.L. 109-289 Division B, as amended by H.J.Res. 20, P.L. 110-5, on February 15, 2007), which only set funding levels for major aid accounts. In December 2007, Congress rejected almost all of the regular *and supplemental* FY2008 ESF and INCLE request for Iraq (sec. 699K of P.L. 110-161, Division J), specifically approving only humanitarian aid, including demining and refugees and internally displaced persons programs.

### **First FY2008 Supplemental Appropriations**

On February 5, 2007, the Administration sent to Congress two budget requests for Iraq reconstruction funding, a request for regular FY2008 funding, largely rejected by Congress as noted above, and an FY2008 emergency supplemental request. The emergency request for Iraq reconstruction, as later revised on October 22, 2007, totaled \$4.9 billion, including \$3 billion under the ISFF, \$1.2 billion in combined Afghanistan/Iraq CERP funds, \$797 million in ESF, and \$159 million in INCLE. While Congress also rejected most of the supplemental request for foreign operations economic aid (in the FY2008 Consolidated Appropriations Act, P.L. 110-161, Division J, H.R. 2764), it provided a significant portion of the Administration emergency supplemental request made for Defense appropriations. It appropriated half (\$1.5 billion) of the request for the Iraq Security Forces Fund and nearly half of the total CERP request (of which \$370 million has been allocated to Iraq). In all, the Act provided about 40% of the total \$5.3 billion combined FY2008 regular and emergency Iraq reconstruction request. More than 88% of the total appropriation was DOD assistance. U.S. funding for PRT operations and programs and a wide range of other economic aid programs were left to rely on previously appropriated funds until an anticipated second tranche of the FY2008 request could be considered in spring 2008.

### **Second FY2008 and FY2009 Supplemental Appropriations**

Outstanding from the FY2008 supplemental request was roughly \$2.9 billion in Iraq reconstruction assistance, of which \$986 million was for foreign operations economic assistance. The outstanding FY2008 foreign operations request was for three accounts—\$797 million in ESF, \$159 million in INCLE, and \$30 million in MRA. The outstanding DOD request—nearly \$2.0 billion—was for the training and equipping of Iraqi security forces (\$1.5 billion under the ISFF), for development programs delivered under the CERP (Iraq could expect at least half of the \$719 million still outstanding for both Iraq and Afghanistan), and for the Task Force to Improve Business and Stability Operations in Iraq (\$100 million under the Iraq Freedom Fund account).

**Table I. U.S. Assistance to Iraq**  
(appropriations in \$ millions)

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	Enacted Total 2003-2009
Iraq Relief and Reconstruction Fund (IRRF)	2,475.0	18,389.0 <sup>a</sup>	—	10.0 <sup>b</sup>	—	—	—	<b>20,874.0</b>
Economic Support Fund (ESF)	—	—	—	1,535.4	1,620.8 <sup>c</sup>	439.0	102.5	<b>3,697.7</b>
Democracy Fund	—	—	—	—	250.0	75.0	—	<b>325.0</b>
INCLE (Int'l Narcotics & Law Enforcement)	—	—	—	91.4	170.0	85.0	— <sup>d</sup>	<b>346.4</b>
IFTA (Treasury Dept. Tech Asst.)	—	—	—	13.0	2.8	—	—	<b>15.8</b>
MRA (Migration & Refugee Asst.)	—	—	—	—	65.0	179.5	141.0 <sup>d</sup>	<b>385.5</b>
NADR (Nonprolif, Anti-Terror, De-mining)	—	—	3.6	—	19.4	16.0	4.5	<b>43.5</b>
IMET (Int'l Mil. Ed & Training Program )	—	1.2	—	—	1.1	—	—	<b>2.3</b>
IDA (Int'l Disaster Assistance)	—	—	—	7.9	50.0	80.0	45.0 <sup>d</sup>	<b>182.9</b>
Other USAID Funds	469.9	—	—	—	—	—	—	<b>469.9</b>
<b>Total 150 Account</b>	<b>2,944.9</b>	<b>18,390.2</b>	<b>3.6</b>	<b>1,657.7</b>	<b>2,179.1</b>	<b>874.5</b>	<b>293.0</b>	<b>26,343.0</b>
DOD - Iraq Security Forces Fund (ISFF)	—	—	5,391.0	3,007.0	5,542.3	3,000.0	1,000.0	<b>17,940.3</b>
DOD - Iraq Army	51.2	—	210.0 <sup>e</sup>	—	—	—	—	<b>261.2</b>
DOD - CERP	—	140.0	718.0	708.0	750.4	1,280.0	—	<b>3,596.4</b>
DOD - Oil Repair	802.0	—	—	—	—	—	—	<b>802.0</b>
DOD - Iraq Freedom Fund - Business Support	—	—	—	—	50.0	50.0	—	<b>100.0</b>
<b>Total 050 Account</b>	<b>853.2</b>	<b>140.0</b>	<b>6,319.0</b>	<b>3,715.0</b>	<b>6,342.7</b>	<b>4,330.0</b>	<b>1,000.0</b>	<b>22,699.9</b>
<b>Total U.S. Reconstruction Assistance</b>	<b>3,798.1</b>	<b>18,530.2</b>	<b>6,322.6</b>	<b>5,372.7</b>	<b>8,521.8</b>	<b>5,204.5</b>	<b>1,293.0</b>	<b>49,012.9</b>

**Sources:** State Department FY2009 Foreign Operations Congressional Budget Justification; SIGIR Report to Congress, July 30, 2008; and CRS calculations.

**Notes:** The 150 account encompasses International Affairs spending and is mostly appropriated in the State/Foreign Operations bill. The 050 account is Defense appropriations. This table does not contain agency operational costs, including CPA, State Department, and PRTs, except where these are embedded in the larger reconstruction accounts. Estimated costs to date are an additional \$3.0-\$4.0 billion.

- a. Original appropriation was \$18,439 million. \$50 million was rescinded in 2008 by P.L. 110-252.
- b. Transfer from ESF.
- c. State Department rescinded \$76 million in 2008.
- d. P.L. 110-252 included an unspecified amount for Iraq. If there was a specific request, assumes request level will be met.
- e. Transfer from ISFF to reimburse Army for previous Iraqi training expenses.

In addition, on May 2, 2008, the Administration issued a request for *FY2009* emergency supplemental funding. The request included \$398.8 million for foreign operations reconstruction—\$212.8 million in ESF, \$141 million in MRA, and \$45 million in IDA accounts. The DOD appropriations reconstruction request included \$2 billion for the ISFF, \$1.7 billion for the CERP in Iraq and Afghanistan, of which at least half would go to Iraq, and \$50 million for the Business Task Force. Both DOD and Foreign Operations portions of the *FY2009* emergency request were considered by Congress at the same time as the second *FY2008* supplemental.

Outstanding *FY2008* supplemental funds included operational costs (not counted in the reconstruction aid total or the table) for staffing and administering reconstruction programs: \$679 million for PRTs. The new *FY2009* supplemental request included funding for PRT operations (an unspecified portion of a total \$921 million Embassy/PRT request), \$23.6 million for USAID operational expenses, and \$15 million for the Special Inspector General for Iraq Reconstruction (SIGIR).

The final version of the *FY2008/2009* supplemental appropriations bill, H.R. 2642 (P.L. 110-252, signed June 30, 2008), approved by the House on June 19 and by the Senate on June 26, 2008, provided \$4.2 billion in Iraq reconstruction assistance, compared to a combined Administration request of \$4.9 billion. (For a full discussion of House and Senate action on the supplemental, see CRS Report RL34451, *FY2008 Spring Supplemental Appropriations and FY2009 Bridge Appropriations for Military Operations, International Affairs, and Other Purposes (P.L. 110-252)*.)

On the Foreign Operations side, Congress provided a total *FY2008/2009* supplemental appropriation of about \$907 million, compared to the request of \$1.4 billion. Of this amount, \$526.5 million is ESF funding. Judging by the allocations made by the Appropriations Committees for the ESF, there will be a shift in the direction of the economic aid program favoring more local-level assistance programs.

Of this amount, at least \$414 million would be targeted to provincial and local community activities, rather than programs supporting the national government. PRT programs would get \$174 million. Related community-based programs, the Community Stabilization Program (CSP) and the Community Action Program (CAP), would receive \$132.5 million and \$107.5 million respectively. The bill withholds half of the (CSP) appropriation until the State Department certifies that USAID is implementing the Inspector General's recommendations addressing concerns about a possible misuse of funds.

Provincial economic growth, including microcredit and agriculture, would get \$25 million. The only significant national-level effort, the National Capacity Development program, would receive

\$70 million, a cut of \$178 million from the request. Another request for a nationally-based effort, \$70 million for the provision of infrastructure security protection, was cut entirely. The proposed enterprise fund would also not be funded. The bill withholds the \$10 million approved for funding infrastructure maintenance (cut by \$124 million) until the Department of State certifies that Iraq has entered into and begun to implement an asset transfer agreement, including an Iraqi agreement to maintain U.S.-funded infrastructure.

Democracy assistance, requested under ESF, is being provided under the Democracy Fund account at \$75 million, and is expected to be implemented through the National Endowment for Democracy (NED) and other NGOs. The FY2008 INCLE Iraq program funding, at \$85 million, was cut substantially, by \$74 million, from the request, and no prison construction funding was included. The bill releases no more than 40% of rule of law (INCLE) funding until the State Department reports that an anti-corruption strategy has been developed and is being implemented by the Iraq government.

The legislation withholds all PRT operating expenses and program funds until the State Department reports on a strategy for winding down and closing out the PRTs, on the costs of the PRT program, expenses, security, and any Iraq contribution, and on the future costs and placement of U.S. consulates in Iraq.

Because operational funds for the PRTs are blended with those of the Embassy and USAID operating expenses are provided for both Iraq and Afghanistan, it is not possible to say with certainty whether the full request was met by the legislation. The bill does provide the SIGIR with \$2.5 million and \$36.5 million for FY2008 and FY2009, respectively.

Reflecting recent indications that Members of both parties desired to see the Iraqi government pay a greater share of the costs of reconstruction, the Act contains a measure that would require most economic reconstruction funds to be matched by Iraqi obligations on a dollar-for-dollar basis. The exceptions are for democracy and human rights programs, the USAID Community Action Program and other NGO-assisted programs, humanitarian demining, refugee and displaced persons assistance. The Secretary of State must submit a report by end of September 2008 with amounts obligated and expended by the government of Iraq. It is not clear from the bill language whether the match would have to be made project-by-project or whether total Iraqi funding for reconstruction in general would suffice to permit continued U.S. assistance at the same level. If the latter, the provision might not affect U.S. funding significantly as, in the past year, Iraqi obligations for security and economic reconstruction have approached the U.S. contribution and will likely surpass it in 2008.

The Senate explanatory language on the legislation from May 19 and made applicable to P.L. 110-252 by section 8004 directs the Secretary of Defense to develop procedures for an equal cost sharing for all reconstruction projects funded under DOD appropriations at amounts greater than \$750,000. The new process must begin on October 1, 2008.

### **FY2009 Regular Appropriations Request and Congressional Action**

On February 4, 2008, the Bush Administration submitted its FY2009 regular appropriations request, providing \$397 million for Iraq reconstruction under foreign operations and, as is usually the case, making no Iraq request under the regular DOD appropriations. Of the requested amount, \$300 million was for ESF, \$75 million for INCLE (rule of law), and \$20 million for NADR (mostly demining).

On July 16, 2008, the House State/Foreign Operations Subcommittee approved its FY2009 bill. It provided no funding for Iraq. On July 17, the full Senate Appropriations Committee reported S. 3288 (S.Rept. 110-425), its version of the FY2009 State/Foreign Operations bill, recommending \$75 million in ESF and \$25 million in INCLE funds for Iraq, \$275 below the combined request for these accounts. A recommended NADR account amount for Iraq was not specified.

On March 11, 2009, the President signed the FY2009 Omnibus appropriations into law (P.L. 111-8, H.R. 1105), providing regular FY2009 foreign operations funding (Division H). With the exception of demining assistance, it provides no funds for Iraq reconstruction (Div. H, sec. 7042). Most economic and security assistance for Iraq has been provided to date under emergency supplemental legislation. The legislation requires that all FY2009 assistance be provided “only to the extent that the Government of Iraq matches such assistance on a dollar-for-dollar basis.” It also requires that the Secretary of State submit a report detailing plans for the transition of assistance programs to the Government of Iraq.

### **Defense Authorization for FY2009**

On October 14, 2008, the Duncan Hunter National Defense Authorization Act for FY2009 was signed into law (S. 3001, P.L. 110-417). It contains several provisions of importance to the reconstruction of Iraq. The most significant provision (sec. 1508) bans the use of ISFF funds for infrastructure projects. A large proportion of IRRF security funding and ISFF funds has gone to the construction of training facilities, border forts, police stations, and the like. The congressional view in approving this measure is that the Iraqis should now provide such infrastructure from their own resources. In another effort to limit the use of U.S. funds for infrastructure, the Act (sec. 1214) restricts the use of the CERP by setting a maximum limit on project cost at \$2 million; anything over \$1 million must be certified by the Secretary of Defense as an urgent humanitarian or reconstruction requirement. The legislation also authorizes (sec. 1501) only half of the Administration’s FY2009 ISFF request, providing only the \$1 billion already approved in the FY2008/2009 supplemental approved in June 2008.

### **FY2010 Regular Appropriations Request**

Although the Obama Administration’s February 26, 2009, budget presentation does not include hard numbers for its Iraq regular FY2010 or FY2009 supplemental requests, it does indicate that, when the details are presented in the next weeks, the budget will increase assistance to Iraqis displaced from their homes because of the war, and it will also “realign” assistance to ensure “that Iraqis can assume more responsibility for their own political and economic future.”

### **Oil Revenue, Corruption, and the Iraqi Capital Budget**

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>3</sup> Although, until recently, they have been insufficient in view of Iraq’s enormous needs, oil revenues have been an important element in reconstruction funding. 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.

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<sup>3</sup> Press briefing by Ari Fleisher, White House, February 18, 2003; *Sec. 1506 Report to Congress*, July 14, 2003, p. 4.

The resolution shifted responsibility for oil profits and their disbursement 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.<sup>4</sup>

During the occupation, DFI funds available to the CPA—\$20.7 billion by June 28, 2004—were used to support a wide range of reconstruction activities, including the currency exchange program, oil and electricity infrastructure repair, purchase of firefighting equipment, the Iraqi operating budget, and the Oil for Food Program's monthly food baskets, responsibility for which was transferred from the U.N. to the CPA in November 2003. Under Security Council Resolution 1546, adopted on June 8, 2004, the transitional government of sovereign Iraq obtained control over use of DFI funds, which continue to be replenished with oil revenue.

Oil production accounts for more than 90% of Iraqi government revenue. 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 was slowed by sabotage and corruption, and the CPA target of 2.8-3.0 million barrels/day (MBD) by end of 2004 was not met. In September 2004, rates of production reached a peak of 2.67 MBD compared with an estimated pre-war rate of 2.5 MBD, but rates fell after that and hovered at around 2.0 MBD until 2007 when production grew again to reach the 2.5 MBD mark. As of early March 2009, the rate was 2.3 MBD.<sup>5</sup>

Due to increased worldwide oil prices, Iraqi oil revenues far exceeded expectations, rising from \$41 billion in 2007 to \$62 billion in 2008. The rapid decline in prices in recent months, however, has imperiled Iraqi budget plans for 2009. Anticipated in an early draft at \$80 billion, the 2009 budget has been pared down to nearly \$59 billion, and, at that level, the Iraqi government is expecting as much as a \$15 billion deficit.

## **Iraqi Corruption**

A further concern regarding the amount of oil income available for reconstruction is the extent of corruption and mismanagement in the Iraqi government. A 2006 audit of the DFI found that controls over export earnings were ineffective and funds improperly accounted for by government staff. The Comptroller General of the GAO has also suggested that there is "massive corruption" in the Oil Ministry, and the head of Iraq's Commission on Public Integrity estimates that corruption has cost the government up to \$18 billion. Iraq ranks third from the bottom on Transparency International's corruption index.<sup>6</sup>

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<sup>4</sup> 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.

<sup>5</sup> Department of State, *Iraq Weekly Status Report*, March 4, 2009, p. 8.

<sup>6</sup> Transparency International, *2007 Global Corruption Perception Index*, September 2007; "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; "Iraqi Judge Says Maliki's Government Shields Officials Accused of Corruption," *New York Times*, October 5, 2007; "Nonstop Theft and Bribery Stagger Iraq," *New York Times*, December 2, 2007; "Iraq Insurgency Runs on Stolen Oil Profits," *New York Times*, March 16, 2008.

An October 2008 SIGIR project inspection report provides one example of how corruption affects Iraqi-funded reconstruction efforts, even those managed by the United States. A contract to refurbish three schools, managed by the U.S. military under the CERP program but funded by the Iraqi government, had to be closed and efforts instituted to find another contractor when the original Iraqi contractor reported that he had refused multiple bribe solicitations by Iraqi government representatives. His refusal was met with threats against him and his family, and he asked to be released from the contract obligation. Schools that were to be ready by end of July 2008 were therefore not completed by the time the review was conducted in mid-September.<sup>7</sup>

A variety of U.S. assistance programs attempt to address the corruption issue. Among these are provision of staff training and equipment to the Commission on Public Integrity, the key national anti-corruption organization, similar assistance to each Ministry Inspector General office, and most rule of law efforts that seek to strengthen the judicial system. On March 11, 2008, the U.S. Embassy announced the appointment of Ambassador Lawrence Benedict as Coordinator for Anti-Corruption Initiatives. In the past, the SIGIR has found fault with management of the Embassy anti-corruption effort—only 2 of 12 recommendations made by the SIGIR in July 2006 had been fully implemented a year later. However, in a January 2008 report, the SIGIR noted that the Embassy had taken steps to implement all its concerns, and a July 2008 report found 5 of the 12 recommendations fully addressed.<sup>8</sup>

### **Iraqi Capital Budget**

As the U.S. economic assistance program has dwindled in size, the importance of Iraqi-owned funds available for large-scale infrastructure has increased significantly.<sup>9</sup> However, Iraqi ministries have had difficulty spending their budget for capital projects such as roads, schools, and oil production. According to U.S. officials, only about 23% of the 2006 capital budget of about \$6.2 billion was spent in that year, and only 3% of a \$3.5 billion capital budget available to the Oil Ministry was spent in 2006. Funds not spent in 2006 were being utilized in 2007, delaying expenditure of 2007 capital funds, and, later, 2008. Among the reasons offered for this situation has been a rapid turnover in personnel, security concerns preventing construction, a lack of personnel skilled in contracting and managing projects, and a fear by government employees of being accused of corrupt practices. The latter concern led the Finance Minister in January 2008 to call for the abolition of the Commission on Public Integrity, a key public watchdog group.<sup>10</sup>

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<sup>7</sup> SIGIR, *Al Quds, Al Mualameen, Al Faoo Schools Sustainment Assessment*, PA-08-149 to 08-151, October 29, 2008.

<sup>8</sup> SIGIR, *U.S. Anticorruption Efforts in Iraq: Sustained Management Commitment is a Key to Success*, 08-008, January 24, 2008; SIGIR, *Progress Made in Implementing Revised Management Plan*, 08-016, April 24, 2008; SIGIR, *U.S. and Iraq Take Actions But Much Remains to be Done*, 08-023, July 29, 2008.

<sup>9</sup> Until the past two years, payment for operating budget expenses and a variety of government social programs limited the amount of oil revenue left for reconstruction. Fuel and food subsidies as well as support for state-owned enterprises accounted for as much as \$11 billion annually. Because these practices divert funds from needed reconstruction, Administration officials since 2003 repeatedly pressured the Iraqi government 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 roughly \$1.06 a gallon. Fuel subsidies, reportedly, have been mostly eliminated. In response to rising commodity prices, the government of Iraq announced that in 2008 the monthly food rations would be halved and recipient numbers reduced. Government of Iraq, *International Compact Annual Review*, June 16, 2008, p. 33; Country Report Iraq Updater Fiscal Policy, *Economist Intelligence Unit*, May 15, 2007; Department of State, *Iraq Weekly Status Report*, January 3, 2008, p. 10.

<sup>10</sup> "Oil Revenues are in the Billions, but Iraq is Failing to Spend Them," *New York Times*; and SIGIR, *Report to* (continued...)

Complementing the Bush Administration's new strategy for Iraq, the Iraqi government approved a 2007 budget containing \$10.1 billion for capital investment, of which \$2.1 billion was expected to go to provincial governments. The 2007 Iraq budget also included \$2.4 billion for investments in oil production and another \$3 billion for the construction of new oil refineries to reduce oil product imports. The allocation and expenditure of this 2007 capital budget was one of the 18 benchmarks assessed under section 1314 of the FY2007 Supplemental. In September 2007, the Administration found progress on this factor to be satisfactory. In January 2008, however, the GAO found the data on which the Administration based its reports of 2007 improvements in budget execution to be subject to dispute, and indicated that actual expenditures may be significantly lower than reported. The State Department disputed the GAO view.<sup>11</sup>

Confusion in the presentation and definition of data by various agencies has complicated the issue. Often in reporting on the Iraqi ability to utilize its resources, there is little distinction made between commitment of funding and spending of those funds. There are also different rates of expenditure between the Ministries and the provincial governments. Despite the discrepancies in reported data, it appears that some improvement has been made in Iraq's ability to utilize its resources, especially in view of the significant annual growth in the budget that must be executed. According to DOD, the Iraqi ministries spent or committed 27% more on capital projects in the first seven months of 2008 than in the same period in the preceding year. But the total spending/commitment level was still less than one third of the total ministerial capital budget at the time.<sup>12</sup>

Both U.S. Embassy and PRT assistance are partly aimed at helping ministries and local government, respectively, develop the capacity to efficiently utilize these Iraqi-owned resources (see "Capacity Development" section below). According to U.S. officials, since 2007, the government of Iraq has taken significant steps to facilitate execution of its capital budget, including formation of a senior-level task force, establishment of new procedures such as revised procurement regulations, and additional training. In 2008, a number of ministries and governors have been permitted to enter into contracts at much higher levels than previously and a central contracts committee has been replaced with a more decentralized system.

The second FY2008 supplemental appropriations (P.L. 110-252) requires that Iraq match U.S. economic aid appropriations on a dollar-for-dollar basis. Although prior to this legislation, the Iraqi government budget, on paper, has provided funding for capital investments equivalent to the U.S. reconstruction effort in some sectors, its expenditures have not matched those of the United States. According to the GAO, the United States spent about \$23.2 billion on four critical sectors—security, oil, electricity, and water—from FY2003 through June 2008, 70% of its total

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Congress, July 30, 2007, p. 5; "Iraqi Finance Minister Warns of Iranian-U.S. Escalation," *Al-Hayat in BBC Monitoring Int'l Reports*, January 23, 2008.

<sup>11</sup> GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, January 2008, GAO-08-153; White House, *Benchmark Assessment Report*, September 14, 2007, p. 27; "State Dept. Official Disputes Iraq Report," *Washington Post*, January 17, 2008.

<sup>12</sup> DOD, *Measuring Stability and Security in Iraq*, December 2008 Report to Congress, p. 8; September 2008 Report to Congress, p. 9; June 2008 Report to Congress, p. 10; March 2008 Report to Congress, p. vi, 9; GAO, *Progress Report: Some Gains Made, Updated Strategy Needed*, 08-837, June 2008, p. 43.

allocation of \$33.4 billion in these sectors. Iraq, however, spent 14%, \$3.9 billion, of its total \$28 billion allocation for these same sectors from 2005 through 2008.<sup>13</sup>

With rising oil revenue, the Iraqi government 2008 budget, originally approved at \$49.9 billion, \$13.1 billion of which was for capital projects, was amended in July 2008. Although announced at \$72 billion, of which \$21 billion was for capital projects, it was subsequently lowered to \$67 billion, due to the fall in oil prices. Nonetheless, it is clear that the Iraqi 2008 budget for items that parallel U.S. funding for both security and economic reconstruction activities had grown to surpass, on paper, the U.S. contribution. If Iraqi capacities are better addressed and corruption restrained, obligations and/or expenditures could match or exceed it. The 2009 budget reportedly contains \$12.5 billion for reconstruction projects, a significant decrease from the previous year, but still greater than the likely U.S. reconstruction budget for Iraq.<sup>14</sup>

## **Iraqi Debt**

In early 2003, Iraq's debt, both public and private, was estimated at \$125 billion. 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.<sup>15</sup>

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 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 authorized \$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 80% of what Iraq owed to this group, bringing its debt to them down from \$50 billion to the current \$7.8 billion.

In addition to Paris Club creditors, Iraq has borne about \$69 billion in other bilateral debt (mostly to Gulf States countries) and more than \$21 billion in commercial debt. Of the latter, most claims have been resolved. In May 2007, four nations offered to forgive nearly \$21 billion of Iraqi bilateral debt as part of their participation in the International Compact with Iraq. Negotiations with Saudi Arabia to forgive 80% of Iraq's estimated \$15 billion debt reportedly broke down in

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<sup>13</sup> GAO, *Iraqi Revenues, Expenditures, and Surplus*, GAO-08-1031, August 2008, p.17.

<sup>14</sup> "Budget 2009: Iraq Cuts Reconstruction Spending 40%," *World Markets Research Centre*, January 26, 2009.

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

September.<sup>16</sup> In July 2008, the United Arab Emirates announced it would forgive all \$3.6 billion in Iraqi debt.<sup>17</sup>

## Other Donors

To date, according to the SIGIR, more than 40 non-U.S. donors have offered about \$17.0 billion in economic reconstruction funds to Iraq.<sup>18</sup> Of this reconstruction assistance, grant aid actually committed by other donors totals about \$5.6 billion. These include \$1.6 billion by Japan, \$832 million by the United Kingdom, \$214 million by Spain, \$920 million by the European Commission, \$200 million by South Korea, and \$350 million by Italy. Much of the grant assistance has been provided as a contribution to the IRFFI (see below). Of the nearly \$12 billion offered in loans, about \$4.4 billion have been provided, including by Japan (\$2.1 billion), the World Bank (\$399 million), and the IMF (\$744 million).

Japan and Britain have been notably active in providing bilateral assistance. Japan, the second largest donor after the United States, has provided, among other things, significant funding for electrical power station rehabilitation, water treatment units and tankers, medical equipment, and fire trucks and police vehicles. Its 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.

Among multilateral contributions, the IMF provided an Emergency Post-conflict Assistance package in 2004 and continues to offer a roughly \$744 million Standby Arrangement on which Iraq can draw, but has yet to do so. The World Bank has agreed to a \$500 million concessional loan program, including a \$100 million education project, \$135 million road project, and \$124 million electric power project.<sup>19</sup>

## Iraq Trust Fund

During much of the U.S. occupation, donors had been reluctant to contribute to reconstruction because they had no say in where the funds were to be allocated.<sup>20</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. The Facility has two windows, one run by the World Bank (the World Bank Iraq Trust Fund) and one by the United Nations (UNDG Iraq Trust Fund). As of December 2008, 25 donors had deposited about \$1.9 billion in the Facility. Among other activities, the World Bank Fund (\$497 million committed) has financed textbooks, school

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<sup>16</sup> Department of Defense, *Measuring Stability and Security in Iraq*, March 2008, p. 9; SIGIR, *Report to Congress*, April 30, 2008, App. M. See CRS Report RL33376, *Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief*, by Martin A. Weiss, for further details.

<sup>17</sup> Department of State, *Weekly Status Report*, July 8, 2008, p. 22.

<sup>18</sup> SIGIR, *Report to Congress*, January 30, 2009, p. G-1. Most of these pledges were made at the Madrid Donor Conference held in October 2003. In addition, 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. U.N. Office for the Coordination of Humanitarian Affairs, *Total Humanitarian Assistance for Iraq Crisis 2003*. April 5, 2004.

<sup>19</sup> IMF, *Iraq Financial Position in Fund as of January 30, 2009*, <http://www.imf.org>; World Bank, *World Bank Operations in Iraq*, as of December 31, 2008.

<sup>20</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.

rehabilitation, and water and sanitation infrastructure, and has provided hundreds of Iraqi civil servants with management training. The UNDG Fund (\$1.4 billion committed) is supporting a wide range of projects, most to be implemented by the Iraqi government.<sup>21</sup> The IRFFI is expected to dissolve at the end of 2010.

## **United Nations**

Despite the devastating bombing of its Baghdad compound in 2003, the U.N. has played a major role in Iraq reconstruction. The U.N. has been largely responsible for providing assistance and guidance to promote the democratization of Iraq. 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. Subsequently, the U.N. helped with the constitution-writing process, the constitutional referendum, the December 2005 parliamentary election, and organization of provincial elections held in January 2009. With Trust Fund support, the development organizations within the United Nations are actively working on dozens of projects. U.N. Security Council Resolution 1830, approved August 7, 2008, extended the U.N. Mission for Iraq (UNAMI) another year. In the same month, the UN and Iraq agreed on an Assistance Strategy for the period 2008-2010, the first one of its kind since the 1990s. The number of U.N. international staff in Iraq itself has grown significantly since 2006; in September 2008 there were about 354, as well as about 420 local staff.<sup>22</sup>

## **International Compact for Iraq**

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 have pledged funds and, in return, Iraq has promised a five-year program of specific reforms and actions leading to long-term economic and political development. The Compact was finalized at a donor meeting held in Egypt on May 3, 2007, attended by more than 60 countries. Roughly \$700 million in non-U.S. grant and loans commitments (included in the above donor totals) and \$21 billion in debt relief are estimated to be associated with the Compact.<sup>23</sup>

## **U.S. Assistance Policy and Program Structure**

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

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<sup>21</sup> IRFFI website, <http://www.irffi.org>.

<sup>22</sup> "Security Council Approves a Broader U.N. Mandate in Iraq to Seek Reconciliation," *New York Times*, August 11, 2007; "New U.N. Envoy in Iraq Sets Out Strategy to Revive Hopes Crushed in 2003 Attack," *New York Times*, December 3, 2007; "U.N. to Help Organize Iraqi Elections Set for October," *New York Times*, February 15, 2008; *UNAMI Focus*, September 2008, p. 4.

<sup>23</sup> Ambassador David Satterfield, Department of State briefing on April 30, 2007; SIGIR, *Report to Congress*, July 30, 2007, p. 131.

sovereignty. At that time, broad responsibility for assistance programs moved from the Secretary of Defense to the Secretary of State.<sup>24</sup> In Iraq, the United States provides assistance and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy. The Administration has nominated Chris Hill to be Ambassador. The embassy employs about 1,000 U.S. direct hire staff.

By executive order (13431), on May 15, 2007, an Iraq Transition Assistance Office (ITAO) was established in the embassy, supplanting some of the functions of the Iraq Reconstruction Management Office (IRMO) that had, itself, supplanted CPA efforts in setting requirements and priorities for the aid program. The Embassy's Office of Provincial Affairs is in charge of the PRTs.

The Project and Contracting Office (PCO), formerly the CPA's Program Management Office (PMO), is run by the Army Corps of Engineers, Gulf Region Division (GRD), headed by Major Gen. Mike Eyre.<sup>25</sup> The GRD-PCO has been chiefly responsible for the more than \$10 billion in FY2004-funded IRRF programs dedicated to infrastructure construction, as well as follow-on sustainability efforts. The GRD/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. Although in the Department of the Army, it reports to the Department of State as well as to the Department of the Defense.

Overall responsibility for management of U.S. military activity in Iraq belongs to General Odierno, as 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, Lt. General Frank Helmick is the officer immediately in charge of overseeing the training and support 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.<sup>26</sup>

A third major U.S. actor in the implementation of the aid program is the U.S. Agency for International Development (USAID). Responsible for more than \$6 billion of assistance to date, USAID manages a wide range of economic, social, and political development programs. Its programs have included a multi-faceted, large-scale construction project and most activities related to public health, agricultural development, basic and higher education, civil society, local governance, democratization, and policy reform.

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation (P.L. 108-106), was redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the FY2005 DOD Authorization (P.L. 108-375). Special Inspector General Stuart Bowen, Jr., reports to both the Secretary of Defense and State. The SIGIR office has about 60

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<sup>24</sup> 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."

<sup>25</sup> The PCO and IRMO were established by the May 11, 2004 NSPD. See GRD-PCO website at <http://www.rebuilding-iraq.net>.

<sup>26</sup> "Aid to Iraq Ministries to Shift to Pentagon," *Washington Post*, September 26, 2005.

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 regarding his audits and investigations on March 30, 2004, and has reported quarterly since then.<sup>27</sup>

The SIGIR's scope of authority originally encompassed only the IRRF, although the SIGIR has responded to specific congressional and executive branch requests to audit other account programs. The FY2007 Defense Authorization made all FY2006 reconstruction appropriations, regardless of account, subject to SIGIR jurisdiction as though they were under the IRRF. The FY2008 Defense Authorization (H.R. 4986, P.L. 110-181), signed into law on January 28, 2008, broadens the authority of the SIGIR to include all reconstruction programs from all accounts and all years.

## **U.S. Reconstruction Assistance**

Among the key policy objectives laid out by the Bush Administration was the economic and political reconstruction of Iraq. Discussion and debate have been ongoing regarding the strategy to reach these ends utilizing reconstruction aid funds and the effectiveness of aid implementation. Although the aid program is already greatly diminished from its first years, a changed U.S. role in Iraq, as proposed by the Obama Administration, is not yet reflected in the aid program.

### **Reconstruction Programs and Issues**

#### **Reconstruction Programs: 2003-2006**

Most funding during the first several years of the U.S. assistance program came from the Iraq Relief and Reconstruction Fund (IRRF). The nearly \$21 billion provided through that account supported the entire range of economic and security programs. Although FY2004 IRRF funding levels were initially established in 10 categories of assistance, reconstruction priorities changed over time and allocations mirrored shifting events on the ground. For example, after the State Department took charge in June 2004, the new U.S. Embassy country team reallocated FY2004 IRRF resources, emphasizing security needs, increased oil production, greater employment, and democracy as the highest priorities, at the expense of many large-scale economic infrastructure projects—in particular water and sanitation and electricity—that were viewed as too slow and dependent on an improved security situation to have an immediate impact. Although these and later reallocations were pragmatic responses to new events on the ground, their cumulative impact was to divert funds from previously planned programs. As a result, water and sanitation projects were cut by half (from \$4.3 billion to \$2.1 billion), and electric power programs lost a quarter of their original funding (from \$5.6 to \$4.2 billion). In the end, nearly a quarter of the IRRF (\$5 billion) has gone to the training and equipping of Iraqi security forces, nearly half (roughly \$10 billion) to economic infrastructure—the construction of water, oil, electric, and other facilities—and another quarter to a range of more traditional assistance in health, education, policy reform, and other areas.

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<sup>27</sup> See <http://www.sigir.mil/> for reports and audits.

These reconstruction programs have shown mixed results.<sup>28</sup> There have been many positive outputs. Among achievements of the U.S. reconstruction program, more than 1,200 security facilities—police stations, border forts, fire stations, courts, etc.—were completed. Nearly a half-million police and military security forces have been trained and equipped. As of October 23, 2008, security responsibility for 12 of the 18 provinces has been handed over to the Iraqi authorities. Health facilities have been rehabilitated and equipped, health care providers trained, and medical services such as immunizations provided. The deepwater port at Umm Qasr was restored, as were 96 of 98 railway stations, two international airports, and three regional ones. Local governance has been strengthened through establishment of councils and community associations. More than 6,000 grassroots projects have been conducted through USAID grants provided to more than 1,450 community action groups. Voter education, training of election monitors, and related activities contributed to three successful elections in 2005. Technical experts continue to provide advice to government agencies regarding adoption of budgetary and management reforms. About 6,716 schools were rehabilitated and 60,000 teachers trained. Irrigation systems were rehabilitated, 68 veterinary clinics reconstructed, and 83,500 date palm offshoots planted. Agricultural extension agents have been trained and agribusiness supported. Credit has been provided to micro and small business. U.S.-funded projects have added 2,500 megawatts (MW) to Iraq's generating capacity. Water and sanitation sector assistance has provided clean water to 6.7 million people and sanitation to 5.1 million. As noted earlier, oil production, largely stagnant in the first few years, has risen to near pre-war levels.

Yet, along with the accomplishments have come less than satisfactory outcomes. In the critical sectors of electric power and oil production, outputs were less than originally envisioned.<sup>29</sup> Many health-related construction projects experienced considerable delays, and contracts won by U.S. firms had to be revoked and re-awarded to Iraqis, including 12 of 20 refurbished hospitals. Only 91 of a planned 142 new clinics will be completed with U.S. funding. Further, the Basrah Children's Hospital has had significant cost overruns. Although the airports and seaport have shown considerable activity, only a tiny percentage of Iraqi trains run because of security concerns, but numbers have been improving in recent months. Despite democratization efforts, halting progress has been made on achieving national reconciliation.

Moreover, the impact of U.S. 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. While the U.S. water and sanitation contribution has been significant, the International Committee of the Red Cross estimates that more than 40% of Iraqis do not have access to clean water. Despite U.S. efforts in the health sector, Oxfam reports that 90% of Iraq's 180 hospitals lack basic medical and surgical supplies.<sup>30</sup> U.S. transport assistance is said to have repaired only 8 bridges of 1,156 in

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<sup>28</sup> SIGIR, *Report to Congress*, January 30, 2009 and previous reports; Department of State, *2207 Report to Congress*, January 2009 and previous reports.

<sup>29</sup> Before the war, electric power was 4,500 MW and, until recently, capacity fell well below this level despite an early goal of reaching 6,000 MW. However, by the 3<sup>rd</sup> quarter of 2007, it had increased to around 4,550 MW, a post-war record. In the 3<sup>rd</sup> quarter of 2008 it was 4,919 MW. In Baghdad, Iraqis receive fewer hours of electricity than before the war (averaging about 16 hours in early March 2009); elsewhere they receive more than previously (about 15 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. The GAO estimates that an infrastructure investment of \$27 billion is required to meet demand. See oil section of this report for history of that sector. Glenn Zorpette, "Keeping Iraq in the Dark," *New York Times*, March 11, 2008.

<sup>30</sup> State Department, *Iraq Weekly Status Report*, November 5, 2008, p. 14; Oxfam, *Rising to the Humanitarian Challenge in Iraq*, July 30, 2007, p. 3 and 11.

poor condition or destroyed. 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 (see “Security” section). A more peaceful environment in the past two years has set the stage for noteworthy improvements in the electric and oil sectors.

### **Current Reconstruction Priorities**

Current reconstruction priorities mainly reflect the “surge” strategy enunciated by the Bush Administration in January 2007 as well as the fact that IRRF funds are nearly exhausted and most large-scale infrastructure programs, which chiefly characterized IRRF economic efforts, are no longer funded by the United States.<sup>31</sup> The major elements of current assistance are as follows:

- **Military-Security Assistance.** More than four-fifths of total FY2008 regular and supplemental reconstruction appropriations are applied to the training and equipping of Iraqi security forces. This effort is funded entirely from the ISFF.

Economic-social-democratization assistance is funded mostly with Economic Support Fund (ESF) assistance, categorized under three “tracks”:

- **Security Track.** Under the security track are assistance programs supporting work of the Provincial Reconstruction Teams (PRTs) and USAID to improve local governance and establish stability in strategic locations (see PRT section below for details).
- **Economic Track.** This track encompasses assistance to help Iraqis operate, maintain, and sustain U.S.-funded infrastructure projects (see sustainability section below for discussion), and to develop agriculture and small business.
- **Political Track.** Under the political track are a range of efforts to support governance, democratization, and rule of law programs at all levels of government in Iraq, including helping Iraqi ministries improve their ability to operate and helping local governments administer their provinces and municipalities.

Finally, there has been increasing attention paid to humanitarian needs.

- **Humanitarian Aid.** The Migration and Refugee Assistance (MRA) and International Disaster Assistance (IDA) accounts address the problems of a refugee and internally displaced persons population amounting to more than 4.6 million.

Security, sustainability, PRTs, governance, and humanitarian needs constituted the key features of Bush Administration reconstruction aid budget requests for FY2008 and FY2009. It is not yet clear how the strategy of the new Obama Administration, including a pending drawdown on U.S.

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<sup>31</sup> There are a number of exceptions—a new Amara surgical hospital is being funded with ESF funds, the CERP supports larger, targeted neighborhood-oriented infrastructure projects, sustainment of completed infrastructure projects continues, and, until an October 2008 legislative prohibition was imposed, the ISFF supported construction of security-related facilities.

troops, will affect the assistance program. An FY2009 supplemental request for Iraq, expected in the next few weeks, will likely provide the first indication of changes in U.S. aid policy.

### **Infrastructure Sustainability and Asset Transfer**

As large-scale construction projects—power plants, water and sanitation systems, oil facilities, etc.—have been completed, there has been concern regarding the ability of Iraqis to maintain and fund their operations once they are handed-over to Iraqi authorities. This concern has grown following SIGIR “sustainment reviews” that suggested projects transferred to Iraqi control are not being adequately maintained. For instance, a July 2007 assessment found that two Baghdad region power station units that had been rehabilitated with U.S. funds were not operational, largely because of insufficiently maintained equipment.<sup>32</sup>

To insure long-term sustainability, the U.S. effort—the so-called “economic track” now led by the Army Corps of Engineers—has focused on 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 United States is assisting development of policies and laws conducive to efficient use and maintenance of infrastructure.

In addition, under the “security” track, the United States has provided significant assistance to support the physical protection of important infrastructure, in particular electricity and oil facilities. Efforts to secure infrastructure include the use of biometrics, construction of security perimeters, lighting and communications improvements, establishment of exclusion zones for pipelines, and enhancements to the forward operating bases used by the Iraqi army to protect infrastructure.<sup>33</sup>

The long-term responsibility for sustainability, however, lies with the Iraqi government. Although a “principal objective” of the U.S. infrastructure construction program has always been the “swift transition of the reconstruction effort to Iraqi management and control,” the SIGIR found in July 2007 that the Iraqi government had not accepted any U.S. project transfers since July 2006. As of May 31, 2007, 2,363 projects valued at \$5.3 billion awaited transfer. According to the SIGIR, the U.S. government in some cases has continued to fund maintenance of projects pending acceptance by Iraq.<sup>34</sup> A SIGIR report in April 2008 found that only limited progress had been made in establishing an asset transfer process, and that current planning included only IRRF projects and excluded more than \$2 billion in ESF, ISFF, and CERP projects.<sup>35</sup> In July 2008, the SIGIR noted the continued lack of a definitive asset transfer agreement—many facilities were being transferred unilaterally without formal Iraqi government acceptance—and was preparing to conduct a review of the process.<sup>36</sup> P.L. 110-225 withholds \$10 million in infrastructure maintenance funding until the Department of State certifies that Iraq has entered into and begun

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<sup>32</sup> SIGIR, *Report to Congress*, April 30, 2007, p. 147; SIGIR, *Report to Congress*, July 30, 2007, p. 7; SIGIR, Project Assessment 07-103, *Doura Power Station Units 5 and 6*, July 18, 2007.

<sup>33</sup> State Department, *2207 Report to Congress*, January 2008, p. III6-9.

<sup>34</sup> Iraq Reconstruction Pre-Proposal Conference Briefing Slide Show, DOD, January 21, 2004; SIGIR, *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, Audit 07-004, July 25, 2007.

<sup>35</sup> SIGIR, *Transferring Reconstruction Projects to the Government of Iraq*, 08-017, April 2008.

<sup>36</sup> SIGIR, *Report to Congress*, July 30, 2008, p. 4.

to implement an asset transfer agreement, including an agreement to maintain U.S.-funded infrastructure.

## Capacity Development

Much effort and assistance has gone into improving the capabilities of government ministries, including equipping and training personnel at all levels of service, and situating U.S. advisers in every ministry. In particular, government ministry officials and staff have been deficient in knowledge of modern administrative systems and management practices, a problem addressed under the Ministerial Capacity Development Program. The current focus is on improving budget execution and service delivery, considered by many to be essential elements of an effective Iraqi government. As noted earlier, both the national Government of Iraq and provincial governments have had difficulty implementing capital budgets. U.S. programs, including institution of 18 Provincial Procurement Assistance Teams, several Procurement Assistance Centers (two in Baghdad and one in Erbil), and a range of training programs in public administration, appear to have led to improvement over the previous year's performance in this regard, although the extent of that improvement has been subject to some dispute (see "Oil Revenue, Corruption, and the Iraqi Capital Budget" section).<sup>37</sup>

## Provincial Reconstruction Teams (PRTs)

In an effort to expand outreach to the provinces and strengthen local government, the U.S. Embassy, in mid-2005, began establishing Provincial Reconstruction Teams (PRTs). There are two types of PRTs in Iraq—the original PRTs and embedded PRTs.<sup>38</sup> In each case, the military provides protection to U.S. civilian officials and development specialists, allowing them access to parts of Iraq that otherwise would not be possible. The PRTs were a key element in the surge strategy and remain a major purveyor of U.S. reconstruction aid.

The first PRTs were made up of Embassy, PCO, USAID, military, and other U.S. agency staff, between 35 and 100 members in each, with the State Department as leader. There are currently 14 of these PRTs. Two of these PRTs are Italian and British-led. A South Korean-led PRT transitioned to U.S. control recently and the British-led one is expected to follow by July 2009.<sup>39</sup>

The 10 embedded PRTs—called ePRTs—are structured differently than their predecessors. They are *embedded* in Brigade Combat Teams with the Brigade Commander acting as leader. Most have 8 to 12 personnel. They were created as part of the January 2007 surge strategy, which also saw an increase in U.S. forces. In essence, the strategy envisioned that, as U.S. and Iraqi military forces worked to clear and hold an area, ePRT staff would work with local Iraqis to further stabilize the area by drawing on all available spigots of U.S. and Iraqi government funding to

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<sup>37</sup> GAO, *Better Data Needed to Assess Iraq's Budget Execution*, 08-153, January 2008, p. 15-19.

<sup>38</sup> There are also four Provincial Support Teams (PSTs), much smaller teams that reside on a military forward operating base outside their target provinces and provide advice to provincial officials as needed.

<sup>39</sup> SIGIR, *Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq*, 07-015, October 18, 2007; Department of State, *2207 Report to Congress*, October 2006, p. 5. "Military to Protect U.S. Aid Teams in Iraq," *Washington Post*, April 14, 2006.

create jobs and meet other basic needs. They have played a major role in reconciling tribal, municipal, district, and provincial government entities.<sup>40</sup>

While the new ePRTs are more focused on establishing stability, the other PRTs emphasize improvement of local governance. They work together with local community and Iraqi government representatives—forming Provincial Reconstruction Development Councils (PRDCs)—to identify projects that can be implemented and carried out with U.S. financing. It is anticipated that, as a result of this collaboration, local governments may be strengthened while U.S. projects achieve more lasting support. The PRTs also work closely with provincial governments to strengthen their capacities and enable them to better interact with the central government as well as to more effectively utilize the Iraqi government funds that have been allocated to each province.<sup>41</sup>

At the disposal of all PRTs is a tool-box of projects that can be implemented at the grass-roots level. PRDC-identified projects tend to be focused on infrastructure—road and bridges, water and sanitation, schools, and health clinics—and usually are finished in one year. Although the Embassy must approve them, PRDC projects generally are implemented by the Army Corps of Engineers. In August 2007, a new Quick Response Fund (QRF) that mimics the flexibility of the CERP in funding local community projects was made available to the PRTs. They support local government, NGOs, and small businesses.

In addition to economic projects directly handled by the PRTs, USAID runs several programs, often in conjunction with the PRTs, that address local-level concerns. The Community Action Program (CAP) funds projects identified by local representative associations, stimulating democratic participation, while meeting local needs and creating short-term employment. The Community Stabilization Program (CSP) addresses economic needs in specific strategic cities, providing youth programs, micro and small enterprise support, and vocational training. The Local Governance Program (LGP) helps build management and knowledge skills of provincial government personnel. Complementing the work of the PRTs and USAID, although apparently provided independently, Commander's Emergency Response Program (CERP) funding is also available to pacify the local population where PRTs reside. A large proportion of CERP projects support local, small-scale infrastructure construction, especially in the water and sanitation and electrical power sectors.

One problem with these multiple assistance programs is that they are implemented by different agencies, with different funding sources, and different authorities, raising concerns regarding coordination of program coherence. Among other criticisms of the PRTs are that they lack clear lines of authority, agreed missions, and measurable objectives.<sup>42</sup>

Up to mid-2008, the availability of qualified U.S. government civilian staff had been a serious concern. Early reports of its first year of operations suggested that State was having difficulty enticing its personnel to volunteer for PRT posts. According to the SIGIR, DOD stepped in to provide military civil affairs personnel in place of the State posts, but required skills for such

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<sup>40</sup> SIGIR, *Report to Congress*, July 30, 2007, pp. 53-60; SIGIR, *Status of the Provincial Reconstruction Team Program Expansion in Iraq*, Audit 07-014, July 25, 2007.

<sup>41</sup> Robert Perito, *Embedded Provincial Reconstruction Teams*, U.S. Institute of Peace Briefing.

<sup>42</sup> U.S. House of Representatives, Committee on Armed Services, Subcommittee on Oversight and Investigations, *Agency Stovepipes vs Strategic Agility: Lessons We Need to Learn from Provincial Reconstruction Teams in Iraq and Afghanistan*, April 2008.

posts as local government, city management, business development, and agricultural advisers were not being fully met. That situation continued as the ePRTs were established. About 104 of the new ePRT posts were temporarily occupied by military personnel or civilians until State was able to recruit sufficient numbers of skilled individuals. Those recruited in specialized skills are mostly contract personnel, because such skills are not typically available from either the State or USAID foreign service. According to the October 2007 SIGIR report, many PRTs at the time were at half-capacity, there was a mismatch of skills to requirements, and there were only 29 bilingual Arabic-speaking cultural advisers.<sup>43</sup> As of July 2008, there were about 450 U.S. agency personnel in the PRTs, counting temporary government employees and contractors.<sup>44</sup>

Security constraints are another factor that may have negatively affected PRT performance, especially in the first years. One reason there had been limited grassroots development work in the provinces up to the creation of the PRTs in 2005 is the lack of security. Although originally reluctant to divert the necessary manpower from its other responsibilities, the Department of Defense finally agreed to provide protection to the PRTs and a Memorandum of Understanding to this effect was signed in November 2006. However, according to an October 2006 SIGIR report, minimum “movement” by PRT personnel required three armored vehicles and eight “shooters.” Normal business was, therefore, difficult. The SIGIR reported that many PRT members could not regularly meet with local government officials to carry out their capacity-building chores.<sup>45</sup> Further, a former PRT diplomat who left in January 2007 suggested that local Iraqis were too intimidated to meet with U.S. staff and that training sessions had been cancelled due to security concerns.<sup>46</sup> In January 2007 congressional testimony, however, Secretary Rice indicated that civilian staff were able to meet regularly with local government personnel, and Ambassador Satterfield claimed in February 2007 that the SIGIR’s views on this issue did not reflect current reality. But a March 2007 article based on PRT foreign service officer reports indicated that the security problem had persisted.<sup>47</sup> The October 2007 SIGIR report continued to find that PRT performance was impeded by security concerns, and its draft version even recommended that personnel be reassigned to better functioning PRTs until security improved. According to the SIGIR, the Embassy and military promised new efforts to ensure that PRTs were not hindered by lack of appropriate security.<sup>48</sup>

The concern has been raised that security obstacles facing PRTs might increase as U.S. troops protecting PRT staff hand responsibility for security over to Iraqi forces. In September 2007 testimony to Congress, a SIGIR official suggested that U.S. civilians would be unable to move about freely and, consequently, PRTs might be unable to function in those areas where the U.S.

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<sup>43</sup> SIGIR, *Report to Congress*, October 30, 2007, p. 87; “Pentagon Agrees to Help Fill State Department’s Iraq Reconstruction Jobs on Temporary Basis,” *New York Times*, February 20, 2007; Teleconference of Ambassador David Satterfield, February 7, 2007; and Robert Perito, *Provincial Reconstruction Teams in Iraq*, United States Institute of Peace, February 2007.

<sup>44</sup> But not counting local staff amounting to about 260. The U.S. agency staff, including contractors, encompasses 230 deployed by the State Department, 95 by USAID, 90 by DOD, 20 by USDA, 10 by Justice, and 5 by the Commerce Department. GAO, *Provincial Reconstruction Teams in Afghanistan and Iraq*, 09-86R, October 1, 2008.

<sup>45</sup> SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006.

<sup>46</sup> “Ex-Envoy Says Iraq Rebuilding Plan Won’t Work,” *Reuters*, February 17, 2007.

<sup>47</sup> “Rice’s Rebuilding Plan Hits Snags,” *Washington Post*, January 15, 2006; Testimony of Secretary Rice to Senate Foreign Relations Committee, January 11, 2007; Teleconference of Ambassador Satterfield, February 7, 2007; Shawn Dorman, “Iraq PRTs: Pins on a Map,” *Foreign Service Journal*, March 2007.

<sup>48</sup> SIGIR, *Review of the Effectiveness ...*, October 18, 2007, p. x.

military steps down.<sup>49</sup> In addition to security, the PRTs rely on the military for food and housing, and civil affairs officers make up about 10% of PRT staff.

The FY2008/2009 supplemental withheld all PRT operating expenses and program funds until the State Department reported on a strategy for winding down and closing out the PRTs. That strategy, was issued on September 7, 2008. This and an associated document issued by the Embassy Office of Provincial Affairs on October 1, 2008, in the SIGIR's view, suggests that no specific timeline exists for PRT close-out. Rather, it appears "uncertain whether military resources will be available to support the PRTs until all conditions for close out are met."<sup>50</sup>

Some ePRTs have already been dissolved. The ePRTs, once at 13, are expected to be at 8, by July 2009. The State Department envisions that the mission currently carried out by PRTs will evolve into a traditional USAID program at some point.<sup>51</sup>

### **The Role of Iraqi Private Sector in Reconstruction and DOD Business Task Force**

One facet of the U.S. reconstruction effort has been an attempt to encourage economic growth and decrease unemployment by trying to utilize Iraqis in the implementation of projects. In 2003-2004, this involved making Iraqi businessmen aware of contract opportunities and encouraging U.S. contractors to employ Iraqi firms. Most work for Iraqi business came in the form of subcontracts under 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. By 2005, the SIGIR estimated that about 70%-80% of new contracting was directly with Iraqis.<sup>52</sup> 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.<sup>53</sup> Consequently, many bridge and road projects were then implemented directly with the Ministry of Construction, with estimated savings of between 30% and 40%.<sup>54</sup> As some U.S. contractors were shown to perform inadequate work, they were replaced by Iraqi contractors.

While hundreds of Iraqi firms were working on U.S.-funded reconstruction projects at one time, these numbers have fallen significantly as construction projects have been completed. Today, the CERP, the USAID Community Action Program, and the USAID Community Stabilization Program aim to employ large numbers of Iraqis, many at the village level.

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<sup>49</sup> Shawn Dorman, "Iraq PRTs: Pins on a Map," *Foreign Service Journal*, March 2007; Testimony of Ginger Cruz, Deputy SIGIR, to House Armed Services Committee, Subcomm. on Oversight, September 5, 2007.

<sup>50</sup> SIGIR, *Provincial Reconstruction Teams' Performance Measurement Process Has Improved*, 09-013, January 28, 2009, p. 10.

<sup>51</sup> SIGIR, *Report to Congress*, October 20, 2008, p. 9.

<sup>52</sup> Stuart Bowen, Testimony to House Foreign Operations Appropriations Subcommittee, September 7, 2005.

<sup>53</sup> BNA, Inc., Federal Contracts Report, January 11, 2005.

<sup>54</sup> Ambassador Jeffrey, Testimony to House Foreign Operations Subcommittee, September 7, 2005. Department of State, *2207 Report to Congress*, October 2005, p. 3.

In 2006, U.S. defense officials, seeking to create employment opportunities for Iraqi citizens, began a number of activities to stimulate business development. To support this effort—entitled the Task Force to Improve Business and Stability Operations—Congress approved \$50 million in the FY2007 supplemental and approved an additional \$50 million under the DOD Iraq Freedom Fund account in the second tranche of the FY2008 supplemental.

Most funds are being used to rehabilitate some of the roughly 240 state-owned enterprises that composed a large portion of the Iraqi economy prior to the U.S. occupation. Roughly 34 factories have been started-up or had production increased: among them, one producing Iraqi uniforms, another armored vehicles, and another household ceramic bathware for domestic Iraqi consumption. Funds are used to purchase production equipment and raw materials, to repair equipment, to train managers, and to establish a supply chain, among other things.

A further Task Force effort directs U.S. military contracts to Iraqi business—\$200 million worth each month to over 3,900 private sector businesses, according to the DOD. The Task Force also seeks international investment in the enterprises with a view to eventual privatization. It claims \$1 billion in such investment to date. It also promotes investment in new enterprises and claims \$1 billion has been attracted to this endeavor. The Task Force claims credit for facilitating a contract for construction of a new hotel in Baghdad. The Task Force has further sought to encourage the development of the private banking system, promoting formation of a consortium of these banks and assisting the adoption of electronic funds transfers.<sup>55</sup>

Skepticism had been expressed regarding the DOD program when it was launched. DOD officials attributed early program problems to a lack of enthusiasm by U.S. companies, the Iraqi consumer's preference for imported goods, the lack of electricity, and the uncertain political and security environment.<sup>56</sup> By September 2008, about 100,000 jobs were reportedly created versus the original DOD employment goal of 150,000 jobs in 140 restarted factories. However, a January 2009 SIGIR report suggests that these employment claims were based on an unreliable methodology; the Task Force disputes this view.<sup>57</sup> Increasing Iraqi government investments in its SOEs has led DOD to allow its involvement in their rehabilitation to wrap up at the end of FY2009.

## CERP

Drawn from Department of Defense funds rather than IRRF or ESF appropriations, the Commander's Emergency Response Program (CERP) contributes to the reconstruction effort by providing U.S. military commanders on the ground with "walking around money" intended to win hearts and minds throughout Iraq. Up to now, a total of about \$4.1 billion—\$548 million in

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<sup>55</sup> SIGIR, *Report to Congress*, October 30, 2008, p. 75; SIGIR, *Information on a Special Department of Defense Program to Foster Economic Recovery in Iraq*, 08-024, July 29, 2008; DOD, *Measuring Stability and Security in Iraq*, December 2007, p.10 and June 2008, p. 12-13; DOD News Briefing with Deputy Undersecretary Paul Brinkley, March 28, 2007; "To Stem Iraqi Violence, U.S. Aims to Create Jobs," *Washington Post*, December 12, 2006; "Bush to Propose Restoring Iraqi Factories to Create Jobs," *New York Times*, January 10, 2007; "Aging and Shut, Iraq Factories May Reopen and Mitigate Ills," *New York Times*, January 18, 2007; Paul Brinkley, "Restoring Hope," *Military Review*, March-April 2008.

<sup>56</sup> "U.S. Falts in Bid to Boost Iraqi Business," *Washington Post*, August 24, 2007; SIGIR, *Report to Congress*, October 30, 2007, p. 95; "In Iraq, One Man's Mission Impossible," *CNNMoney.com*, September 4, 2007.

<sup>57</sup> SIGIR, *Full Impact of DOD Program to Restart State-owned Enterprises Difficult to Estimate*, 09-09, January 30, 2009.

CPA-provided Iraqi funds and about \$3.6 billion in U.S. DOD appropriations—has been made available for this purpose. In April 2008, the Iraqi government allocated \$300 million to establish an Iraqi CERP to be managed by the U.S. military.

In addition to the dolls, tee shirts, sheep, and other items reportedly provided to win popular support, the CERP supports a wide variety of reconstruction activities at the local level, from provision of micro-grants to businesses to digging wells to painting schools, provided in the form of small grants.<sup>58</sup> CERP also funds infrastructure efforts, such as repair or provision of electric generators and construction of water and sewer systems, roads, and schools. Commanders identify local needs and dispense aid with few bureaucratic encumbrances. Major subordinate commanders have authority to approve grants up to \$500,000. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs, often much more quickly than equivalent efforts of the civilian reconstruction program. In addition to reconstruction, CERP funds are used for compensation payments to the families of killed or injured Iraqis.<sup>59</sup> The CERP has also been used to pay the salaries of the so-called Sons of Iraq (formerly known as the Concerned Local Citizens); this effort accounted for more than one third of total FY2008 CERP obligations. A transition of responsibility for the Sons of Iraq to the Iraqi Government began on October 1, 2008.<sup>60</sup>

As the IRRF program has declined, the CERP program has grown as a major spigot of U.S. aid in Iraq. From its beginnings as a small-scale village program—the average grant in FY2004 was \$67,000—it is now the major source of U.S. infrastructure construction aid with an average grant in FY2006 of \$140,000. The SIGIR, however, indicates that in FY2008 the number of large-scale projects has declined. The 2009 Defense Authorization (P.L. 110-417, sec. 1214) sets the maximum cost of CERP projects at \$2 million unless waived by the Secretary of Defense, and requires certification of any project over \$1 million as an urgent need.

The SIGIR and others have raised some concerns regarding the CERP, most derived from the essentially different security and reconstruction objectives of military and civilian efforts, respectively. Among the SIGIR's concerns is that there is no mechanism to measure the outputs and outcomes of CERP projects. Secondly, the high turnover of military personnel in Iraq means that there is little continuity in management and oversight of the projects. Third, little weight has been given to the handing-over of projects to Iraqis and insuring their sustainability. Other observers have noted that civil affairs officers and others allocating CERP grants are not development specialists and have been provided little or no training on the selection and management of reconstruction activities. The program's early rationale—that the military were the only ones able to conduct small-scale reconstruction in places where civilian U.S. officials and NGO aid personnel were unable to go—appears less strong now that civilian ePRT personnel are embedded in combat battalions. Further, an October 2007 SIGIR report on the PRTs points to cases where the use of CERP funds to meet local needs conflicted with PRT efforts to make local government assume responsibility for provision of local services and work with the provincial and national government, instead of the U.S. military, to address problems.<sup>61</sup>

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<sup>58</sup> "Money as a Weapon," *Washington Post*, August 11, 2008.

<sup>59</sup> SIGIR, *Report to Congress*, January 30, 2007, Appendix G.

<sup>60</sup> State Department, *Iraq Weekly Status Report*, November 12, 2008, p. 8.

<sup>61</sup> SIGIR, *Commander's Emergency Response Program in Iraq Funds Many Large-Scale Projects*, 08-006, January 2008; SIGIR, *Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq*, 07-015, October 18, (continued...)

## Security

The successful conduct of reconstruction work is contingent on an environment of order and stability. Although in the past year there has been a lessening of violence, the cumulative effect on the reconstruction effort of years of continued instability has been manifold.

Implementation of reconstruction projects was hindered. Security threats prevented PRT personnel from communicating directly with local governments, construction workers from appearing at their jobs, and project managers from monitoring project work.<sup>62</sup> Completed reconstruction projects and pre-existing infrastructure were destroyed. For instance, in June 2007, eight of the twelve 400-kV transmission lines were out of service, greatly reducing the electricity supply to Baghdad. Major pipelines were sabotaged, shutting down oil exports. Along with criminal activity and poor equipment, insurgent attacks are estimated to be responsible for the loss of \$16 billion in oil revenue during a two year period from 2005-2006.<sup>63</sup>

Reconstruction costs rose substantially due to the need to provide for security and insurance for personnel. Estimates of the portion of project costs devoted to security have varied widely—a 2006 SIGIR survey of major U.S. contractors found security costs to range from a low of 7.6% to a high of 16.7%. Unanticipated security costs as well as the related need to shift \$1.8 billion from water and power projects to the training and equipping of Iraqi forces meant that infrastructure programs could accomplish less than originally anticipated.<sup>64</sup>

Fearing for their safety, many aid implementors were withdrawn from the country, with U.N. and some bilateral aid donors forced to run programs from Jordan or Kuwait utilizing Iraqi personnel to the extent possible.<sup>65</sup> With implementors not able to meet with local people and design and monitor projects as they would in other countries, the quality of aid has likely been negatively affected. The pool of foreign expertise available to offer technical assistance has been restricted to those few willing to endure the country's hardships. U.S. agency personnel stay only a short time (usually one year) and therefore institutional knowledge is not maintained. Among the 2.4 million Iraqis who have fled the country are professionals necessary to successful reconstruction. In 2006, more than 300 teachers and Ministry of Education staff were killed. Since 2003, an estimated 8,000 doctors fled the country, thereby hindering the ability to open new health facilities. Notable signs of the decrease in violence in the past year are reports of the return of many foreign aid staff and the reappearance of 800 Iraqi doctors.<sup>66</sup>

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2007, pp. 23-24; GAO, *Military Operations: Actions Needed to Better Guide Project Selection for CERP*, GAO-08-746R, June 23, 2008.

<sup>62</sup> 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. SIGIR, *Report to Congress*, April 30, 2006, p. 12; SIGIR, *Status of the Provincial Reconstruction Team Program in Iraq*, 06-034, October 29, 2006.

<sup>63</sup> SIGIR, *Report to Congress*, August, 2007, pp. 69, 77; “Militias Seize Control of Grid,” *New York Times*, August 23, 2007; “Iraq Insurgents Starve Capital of Electricity,” *New York Times*, December 19, 2006; “Report Details Oil Industry Losses,” *Washington Post*, September 29, 2006.

<sup>64</sup> SIGIR, *Fact Sheet in Major Contractors' Security Costs*, 06-044, January 30, 2007.

<sup>65</sup> “Wolfowitz Says Iraq Violence Impedes Rebuilding Aid,” *Wall Street Journal*, June 1, 2005; “Driven from Iraq, Aid Groups Reflect on Work Half Begun,” *New York Times*, November 15, 2004; “Security Conditions Continue to Hamper U.N. in Iraq,” *Washington File*, August 11, 2004; “Charities Get Ready to Leave,” *London Times*, September 9, 2004.

<sup>66</sup> Department of State, *Iraq Weekly Status Report*, September 10, 2008, p. 13; Oxfam International, *Rising to the* (continued...)

There are two elements in the effort to provide the security that might allow political and economic reconstruction to take hold—U.S. and coalition peacekeeping forces and the training of Iraqi security forces to replace them. The number of U.S. troops is currently roughly 142,000. There are also about 5,000 troops from 4 other nations.<sup>67</sup>

About \$23 billion in U.S. appropriations has been aimed at building Iraqi security forces. According to the State Department, as of end December 2008, there were 315,436 trained conventional Iraqi police and Ministry of Interior forces and 269,054 army and other defense forces.<sup>68</sup>

During the first four years of the U.S. presence in Iraq, poorly trained and equipped security forces, no-shows and desertions, dismissals of police for criminal behavior, and infiltration of police and other units by sectarian militia groups threatened U.S. plans to increase security using Iraqi personnel.<sup>69</sup> The September 2007 Jones Commission report called for the breakup and reconstitution of the police due to the high level of corruption and sectarianism; U.S. commanders believed this step was unnecessary because of progress made in weeding out inappropriate personnel.<sup>70</sup> As of October 2008, 18 of 33 National Police battalions were viewed by DOD as capable of planning, executing, and sustaining operations with limited Coalition support.<sup>71</sup>

In June 2008, the DOD stated that 67% of all formed Iraqi Army combat units are able to plan and execute operations with “minimal or no assistance.” It reports “continued progress” since then. To date, 13 of the 18 Iraqi provinces had been transferred from Coalition to Iraqi control. U.S. military officials point to a lack of logistical capabilities on the part of the Iraqi military as a major challenge.<sup>72</sup> See CRS Report RL34387, *Operation Iraqi Freedom: Strategies, Approaches, Results, and Issues for Congress*, by Catherine Dale, for further discussion.

## 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 November 2003 of an Inspector General for the CPA, now called the Special Inspector General for Iraq Reconstruction (SIGIR). To date, the SIGIR has issued 135 audits and 141 project assessments, and it has

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*Humanitarian Challenge in Iraq*, July 30, 2007, p. 11; SIGIR, *Report to Congress*, October 30, 2007, pp. 127-128; International Committee of the Red Cross, *Iraq: No Let-up in the Humanitarian Crisis*, March 2008; “Civilian Death Toll Reaches New High in Iraq, U.N. Says,” *New York Times*, November 23, 2006; “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.

<sup>67</sup> *Iraq Index*, Brookings Institution, <http://www.brookings.edu/iraqindex>, February 19, 2009, p. 24.

<sup>68</sup> Department of State, *Iraq Weekly Status Report*, March 4, 2009, p. 21.

<sup>69</sup> GAO, *Stabilizing Iraq: Factors Impeding the Development of Capable Iraqi Security Forces*, GAO-07-612T, March 13, 2007; “U.S. Officers Detail Problems with Iraqi Soldiers,” *Washington Post*, November 1, 2006; “In Baghdad, a Force Under the Militias’ Sway,” *Washington Post*, October 31, 2006; “Flaws Cited in Effort to Train Iraqi Forces,” *Washington Post*, November 21, 2006.

<sup>70</sup> White House, *Benchmark Assessment Report*, p. 24; General James L. Jones, Chairman, *The Report of the Independent Commission on the Security Forces of Iraq*, September 6, 2007, p. 20; “U.S. Commanders Say Iraqi Police Can Be Reformed,” *Washington Post*, December 11, 2007.

<sup>71</sup> DOD, *Measuring Stability and Security in Iraq*, January 2009, p. 33.

<sup>72</sup> DOD, *Measuring Stability and Security in Iraq*, June 2008, p. 38; DOD, *Measuring*, January 2009, p. 31-54.

conducted 96 limited onsite inspections as well as dozens of investigations of possible criminal activity.<sup>73</sup>

Some of the most egregious examples of misconduct found to date appear to center on the CPA's use of Iraqi funds during the year-long occupation. For instance, a January 2005 SIGIR audit found that the CPA "provided less than adequate controls" for \$8.8 billion of DFI resources it moved through Iraqi ministries. An April 2005 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—and have since pled guilty. In February 2007, five more were indicted, of whom four were convicted and one pled guilty.<sup>74</sup>

While some investigations of reconstruction programs utilizing U.S.-appropriated funds have raised the possibility of criminal activity, many more have produced evidence of poor project implementation and questionable management and oversight of projects, a large proportion of these the responsibility of the Army Corps of Engineers which runs the Embassy's Project and Contracting Office. SIGIR auditors and project assessment teams with engineering, audit, and investigative experience have traveled to major U.S.-funded project sites to see if work is being performed properly. Although 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 following:

- 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, was removed and the project will be completed using local contractors. USAID, the agency responsible, failed to report the cost and delays, in part because it had only one contracting officer and one technical officer to oversee 20 projects worth \$1.4 billion.<sup>75</sup>
- In September 2006, the SIGIR reported that the Baghdad Police College, a \$75 million construction project implemented by Parsons, was riddled with deficiencies, including improperly fabricated wastewater plumbing which poses a health and structural hazard. Press reports in November 2007 indicated that the problems had still not been fixed by the contractor, despite promises made to

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<sup>73</sup> See SIGIR website, <http://www.sigir.mil/>, for audit reports to date. SIGIR, *Report to Congress*, January 30, 2009, Section 4.

<sup>74</sup> SIGIR, *Report to Congress*, January 30, 2009, p. 230; *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; *Control of Cash Provided to South-Central Iraq*, Audit Report No. 05-006, April 30, 2005; "5 Indicted in Probe of Iraq Deals," *Washington Post*, February 8, 2007.

<sup>75</sup> SIGIR, Audit 06-026, July 2006; "U.S. Neglect Found in Long-Delayed Iraq Hospital Project," *Washington Post*, July 29, 2006.

Congress.<sup>76</sup> The Mosul police headquarters, constructed by an Iraqi contractor at a cost of approximately \$1 million, was similarly troubled.<sup>77</sup>

- A \$218 million first responders network was ineffective—communication was not possible between the three established zones of the system and Iraqi citizens could not call in to request emergency assistance, among other problems.<sup>78</sup>
- After the expenditure of \$186 million, only 6 of 150 planned primary health care centers to be constructed by Parsons were completed and only 14 more were expected to be finished. A contract was awarded to Iraqi firms to complete 121 partially constructed centers.<sup>79</sup>
- 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. Nearly \$76 million in DFI funds were wasted.<sup>80</sup>
- 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 purchased.<sup>81</sup>
- An audit of “design-build” contracts that characterized many of the infrastructure projects found very high administrative costs in some cases. About 55% of KBR work on the RIO project and 43% of a Parsons oil project were consumed by overhead costs. Security is likely one factor in the high level of overhead found here, and enforced idleness while awaiting government direction to begin work is another. However, the audit also found inadequate accounting and billing systems to capture administrative costs in four of five contracts examined.<sup>82</sup>
- Roughly 370,000 weapons purchased with \$133 million in IRRF funds for the use of Iraqi security forces were not accompanied by spare parts or technical repair manuals, and were not registered to insure accountability. (Some of these weapons reportedly made their way to the black market.)<sup>83</sup>

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<sup>76</sup> SIGIR, Project Assessment-06-078.1 and 06-079.1, September 27, 2006; “Heralded Iraq Police Academy a ‘Disaster’,” *Washington Post*, September 28, 2006; “Baghdad’s Police Academy Remains in Poor Condition, Despite a Repair Pledge,” *New York Times*, November 6, 2007.

<sup>77</sup> “U.S. Agency Cites Flaws in Another Iraqi Construction Project,” *New York Times*, October 12, 2006.

<sup>78</sup> SIGIR, Audit 06-020, July 2006.

<sup>79</sup> SIGIR, Audit 06-011, April 2006; SIGIR, *Report to Congress*, October 30, 2006, p. 78; “In a Dispute, Army Cancels Rebuilding Contract in Iraq,” *New York Times*, May 13, 2006.

<sup>80</sup> SIGIR, Project Assessment SA-2005-001, in *Report to Congress*, January 30, 2006, pp. 73-75; “Rebuilding of Iraqi Oil Pipeline as Disaster Waiting to Happen,” *New York Times*, April 25, 2006.

<sup>81</sup> SIGIR, Audit 06-009, April 2006; “In Shadows, Armed Groups Propel Iraq Toward Chaos,” *New York Times*, May 24, 2006.

<sup>82</sup> SIGIR, Audit 06-028, October 2006; “Idle Contractors Add Millions to Iraq Rebuilding,” *New York Times*, October 25, 2006.

<sup>83</sup> SIGIR, Audit 06-033, October 2006. “Black-Market Weapon Prices Surge in Iraq Chaos,” *New York Times*, December 10, 2006.

- A DynCorp project to provide services to international police trainers spent nearly \$44 million on a residential camp that was not used (including an Olympic-size swimming pool that was unauthorized) and about \$36 million for weapons that cannot be accounted for. The audit found the State Department Bureau for International Narcotics and Law Enforcement (INL) and State Office of Acquisition Management provided poor contract administration.<sup>84</sup>
- A 2007 SIGIR financial review of the State Department's DynCorp contract for training Iraqi police could not be completed, because documents were in disarray, invoices had not been validated, and INL did not know what it received for the \$1.2 billion in expenditures.<sup>85</sup>
- A more than \$38 million project to provide a new accounting system for the Iraq Ministry of Finance had been of limited use and was suspended pending clarification of Iraqi government support for the effort.<sup>86</sup>
- A 2007 DOD IG audit of \$5.2 billion in the Iraq Security Forces Fund found a lack of proper accountability for \$1 billion in equipment purchase contracts.<sup>87</sup>
- A 2008 assessment of the \$270 million Nassriya water treatment plant was producing water at one fifth its intended capacity, because the Iraqi government had failed over a four-year period to meet its promises to provide permanent power, repair leaks in the distribution system, and provide qualified staff to operate the facility.<sup>88</sup>
- A 2008 audit of the USAID Community Stabilization Program found potential fraud ranging from \$6.7 to \$8.4 million in a district of Baghdad, including possible diversion of funds to militia activities by means of overpriced trash collection contracts as well as phantom workers for cleanup campaigns. The project was suspended in that district.<sup>89</sup>
- Two July 2008 audits demonstrated the level of waste incurred by contract terminations, usually due to poor planning and cost estimates. In one case, \$6.9 million was wasted when water-supply project task orders were terminated at the 60% design stage due to lack of funds. In the other, \$142 million was spent on task orders for fire station and police training facilities that were terminated.<sup>90</sup>
- A 2008 audit of the \$98 million Fallujah Waste Water Treatment System found a system costing three times the original estimate, but serving only one third the homes originally planned. In addition, the original U.S. plan to provide a system

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<sup>84</sup> SIGIR, Audit 06-029, January 2007. An April 2008 review of INL progress in meeting SIGIR recommendations arising from the earlier audit found that a concerted effort was being made to implement them. SIGIR, Audit 08-014, April 2008.

<sup>85</sup> SIGIR, Audit 07-016, October 19, 2007. See above footnote re April 2008 review of INL.

<sup>86</sup> SIGIR, Audit 08-001, October 23, 2007.

<sup>87</sup> Department of Defense Inspector General, *Management of the Iraq Security Forces Fund in Southwest Asia—Phase III*, November 30, 2007, Report No. D-2008-026.

<sup>88</sup> SIGIR, Sustainment Assessment, 07-116, April 28, 2008.

<sup>89</sup> USAID Inspector General, *Audit of USAID/Iraq's Community Stabilization Program*, E-267-08-001-P, March 18, 2008.

<sup>90</sup> SIGIR, Audit 08-018, July 2008; SIGIR, Audit 08-019, July 2008.

requiring little power and maintenance was rejected by the Iraqi Public Works Ministry because it was for “third-world countries.” The new system requires thousands of gallons of fuel per day, provision of which there is no commitment from the Ministry, raising the possibility that the U.S. effort has been wasted.<sup>91</sup>

## Assessments of Reconstruction

Dozens of reports and articles published during the past six years have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid.<sup>92</sup>

There are multiple ways to assess the reconstruction effort. One is to review individual projects. As security concerns in Iraq made it difficult for interest groups and the news media to produce the kind of expert and anecdotal reporting on specific project activity, most such assessments have come from various U.S. government auditors.<sup>93</sup> Even these were constrained by security in the number of site-visits they were able to undertake. The SIGIR conducted some assessments by aerial imagery because of the risk to its personnel; while investigating for its April 2008 report on the Nassriya Water Treatment Plant, on-site inspections were limited to 30 minutes each. Government Accountability Office (GAO) investigators were not even able to visit Iraq while preparing a 2005 report on water and sanitation programs.<sup>94</sup>

Project assessments often focus on outputs, such as the number of kilowatt hours of electricity a power plant project produces, how many health clinics constructed, or how many Iraqi government personnel have been trained in management skills. It is difficult to place economic reconstruction projects or groups of such projects in the context of the “big picture” to measure the extent to which they have achieved the immediate goals of improved health care, functioning government, etc. and how these goals ultimately fit in to the strategic objective of stabilizing Iraq. Security assistance, on the other hand, appears more easily assessed, with measures of numbers of army and police personnel trained linked to measures of violent occurrences. One seems the

<sup>91</sup> SIGIR, Project Assessment 08-144 to 08-148, October 27, 2008.

<sup>92</sup> Among the most notable 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 et al., *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, 2007, 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; Rajiv Chandrasekaran, *Imperial Life in the Emerald City: Inside Iraq’s Green Zone*, Knopf, 2006; and George Packer, *The Assassins’ Gate: America in Iraq*, Farrar, Straus and Giroux, 2005; International Crisis Group, *Reconstructing Iraq*, September 2, 2004, available at <http://www.crisisgroup.org/home/index.cfm?>; T. Christian Miller, *Blood Money*, Little, Brown, and Company, 2006; SIGIR, *Iraq Reconstruction: Lessons in Program and Project Management*, March 2007; and Glenn Zorpette, “Re-engineering Iraq,” *IEEE Spectrum*, February 2006, available at <http://www.spectrum.ieee.org/feb06/2831>.

<sup>93</sup> For a list of audits and inspections from all agencies, see SIGIR, *Report to Congress*, July 30, 2008, Appendices J, K, N and O.

<sup>94</sup> SIGIR, *Report to Congress*, July 30, 2005, pp. 60-66; 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.

logical outcome of the other, although there may be many intervening factors that contributed to the result.

In January 2009, the SIGIR produced a report, *Hard Lessons: The Iraq Reconstruction Experience*, that brings together many levels of analysis, from the narrative description of policy decisions that altered project and sectoral priorities in the course of the past six years, to explication of project design, construction, and completion in every type of program—security, infrastructure, technical assistance—to collation and appraisal of inputs and outcomes from all these reconstruction efforts. Among the SIGIR’s more general conclusions:

*Did the program meet the goals it set for itself?* Generally no on the infrastructure front, but generally yes regarding the development of Iraq’s security forces. Electricity and oil outputs remain below goals set by the CPA more than five years ago, and the number of successful project completions in the key water and health sectors fell far short of hopes. But after several false starts and greatly increased U.S. investment, Iraq’s security forces have achieved substantial operational capabilities, despite remaining doubts about overall unit readiness and potential performance levels.

*Was the program grossly burdened by waste and fraud?* Regarding waste, yes; regarding fraud, no. The overuse of cost-plus contracts, high contractor overhead expenses, excessive contractor award fees, and unacceptable program and project delays all contributed to a significant waste of taxpayer dollars....

*Why did reconstruction efforts so often fail to meet their mark?* Security....<sup>95</sup>

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<sup>95</sup> SIGIR, *Hard Lessons: The Iraq Reconstruction Experience*, January 2009, available at <http://www.sigir.mil>.