United States General Accounting Office

GAO

Report to Congressional Committees

June 2004

REBUILDING IRAQ

Resource, Security, Governance, Essential Services, and Oversight Issues

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United States General Accounting Office
Washington, DC 20548

June 28, 2004

The Honorable Richard G. Lugar
Chairman
The Honorable Joseph R. Biden
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Henry J. Hyde
Chairman
The Honorable Tom Lantos
Ranking Minority Member
Committee on International Relations
House of Representatives

Subject: ***Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues***

Rebuilding Iraq is a U.S. national security and foreign policy priority. According to the President, the United States intends to help Iraq achieve democracy and freedom and has a vital national interest in the success of free institutions in Iraq. As of April 30, 2004, billions of dollars in grants, loans, assets, and revenues from various sources have been made available or pledged to the reconstruction of Iraq. The United States, along with its coalition partners and various international organizations and donors, has embarked on a significant effort to rebuild Iraq following multiple wars and decades of neglect by the former regime. The Coalition Provisional Authority (CPA), established in May 2003, was the U.N.-recognized coalition authority led by the United States and the United Kingdom that was responsible for the temporary governance of Iraq. Specifically, the CPA was responsible for overseeing, directing, and coordinating the reconstruction effort.

On June 28, 2004, the CPA transferred power to a sovereign Iraqi interim government, and the CPA officially dissolved. To pave the way for this transfer, the CPA helped the Iraq Governing Council develop the *Law of Administration for the State of Iraq for the Transitional Period* in March 2004.[1] The transitional law provides a framework for governance of Iraq while a permanent government is formed. In June 2004, U.N. Security Council Resolution 1546 provided international support to advance this process, stating that, by June 30, CPA will cease to exist and Iraq will reassert full sovereignty. Resolution 1546 also endorsed the formation of a fully sovereign Iraqi interim government; endorsed a timetable for elections and the drafting of an Iraqi constitution;

[1]U.S. General Accounting Office, *Iraq's Transitional Law*, GAO-04-746R (Washington, D.C.: May 25, 2004).

and decided that the United Nations, at the Iraq government's request, would play a leading role in establishing a permanent government. Resolution 1546 further noted the presence of the multinational force in Iraq and authorized it to take all necessary measures to contribute to security and stability in Iraq, in accordance with letters annexed to the resolution. Such letters provide, in part, that the multinational force and the Iraqi government will work in partnership to reach agreement on security and policy issues, including policy on sensitive offensive operations. Resolution 1546 stated that the Security Council will review the mandate of the multinational force in 12 months or earlier if requested by the government of Iraq and that it will terminate the mandate if requested by the government of Iraq.

As part of our broad effort to monitor Iraq reconstruction, which we undertook at your request, this report provides information on the status of the issues we have been monitoring, as well as key questions that will assist you in your oversight responsibilities. Specifically, this report focuses on issues associated with (1) resources, (2) security, (3) governance, and (4) essential services. For the essential services issue, we focused on the Army Corps of Engineers' Restore Iraqi Electricity project, a major component of the U.S. assistance effort to rebuild the power sector. We updated the information in this report on June 17, 2004, with the most currently available data, as noted in each enclosure. We conducted our review from March 2004 through June 2004 in accordance with generally accepted government auditing standards.

Summary

Resources

As of the end of April 2004, about $58 billion in grants, loans, assets, and revenues from various sources had been made available or pledged to the relief and reconstruction of Iraq. Resource needs are expected to continue after the transfer of power to a sovereign Iraqi interim government. Of the funds available, the United States obligated about $8 billion of the available $24 billion in U.S. funds. The CPA obligated about $15.5 billion of the nearly $21 billion in available Iraqi funds. These funds were used to support ministry operations and expenses; the restoration of essential services, such as power, oil, and water; and humanitarian and other human services, including the importation of liquid petroleum gas and food. The international community pledged nearly $14 billion. In December 2003, the CPA put into effect an Iraqi-led process to coordinate reconstruction efforts. However, the capability to track the total amount of bilateral assistance flowing into Iraq and to identify sectors that do not receive assistance is still under development. An October 2003 U.N./World Bank assessment noted that Iraq's ability to absorb resources as the country gains sovereignty and decision-making authority will be one of the most significant challenges to reconstruction. The CPA faced a number of challenges in identifying, obtaining, and organizing the human resources required to help stabilize and reconstruct Iraq. The CPA's staffing requirements also changed over time as the mission evolved from a reconstruction and humanitarian effort to the temporary administration of the Iraq government. The CPA was dependent on personnel from multiple sources and generally operated with about one-third fewer staff than it required. After the transition, the U.S. Mission in Baghdad and its temporarily established Iraq

Reconstruction Management Office are likely to continue to draw upon staff from multiple sources.

Security: Trends and Issues

The security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against the coalition and coalition partners. Anti-coalition attacks have generally become more sophisticated, widespread, and effective. In May 2004, the Secretary of Defense and the Commander of the U.S. Central Command projected that the level of violence could continue to increase as Iraq moves to elect a transitional government. The increase in attacks has had a negative impact on military operations and the work of international civilian organizations in Iraq. The United States decided to maintain a force level of about 138,000 troops at least until the end of 2005, rather than drawing down to 105,000 troops by May 2004, as DOD had announced in late 2003. The United Nations, numerous nongovernmental organizations, and a range of civilian contractors have reduced their presence or completely shut down operations. As part of the effort to provide stability, the coalition plans to transfer security responsibilities from the multinational force to Iraqi security forces and to dissolve Iraqi militias operating outside the central government's control. As of June 2004, Iraq had security forces numbering about 220,000, including the Iraqi Police, Iraqi Civil Defense Corps, and Iraqi Armed Forces. During the escalation of violence that occurred during April 2004, these security forces collapsed in several locations. As of June 2004, efforts to disband Iraq's militias have produced formal agreements between the CPA and nine major political parties that possess militias. However, key elements of the CPA's transition and reintegration process remain to be finalized.

Governance: Reforming and Rebuilding Iraq's Government

With U.S. and others' assistance, Iraqis have taken control of government institutions at the national and subnational levels. National ministries are providing some services to citizens as their facilities are being rebuilt, reforms are being introduced, and their staffs trained. According to the head of the now-dissolved CPA, all ministries were under Iraqi authority as of the transfer of power on June 28, 2004. However, the security situation hinders the ability of the ministries to provide needed services and maintain daily operations. To reform the rule of law, ongoing efforts have begun to establish a functioning independent judiciary, although courts are not at their pre-war capacity. As of June 2004, the CPA had completed a review of all Iraqi judges, took steps to reform Iraq's legal code, and issued orders to restore judicial independence. However, efforts to rebuild Iraq's judicial system and restore the rule of law face multiple challenges, including providing adequate security for judges and other court personnel, some of whom have been assassinated; ensuring the independence of the court system so that it operates without influence from the executive branch of the government; and providing adequate training for judges and attorneys. U.S. officials said that rehabilitating and reforming Iraq's judicial system will likely take years.

Essential Services: Restore Iraqi Electricity

The Coalition considers reconstruction of the power sector critical to reviving Iraq's economy, supporting essential infrastructure, improving daily well-being, and gaining local support for the coalition presence in Iraq. The CPA set a goal of 6,000 megawatts of generating capacity by June 30, 2004, in anticipation of the higher demand for power during the summer months. As part of the overall effort to achieve this goal, the U.S. Army Corps of Engineers (Corps) has undertaken $1.4 billion in work under the Restore Iraqi Electricity (RIE) program. As of late May, the Corps anticipated that 59 of the 66 RIE projects expected to help meet the goal would be completed by June 30. However, even if the 6,000-megawatt goal is met, generating capacity will fall short of the estimated summer peak demand of 7,000 to 8,000 megawatts. Some improvements have been made in restoring electricity; for example, Iraq's daily peak generation capacity increased from about 3,400 megawatts on September 25, 2003, to about 4,200 megawatts on June 1, 2004. However, electrical service in the country as a whole has not shown a marked improvement over the immediate postwar levels of May 2003 and has worsened in some governorates. For example, in May 2003, 7 of Iraq's 18 governorates had 16 or more hours of electricity a day, but as of late May 2004, only one governorate in northern Iraq was at that level. RIE contractors report numerous instances of project delays due to difficulties in getting employees and materials safely to project sites. Further, the security environment continues to affect the cost of rebuilding the power sector. Preliminary estimates of security-related costs for one RIE contractor are almost 18 percent of total costs. The possibility that electrical capacity will not meet the peak summer demand raises concerns about the ability of the coalition to support power-dependent infrastructure, improve Iraq's economy, and promote stability in Iraq.

Concluding Observations

The United States, along with its coalition partners and various international organizations and donors, has undertaken a challenging and costly effort to stabilize and rebuild Iraq. Several key challenges will affect the political transition, the pace and cost of reconstruction, and the type of assistance provided by the international community. These include the unstable security environment, the evolving capacity of the Iraqi institutions to govern and secure the country, the availability and coordination of international assistance, and the need for adequate oversight. Given the instability and uncertainty in Iraq, there are also questions about what options and contingency plans are being developed to address these ongoing and future challenges. The following enclosures elaborate on the progress made as of June 2004 in key aspects of the stabilization and rebuilding effort. We also provide key questions for Congress to consider as it assesses progress and provides oversight of reconstruction efforts.

Agency Comments and Our Evaluation

We provided drafts of this report to the Coalition Provisional Authority; the Departments of Defense, State, Justice, and Treasury; and the U.S. Agency for International Development. These agencies were unable to provide us written comments in the limited time given. However, we worked with the agencies to obtain oral comments on

individual enclosures. Agencies provided technical comments on many of the enclosures, which we incorporated where appropriate.

CPA commented that the general tone of the report was accurate, but stated that the report was not sufficiently critical of the judicial reconstruction effort (enclosure IX). In particular, CPA said the capacity of the courts is less than pre-war levels. We modified the report to increase the emphasis on the challenges that Iraq faces in reforming its judicial system and added additional information CPA provided. CPA also commented on enclosure VI (Iraqi security forces), stating that delays in providing equipment to Iraqi security forces were caused by a range of factors, and not just contracting problems. In commenting on our description of the Iraqi police force's response to insurgent activity in April, CPA noted that the Iraqi police were not intended to combat insurgents, but did stand up to them in some locations. We modified enclosure VI by including the range of factors that delayed equipping Iraqi security forces and incorporated CPA's comments as appropriate.

Individual units of the Department of Defense, including the Army Corps of Engineers, provided technical comments on resource issues (enclosures I, II, IV); security (enclosures V, VI, and VII); and essential services (enclosure X), which we incorporated as appropriate. State provided technical comments on international funding (enclosure II), which we incorporated as appropriate. Justice provided technical comments on judicial reform (enclosure IX), which we incorporated as appropriate. Treasury had no comment on the report. USAID provided technical comments on governance issues (enclosure VIII), which we incorporated as appropriate.

Scope and Methodology

As part of our overall monitoring effort, we focused on issues involving resources, security, governance, and essential services. For each area, we obtained documents and interviewed relevant officials from the various agencies involved in rebuilding Iraq, including the Coalition Provisional Authority, the Departments of Defense, Justice, State, and the Treasury, the U.S. Agency for International Development, the Army Corps of Engineers, the multinational force, and nongovernmental organizations. We reviewed key documentation, orders, memoranda, reports, budget documents, and plans. In reviewing agency data on the issues included in this report, we determined that the data are sufficiently reliable for the purposes used. We did not audit the funding data and are not expressing our opinion on them. However, we took several steps to ensure that the funding data were sufficiently reliable for the purposes of this report as discussed in enclosure XI. Complete details on our scope and methodology are presented in enclosure XI.

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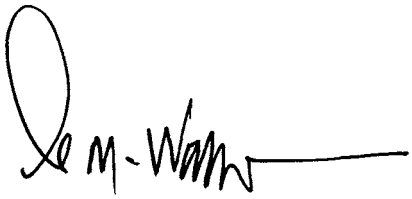
We are sending copies of this letter to interested congressional committees. This letter is also available on GAO's Web site at http://www.gao.gov. If you or your staff have questions, please contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov. For

press inquiries, please contact Jeff Nelligan at (202) 512-4800 or nelliganj@gao.gov. Key contributors to this report are included in enclosure XII.

Sincerely,



David M. Walker
Comptroller General of the United States

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I. Resources

Funding the Reconstruction

Issue

The United States, along with its coalition partners and various international organizations and donors, have committed billions of dollars to the reconstruction of Iraq in the face of an unstable security situation and other challenges. These funds have come from multiple and diverse sources, the effective use of which requires significant oversight and cooperation. The Coalition Provisional Authority (CPA) has been responsible for the allocation of U.S. and Iraqi funds. The Departments of Defense and State, and the U.S. Agency for International Development, among others, have played play a primary role in U.S. efforts to fund and execute the reconstruction effort. To a large extent, these agencies have used contracts and personal services contractors to implement their programs. Agency inspectors general, the CPA inspector general, and other auditing authorities are responsible for auditing aspects of the reconstruction effort. This enclosure describes (1) the sources and amounts of funds that have been made available for the reconstruction of Iraq, and (2) the amounts of U.S. and Iraqi funds that have been obligated and disbursed as of April 30, 2004,[1] and the uses to which those funds have been applied. Funds for U.S. military operations are not described in this enclosure.

Results in Brief

As of April 30, 2004, about $58 billion in grants, loans, assets, and revenues from various sources had been made available or pledged to the reconstruction of Iraq (see fig. I.1). The United States appropriated about $24 billion and the international community has pledged about $13.6 billion in grants and loans. The remaining funds made available for reconstruction purposes include about $18 billion from the Development Fund for Iraq[2] (DFI) and a total of about $2.65 billion in vested assets and seized assets

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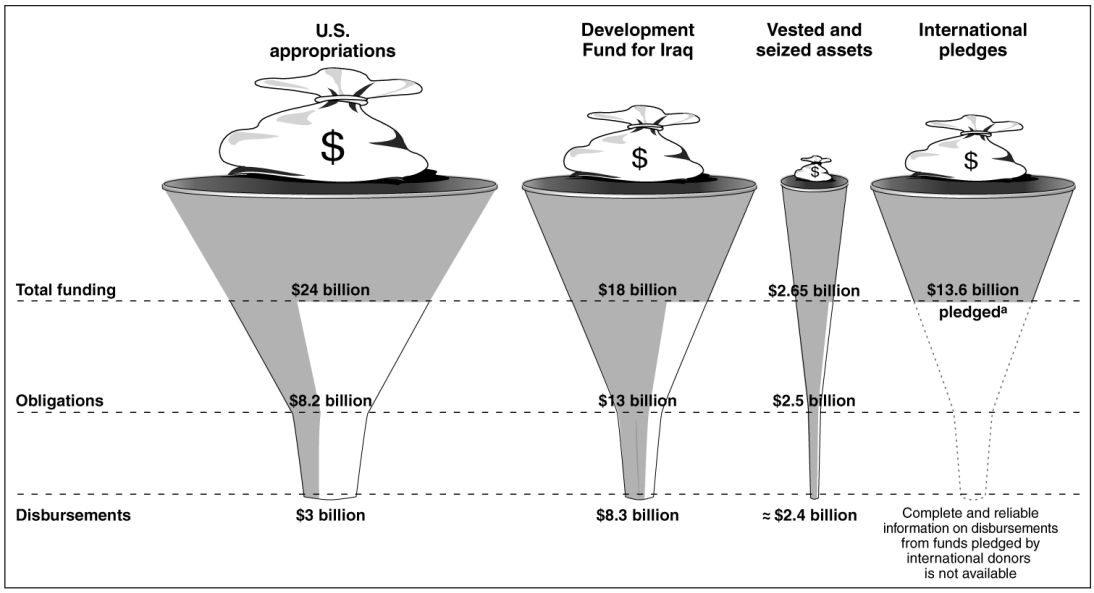
[1] Data for U.S. appropriated funds are as of April 30, 2004, with the exception of some CPA Program Management Office obligations and disbursements, which are as of May 25 and June 16, respectively. Iraqi funds data are as of May 6, 2004.

[2] CPA established the Development Fund for Iraq to accommodate Iraqi funds that would be used to benefit the Iraqi people and facilitate the reconstruction of their country.

from the deposed regime.[3] Of the funding available for the reconstruction effort, about $24 billion had been obligated as of the end of April 2004.[4] Of this amount, about $13 billion came from the Development Fund for Iraq and about $8 billion from U.S. appropriated funds. About $4 billion of the $4.5 billion in U.S. funds appropriated in 2003 and about $4.2 billion of the $19.6 billion in U.S. funds appropriated in 2004 have been obligated. The remaining $2.5 billion in obligated funds came from vested and seized assets. Obligations to date have primarily been applied to the operating expenses of the Iraqi ministries; restoration of essential services such as oil, water, and power; and humanitarian and human services, including the procurement of food and liquid petroleum gas for domestic consumption.

Figure I.1: Total Funds Available, Obligated, and Disbursed for Iraq Reconstruction by Source, as of April 2004



Sources: GAO (analysis); Nova Development (clip art).

[a]Of the $13.6 billion pledged, donors have committed about $1 billion to the International Reconstruction Fund Facility for Iraq.

[3]"Vested assets" refers to former Iraqi regime assets held in U.S. financial institutions that the President confiscated in March 2003 and vested in the U.S. Treasury. The United States froze these assets shortly before the first Gulf War. The U.S.A. PATRIOT Act of 2001 amended the International Emergency Economic Powers Act to empower the President to confiscate, or take ownership of, certain property of designated entities, including these assets, and vest ownership in an agency or individual. The President has the authority to use the assets in the interests of the United States. In this case, the President vested the assets in March 2003 and made these funds available for the reconstruction of Iraq in May 2003. Seized assets refer to former regime assets seized within Iraq.

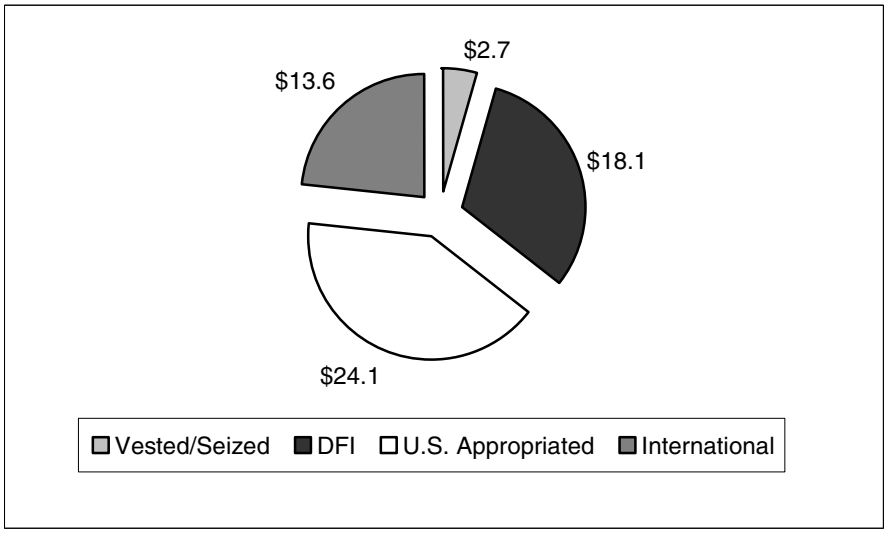
[4]An obligation is a binding agreement that will result in immediate or future outlays of funds.

Funding Pledged or Made Available for Iraq

The reconstruction of Iraq has been supported from multiple sources of funds. The largest share of these funds has come from U.S. appropriations. The other sources, in descending order of amounts, are the DFI, vested assets, and seized assets (see fig. I.2). In addition, international donors have pledged about $14 billion to the reconstruction effort.

Figure I.2: Sources of Funding for Iraq Reconstruction as of April 30, 2004

Billions of U.S. dollars



Sources: GAO (analysis); Departments of Defense, State, and the Treasury, USAID, CPA, and the World Bank Group (data).

U.S. Appropriations

Congress has appropriated about $24 billion of the approximately $58 billion provided to date for the relief and reconstruction of Iraq. The funds appropriated in fiscal year 2003 were made available until September 30, 2004; those appropriated in fiscal year 2004 were made available until September 30, 2006.

In April 2003, Congress enacted the Emergency Wartime Supplemental Appropriations Act, which, when combined with previously appropriated funds, provided about $4.5 billion for the reconstruction of Iraq. Of this $4.5 billion, the act provided $2.475 billion for an Iraq Relief and Reconstruction Fund (IRRF). The act also included a provision for the Iraq Freedom Fund (IFF) to support ongoing military operations in Iraq, among other things, and for a Natural Resources Risk Remediation Fund to finance emergency firefighting, repair damaged oil facilities, and preserve oil distribution capability. In addition, some funds were transferred from the IFF to support the new Iraqi Army (about $50 million) and for CPA operating expenses (about $600 million). The Natural Resources fund provided about $800 million to the reconstruction effort. In addition, agencies have also

been reimbursed about $575 million for expenses incurred before the passage of the supplemental appropriations act.

In November 2003, Congress enacted another emergency wartime supplemental appropriation, of which $18.4 billion was provided for Iraq relief and reconstruction. In addition, under the same act, the CPA received its own funding authority of $983 million for operating expenses. Further, $140 million was transferred from the IFF to support regional emergency response programs.

Development Fund for Iraq

As of May 6, 2004, the DFI had received deposits of about $18 billion. This fund, established by the CPA in May 2003 and noted by U.N. Security Council Resolution 1483, was created to benefit the Iraqi people and facilitate the reconstruction of their country. The U.N. resolution provided for an initial deposit of $1 billion from unencumbered Oil for Food program funds.[5] The resolution further authorized the subsequent deposits of (1) proceeds from the sale of Iraqi oil, natural gas, and petroleum products; (2) U.N. funds such as unused Oil for Food program funds; and (3) transferred assets from the former Iraqi regime that U.N. member states had frozen in the 1990. The DFI does not include U.S. appropriated funds. See enclosure III for more detailed information on the DFI.

Vested Assets and Assets Seized in Iraq

Approximately $2.7 billion in assets the United States confiscated and seized from the former regime have been made available for use in Iraq's reconstruction. In March 2003, the U.S. government confiscated more than $1.7 billion in Iraqi assets located in U.S. financial institutions and vested them in the U.S. Treasury. These funds were Iraqi government funds originally frozen in 1990 consistent with a U.N. Security Council Resolution and held in U.S financial institutions from 1990 to 2003. From May to September 2003, the United States transferred these funds to Iraq. As of May 2004, coalition forces seized more than $900 million of regime assets in Iraq.

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[5] The Oil for Food program was established by the United Nations and Iraq in 1996 to address concerns about the humanitarian situation in Iraq after the imposition of international sanctions in 1990. The program allowed the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and humanitarian goods for the benefit of the Iraqi people. U.N. Security Council Resolution 1483 provides for the deposit of oil revenues and some Oil for Food program funds in the DFI until an internationally recognized, representative government of Iraq has been constituted. See U.S. General Accounting Office, *United Nations: Observations on the Management and Oversight of the Oil for Food Program*, GAO-04-730T (Washington D.C.: Apr. 28, 2004).

International Donors

The international donors described in this enclosure include individual nations, the European Commission, and international financial institutions. International donors, exclusive of the United States, have pledged or committed nearly $14 billion to the reconstruction of Iraq through 2007.[6] These contributions will be made either bilaterally or through a newly established multilateral mechanism known as the International Reconstruction Fund Facility for Iraq. For detailed information on international donors, see enclosure II.

U.S. and Iraqi Funds Obligated and Disbursed

Overall, about $24 billion in U.S. and Iraqi funds has been obligated for the reconstruction effort in Iraq as of April 30, 2004. About $13 billion in obligations has come from the DFI, and about $8 billion from U.S. appropriated funds.[7] The remaining $2.5 billion in obligations has come from vested assets and seized assets. Reliable information on the international donors' obligations and expenditures is not available. Table 1.1 provides a detailed breakdown of obligations by sources of funding for the broad range of activities associated with the reconstruction of Iraq, not solely for infrastructure.

[6]The World Bank Group defines a pledge as an indication of intent to mobilize funds for which an approximate sum of contribution is specified. International donor pledges range from $13.6 billion to $17.3 billion, reflecting the range of loans pledged by the World Bank and International Monetary Fund (IMF). Given the uncertainty of the ultimate amount of loans provided by the World Bank and IMF, we have used the lower pledge amount in this report.

[7]The CPA used the term allocation to reflect DFI obligations. In this enclosure, we have considered these allocations as obligations for consistency of reporting.

Table I.1: U.S., DFI, Vested and Seized Funds Obligated by Activity, as of April 2004

Millions of U.S. dollars

Activity	U.S. appropriated	DFI	Vested	Seized	Total
Ministry operations/operating expenses	$1,191	$7,541	$1,507	$284	$10,523
Essential services	3,906	1,439	37	64	5,447
Humanitarian and human services	1,370	2,202	13	93	3,678
Security	1,164	895	76	12	2,147
Regional programs	21	618	1	341	981
Governance	447	34	7	1	490
Economic reconstruction	88	224	41	10	362
Public buildings and other reconstruction	18	27	7	3	55
Total	**$8,206**	**$12,981**	**$1,688**	**$809**	**$23,683**

Sources: Departments of State, Defense, and the Treasury, USAID, and CPA.

Note: Numbers may not add due to rounding.

About $20 billion of the approximately $24 billion in obligations has been applied primarily to three categories: ministry operations and expenses, the restoration of essential services, and humanitarian relief and other human services. Ministry operations include the salaries and costs of running the Iraqi ministries; the operating expenses include U.S. funding for the CPA administration and other U.S. agency operating costs. Obligations made for the restoration of essential services include the rehabilitation of the country's power, water, and oil infrastructure. For the humanitarian and human services category, obligations have been made to support, among other things, the importation of liquid petroleum gas for domestic cooking and heating. Table I.2 provides a description of significant activities and obligations within each category.

Table I.2: Projects and Significant U.S. Appropriated, DFI, Vested, Seized Obligations by Activity, as of April 2004

Activity	Projects	Significant Obligations
Ministry operations/ operating expenses	CPA and other U.S. agency operating costs, and budget support, ministry salaries, pensions, and other operations	From about $400 million in October 2003 to about $1.25 billion per month in May 2004 for budget operations; About $1.2 billion in CPA and other U.S. administrative expenses
Essential services	Oil, power, water and sanitation, transportation, telecommunications	About $1.7 billion for repair of power infrastructure; About $1.5 for repair of and security for oil infrastructure
Humanitarian and human services	Food, liquid petroleum gas, public safety, health care, education, human rights, refugees	Almost $2.5 billion for the importation of liquid petroleum gases for domestic heating, cooking, and transport purposes; About $580 million for food procurement
Security	Police, military, and other security forces, including training, equipment, facilities, judicial security	About $370 million for police training and technical assistance; About $800 million for the Iraqi Armed Forces
Regional programs	The Commander's Emergency Response Program provides funding for small, high-impact, emergency, local projects. The Rapid Regional Response Program provides funding for local and regional projects	About $550 million provided to the multinational force for the Commander's Emergency Response Program; About $430 million provided to local and regional governorates for the Rapid Regional Response Program
Governance	Democracy building, rule of law, local governance activities	About $375 million for democracy building, including transitional, electoral, and rule of law support; About $110 million for the construction of detention, penal, and judicial facilities
Economic reconstruction	Currency exchange, banking system modernization, private sector development	About $200 million for the currency exchange for new Iraqi dinars; About $75 million for micro lending and jobs programs
Public buildings and other reconstruction	Ministry and other government building construction and renovation, miscellaneous projects and services	About $42 million for building construction and repair; About $12 million for legal and settlement fees

Sources: GAO (analysis); CPA and U.S. agencies (information).

Once funds are obligated, disbursements occur when funds are paid and the obligations are liquidated. Almost all available funds from the vested and seized assets have been disbursed. Greater amounts of funding remain available from U.S. appropriations and the Development Fund for Iraq. Overall, as of April 30, 2004, about $8.2 billion, or about one third, of the $24 billion in U.S. funds appropriated for rebuilding Iraq have been obligated. About $3 billion of those obligations have been disbursed. Although the amount of DFI funding available for rebuilding Iraq changes as deposits are made from the sale of Iraqi petroleum products, about $8.3 billion of the $13 billion obligated had been disbursed as of May 6, 2004.

Conclusion

The United States, its coalition partners, and international organizations and donors have provided or pledged substantial amounts of funds to help rebuild Iraq. Ensuring the accountability and oversight of these resources is a fundamental responsibility of both the U.S. agencies involved in the reconstruction and relevant audit authorities. Critical to the agencies' ability to allocate and account for these resources is the availability of complete and accurate financial data. Further, close coordination among those providing assistance is important to help ensure effective use of available funds and avoid duplication of effort. Together, sound financial data and close coordination provide a basis for effective use of resources and oversight.

Oversight Questions

1. What accounting and monitoring controls are in place to ensure effective oversight of the U.S., Iraqi, and international funds used to rebuild Iraq?

2. To what extent are existing accounting and management information systems adequate to provide complete and reliable reporting on the implementation of the reconstruction effort?

3. What are the roles and responsibilities of the CPA Inspector General with the transfer of power to the Iraqis? What is the relationship between the CPA Inspector General, the State Department Inspector General, and U.S. ambassador to Iraq?

4. To what extent has the unstable security environment affected the U.S. government's ability to provide adequate oversight of the reconstruction effort, including the auditing of contracts and funding expended?

5. What effect does the transfer of authority to the Iraqis have on the U.S. agencies' ability to monitor and audit the reconstruction investment made with these funds?

II. Resources

International Assistance to Rebuild Iraq

Issue

The size and scope of Iraq's reconstruction needs through 2007 have been estimated to total about $56 billion.[1] Many nations and various international organizations are supporting the effort to rebuild Iraq through multilateral or bilateral assistance. U.N. Security Council Resolution 1511 of October 16, 2003, urged member states and international and regional organizations to support the Iraq reconstruction effort. On October 23-24, 2003, an international donors conference was held in Madrid, with 76 countries, 20 international organizations, and 13 nongovernmental organizations participating. This enclosure provides information on (1) the amount of funds pledged[2] by the international community for Iraq's reconstruction, (2) the extent to which funds have been provided to the International Reconstruction Fund Facility, and (3) mechanisms for coordinating reconstruction assistance in Iraq.

Results in Brief

As a result of the October 2003 donors conference, international donors pledged nearly $14 billion, some in grants but largely in the form of loans for the country's reconstruction over the next 4 years. This is in addition to the $18.4 billion that Congress provided for Iraq relief and reconstruction in November 2003. The International Reconstruction Fund Facility for Iraq was established as a mechanism to channel international funding to Iraq. As of April 22, 2004, international donors had committed about $1 billion in multilateral aid, of the pledged $14 billion, to the IRFFI to fund

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[1]The United Nations Development Group and the World Bank Group prepared a needs assessment from June 2003 through August 2003 to define Iraq reconstruction requirements. According to the October 2003 assessment, Iraq needs an estimated $36 billion from 2004 through 2007. Sectors covered by this assessment include education, health, electricity, transportation, agriculture, and cross-cutting areas such as human rights and the environment. The assessment also notes that the Coalition Provisional Authority (CPA) estimates that an additional $20 billion will be needed from 2004 through 2007 to rebuild other critical sectors (e.g., security and oil) outside the scope of the U.N./World Bank assessment.

[2]The World Bank Group defines a pledge as an indication of intent to mobilize funds for which an approximate sum of contribution is specified.

reconstruction projects in 2004. An Iraqi-led process, endorsed by the Iraqi Governing Council and put into effect by the Administrator of the Coalition Provisional Authority, is responsible for coordinating all international assistance for rebuilding and reforming institutions in Iraq. However, this process has not had the capability to track the total amounts of bilateral assistance flowing into Iraq. The ability to track all international contributions made to support Iraq's reconstruction, including bilateral assistance, is an important element for identifying the sectors receiving assistance, identifying any gaps in assistance, and ensuring that assistance is coordinated.

International Donors Pledged about $14 Billion for Iraq Reconstruction

International donors have pledged nearly $14 billion in grants and loans for Iraq's reconstruction until the end of 2007. This is in addition to the $18.4 billion that the U.S. Congress provided for security, relief, rehabilitation, and reconstruction needs in Iraq in November 2003.[3] Other countries also offered technical and other types of support in lieu of financial assistance.[4] Figure II.1 shows the major international non-U.S. pledges for Iraq reconstruction made at the Madrid conference.

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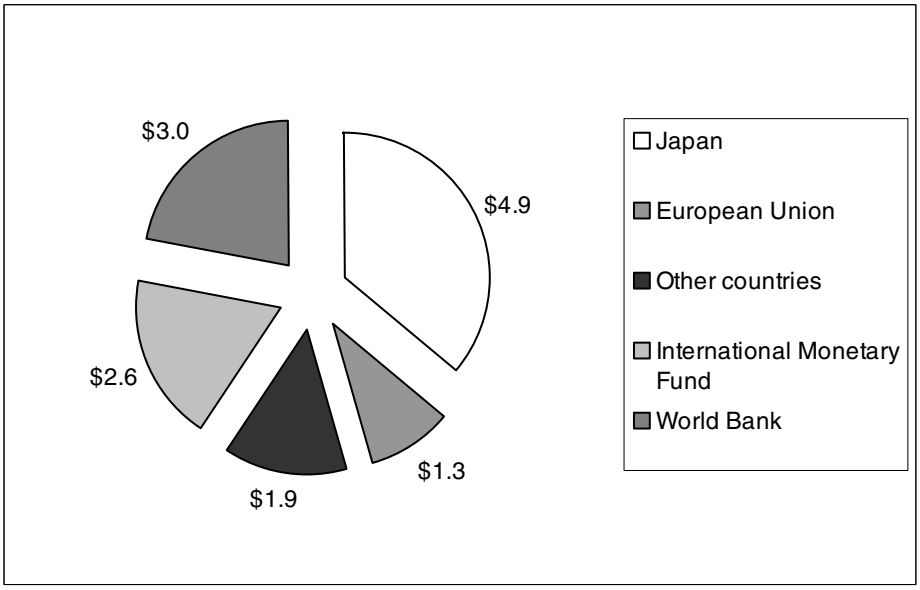
[3]See PL 108-106, "Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004." In this act, Congress appropriated $18.6 billion for Iraq's security, relief, rehabilitation, and reconstruction needs, but directed that of these funds, $100 million be transferred for assistance to Jordan, $100 million be transferred for assistance to Liberia, and $10 million be transferred for assistance to Sudan.

[4]The following countries offered in-kind assistance: Bahrain, Chile, Egypt, Germany, Jordan, Latvia, Mexico, Poland, Philippines, Portugal, Slovakia, Sri Lanka, Switzerland, Thailand, Tunisia, and Vietnam.

Figure II.1: International Non-U.S. Pledges for Iraq Reconstruction Made at the 2003 Madrid Donors Conference, by Source

Millions of U.S. dollars



Sources: GAO (analysis); World Bank (data).

Numbers may not add due to rounding.

Note: The European Union amount includes the collective pledge of the European Commission as well as individual pledges from current and acceding member countries of the European Union as of the October 2003 Madrid conference.

Countries pledging $500 million or more included Japan at $4.9 billion, the European Union at $1.3 billion, Saudi Arabia at $500 million, and Kuwait at $500 million. The World Bank pledged assistance ranging from $3 billion to $5 billion and the International Monetary Fund pledged $2.6 billion to $4.3 billion.[5] According to State Department documentation, the International Monetary Fund plans to make $450 million of its pledge available in emergency aid to Iraq as part of a postconflict program during the second half of 2004, if the interim government that assumes power after June 30, 2004, meets certain economic policy conditions. Table II.1 summarizes the amount of pledges made at the Madrid conference by non-U.S. donors for Iraq reconstruction.

[5]In figure II.1, we have used the lower pledge amount, given the uncertainty of the ultimate amount of loans to be provided by the World Bank and IMF.

Table II.1: International Non-U.S. Pledges for Iraq Reconstruction Made at the 2003 Madrid Donors Conference by Type

Millions of U.S. dollars[a]

Contributions		2004	2005-2007	Unspecified by year[c]	Total
Grants	IRFFI	$322.12	$0.00	$83.17	$405.29
	Bilateral grants	110.22	78.19	853.71	1,042.13
	Unspecified grants[b]	252.87	225.42	1,697.00	2,175.29
	Total grants	**685.21**	**303.61**	**2,633.88**	**3,622.71**
Loans		**1,470**	**4,655-8,355**	**3,500**	**9,625–13,325**
Unspecified as grant or loan[d]		**0**	**0**	**335.62**	**335.62**
Total		**$2,155.21**	**$4,958.61-8,658.61**	**$6,469.50**	**$13,583.33-17,283.33**

Sources: Department of State and World Bank Group.

[a]Amounts do not include identified humanitarian assistance or export credits and guarantees.

[b]At the time of the donors' conference, most donors did not specify whether they would provide their assistance bilaterally or through the IRFFI.

[c]Many donors did not provide a breakdown of their assistance by year.

[d]Italy and Qatar did not specify whether their pledges were grants or loans.

International donors, excluding the United States, pledged at the Madrid Conference to provide about $405 million in grants multilaterally through the IRFFI and about $1.04 billion in grants bilaterally. Another $2.2 billon in grants was pledged at the donors conference, but donors did not specify how the grant assistance would be provided or allocated by year. While data are available for the actual contributions that have been made through the IRFFI, detailed information on the actual amounts of the IRFFI and bilateral assistance going into Iraq for reconstruction activities is not readily available. According to officials from the State Department and the Coalition Provisional Authority, the United States is working with the Iraqis to identify this information and to develop a database for tracking all bilateral commitments made to reconstruction activities in Iraq. As of June 2, 2004, according to a State Department official, this work was still ongoing and the database was not yet available.

Donor Commitments to the International Reconstruction Fund Facility for Iraq

As of May 26, 2004, the European Commission and 18 donor countries had committed[6] a total of about $1 billion to the International Reconstruction Fund Facility for Iraq (IRFFI) for 2004. This commitment tripled the $322 million in grants pledged to the IRFFI for 2004 at the Madrid Conference. The IRFFI was established in response to the June 24, 2003, U.N. technical meeting and the 2003 Madrid conference's calls for a mechanism to channel donor resources and coordinate support for Iraqi reconstruction and development activities. The IRFFI comprises two trust funds into which donors can make contributions—the World Bank Iraq Trust Fund and the U.N. Development Group Iraq Trust Fund.[7] The World Bank and the U.N. Development Program administer the IRFFI in coordination with international donors and Iraqi authorities. The Donor Committee,[8] with members from 14 countries and the European Commission, is to oversee the activities of the IRFFI and endorse its priorities. At a February 2004 international donors meeting held in Abu Dhabi, participants focused on IRFFI's operation and funding. Specifically, information was shared with donors on Iraq's reconstruction plans and project priorities, U.S. assistance spending plans, and the IRFFI's preferred spending and project plans. Table II.2 presents a summary of the donors' commitments and deposits made to the IRFFI as of May 26, 2004.

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[6]According to State Department officials, commitments refer to a firmer declaration of the amount that a country has pledged to provide.

[7]The Donors Committee determined on May 26, 2004, that the IRFFI will focus its activities on the re-establishment of essential services, infrastructure rehabilitation, job creation, poverty reduction, governance, and capacity building, including support for the transitional authorities. The World Bank Iraq Trust Fund will focus its funding on projects for economic transition, governance and public sector reform, and poverty and safety net issues. The U.N. Development Group Iraq Trust Fund will focus its funding on projects such as basic services, infrastructure, capacity building, employment generation, and community-level rehabilitation.

[8]As of May 26, 2004, the Donor Committee membership is composed of Australia, Canada, the European Commission, Finland, India, Italy, Japan (chair), Korea, Kuwait, Norway, Qatar, Spain, Sweden, United Kingdom, and the United States. Membership comprises donors whose paid-in contributions or commitments to either or both trust funds amount to a minimum of US$10 million per donor, plus two additional seats for contributing donors that do not meet the minimum.

Table II.2: Donor Commitments to the International Reconstruction Fund Facility, as of May 26, 2004

Millions of U.S. dollars

Country	Committed contribution to IRFFI for 2004	Deposits made to the IRFFI
Australia	$15.2	$14.6
Canada	67.2	44.7
European Commission[a]	209.6	9.3
Finland	6.2	0.0
Greece	3.6	0.0
Iceland	1.0	1.0
India	10.0	5.0
Ireland	1.2	0.0
Italy	12.2	0.0
Japan	490.0	351.8[b]
Korea	10.0	0.0
Kuwait	10.0	0.0
Netherlands	6.0	0.0
Norway	4.3	0.0
Qatar	10.0	2.5
Spain	20.0	0.0
Sweden	10.0	0.0
United Kingdom	127.4	127.4
United States	10.0	10.0
Total	**$1,023.9**	**$566.3**

Source: State Department.

[a]The European Commission manages the European Union's budget and represents the Union internationally. The data for the Commission include commitments from both the Commission itself and the Commission's Rapid Reaction Mechanism, a vehicle for the quick mobilization of resources to provide the necessary political, social, and economic stability in crisis situations.

[b]The Japanese government disbursed an additional $98.2 million of its allocation which, as of May 26, 2004, has not been shown under 2004 deposits.

Iraqi Coordination of International Reconstruction Assistance in Iraq

In December 2003, the Iraqi Governing Council endorsed and the Coalition Provisional Authority administrator established an Iraqi-led process to coordinate international reconstruction assistance, including U.S. assistance. The Iraqi Strategic Review Board, the Ministry of Planning and Development Cooperation, and the Council for International Coordination are to coordinate all donor activities in the country.[9] In addition, these three bodies are to work with and coordinate IRFFI-provided reconstruction assistance.

[9]CPA Regulation number 5 established the Council for International Coordination in June 2003. Regulation number 7 established the Iraqi Strategic Review Board and renamed the Ministry of Planning the Ministry of Planning and Development Cooperation on December 5, 2003.

- The Iraqi Strategic Review Board is responsible for approving reconstruction activities and for ensuring that international assistance for Iraq is properly allocated against Iraq's prioritized needs, effectively monitored, and integrated into the Iraqi national budget. The Review Board is chaired by the Minister of Planning and Development Cooperation and includes the Finance Minister, a CPA representative, and two appointees of the Iraqi Governing Council.[10]

- The Ministry of Planning and Development Cooperation is responsible for managing the coordination of reconstruction activities by (1) providing guidance for development activities to the Iraqi ministers, (2) recommending reconstruction activities for approval to the Iraqi Strategic Review Board, and (3) monitoring the implementation of international reconstruction assistance to Iraq. The Ministry of Planning and Development Cooperation is to work closely with the Ministry of Finance and the Central Bank of Iraq to ensure that the recommendations it presents to the Iraqi Strategic Review Board conform to the Iraqi budgetary framework. The Ministry of Planning and Development Cooperation is also to work with the CPA's Program Management Office[11] to ensure that pre-existing bilateral commitments and the U.S. government's apportionment and obligation of funds appropriated for Iraq relief and reconstruction are taken into account in recommendations made to the Iraqi Strategic Review Board. A June 25, 2004, CPA Inspector General report noted that a process has not been developed to track or coordinate internationally funded projects with other CPA reconstruction efforts. Therefore, it made two recommendations to the CPA's senior advisors to improve the transparency and coordination of reconstruction efforts in Iraq funded by international donors.

- The Council for International Coordination is responsible for supporting and facilitating the participation of the international community in Iraq's recovery and reconstruction. The Council is chaired by the Minister of Planning and Development Cooperation and is composed of members from more than 23 countries involved

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[10]On June 1, 2004, the Iraqi Governing Council dissolved and the Iraqi Interim Government was announced.

[11]The Program Management Office manages the awards and provides project management support for the contracts funded from the $18.4 billion provided by Congress for Iraq reconstruction. A May 11, 2004, National Security Presidential Directive established a temporary organization—the Project and Contracting Office—within the Department of Defense to provide acquisition and project management support after the transition of authority to the Iraqis.

in the reconstruction of Iraq. Although the Council is not a decision-making body, it serves as the main point of contact between donors and the CPA.

According to State Department documentation, these three bodies worked together after the Madrid donors' conference to set priorities and plan for Iraq's reconstruction. Iraq's Minister of Planning and Development Cooperation presented Iraq's project proposals, which had been approved by the Iraqi Strategic Review Board for international donor consideration, at the donors' meeting in Abu Dhabi. These proposals totaled about $4 billion and included about 700 projects. Table II.3 presents the estimated total costs of the project proposals by priority category as recommended by the Iraqi Strategic Review Board for donors' consideration.

Table II.3: Iraqi Estimated Costs of Project Proposals for 2004, by Priority Category

Millions of U.S. dollars

Priority category	Total cost by sector	Total cost by category
Education, health, labor, and social affairs		$737.9
Education	607.0	
Health	99.0	
Labor and social affairs	31.9	
Infrastructure		1,957.7
Water and sanitation	347.5	
Transport	323.3	
Telecommunication	136.0	
Electricity	1,057.9	
Housing and land management	93.0	
Urban management	0.0	
Agriculture, water resources, and food security		602.4
Agriculture	331.8	
Water resources	270.6	
Food security	0.0	
Finance and private sector development		486.3
Finance	53.0	
State-owned enterprises	433.3	
Investment climate and trade	0.0	
Mine action		54.5
Government institution, rule of law, civil society, and media		277.4
Cross-cutting themes, human rights, gender, the environment		73.4
Total		**$4,189.6**

Source: State Department.

Of the seven categories shown above, about $1.96 billion (47 percent of the total cost) has been requested for infrastructure projects; $737 million (18 percent of the total cost) for education, health, and labor and social affairs; and $602 million (14 percent of the total cost) for agriculture, water resources, and food security. According to documentation presented by Iraq's Minister of Planning and Development Cooperation at the Abu Dhabi conference, the priorities presented for donor consideration were vetted to

fit the country's economic plan, to be reconciled with Iraq's own capital spending plans, and to account for initiatives funded through the U.S. Iraq Relief and Reconstruction Fund.

The October 2003 U.N./World Bank assessment noted that Iraq's ability to absorb resources, particularly as it gains sovereignty and decision-making authority, will be one of the most significant challenges to reconstruction. The assessment also noted that the actual disbursement of committed donor funds is linked and likely to be limited by the current security situation, the current capacity in Iraqi institutions to plan and implement projects, and the state of infrastructure and energy services to support importation and distribution of physical assets. Our recent work on the Oil for Food program highlighted the history of inadequate oversight and alleged corruption in the program and raised questions about the Iraqi government's ability to manage the import and distribution of Oil for Food commodities as well as the billions in international reconstruction assistance expected to flow into the country.[12]

Conclusion

The United States, along with its coalition partners and various international organizations and donors, have provided or pledged substantial amounts of funds to help rebuild Iraq. The International Reconstruction Fund Facility and several Iraqi-led mechanisms have been set up to coordinate this assistance. The donor committee, of which the United States is a member, is to oversee the activities of the IRFFI. An important element for coordinating the reconstruction effort is the ability to track all donor contributions, including bilateral assistance, to identify the sectors receiving assistance and any gaps in assistance. However, these Iraqi-led mechanisms have not had the capability to track the total amounts of bilateral assistance flowing into Iraq. Building internal control and accountability measures into the operations of the Iraqi ministries will be critical to safeguarding the billions of dollars in U.S. and international funds that will be provided for reconstruction.

Oversight Questions

1. How is the United States ensuring that the billions of dollars in reconstruction assistance it is providing will not duplicate multilateral and bilateral assistance?

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[12]See U.S. General Accounting Office, *United Nations: Observations on the Management and Oversight of the Oil for Food Program*, GAO-04-730T (Washington, D.C.: Apr. 28, 2004).

2. What mechanisms and criteria have the Iraqi Strategic Review Board and the Ministry of Planning and Development Cooperation implemented to ensure transparent and accountable decision making?

3. To what extent is U.S. assistance being applied to help develop the capacity of the Iraqi-led coordination process to ensure that multiple sources of funding are sufficiently tracked and coordinated?

4. What entity will replace CPA representation on the Iraqi Strategic Review Board? What entity will replace the CPA as the liaison with the Iraqi Ministry of Planning and Development Cooperation and the Council for International Coordination?

5. If the international community is unable to meet its pledged commitments, what impact will this have on U.S. reconstruction funding?

III. Resources

The Development Fund for Iraq

Issue

On May 22, 2003, United Nations Security Council Resolution 1483 recognized the establishment of the Development Fund for Iraq (DFI) to provide a repository for Iraqi funds to support the reconstruction of Iraq. DFI funds consist of oil proceeds, U.N. Oil for Food program surplus funds, and returned Iraqi government and regime financial assets. According to the resolution, DFI funds are to be used to meet the costs of Iraqi civilian administration, humanitarian needs, infrastructure repairs, economic reconstruction, and other purposes benefiting the people of Iraq. The resolution also noted that an independent external auditor approved by the International Advisory and Monitoring Board (IAMB) is to audit the DFI to ensure the transparent use of these DFI funds. The CPA, in consultation with the Iraqi administration, directed the disbursement of DFI funds. In June 2003, the CPA Administrator created the Program Review Board (PRB) to evaluate the proposed uses of U.S. appropriated and Iraqi funds, including DFI funds.[1] This enclosure describes (1) the sources of DFI funds, (2) the uses of DFI funds, and (3) the International Advisory and Monitoring Board's efforts to monitor DFI funds.

Results in Brief

As of May 6, 2004, the DFI had received about $18 billion in deposits largely from U.N. Oil for Food surplus funds and proceeds from the sale of Iraqi oil. The majority of funds disbursed from the DFI have supported the Iraqi budget to cover Iraqi ministry operating expenses. The remaining DFI funds have been used for PRB-approved relief and reconstruction projects and programs. The IAMB has only recently begun to exercise oversight. The IAMB reached agreement with the CPA on the IAMB's terms of reference in late October 2003 and on the selection of an external auditor in March 2004 to review the operations of the DFI. According to U.N. Security Council Resolution 1546, the IAMB will continue its activities monitoring the DFI after CPA transfers power to Iraq.

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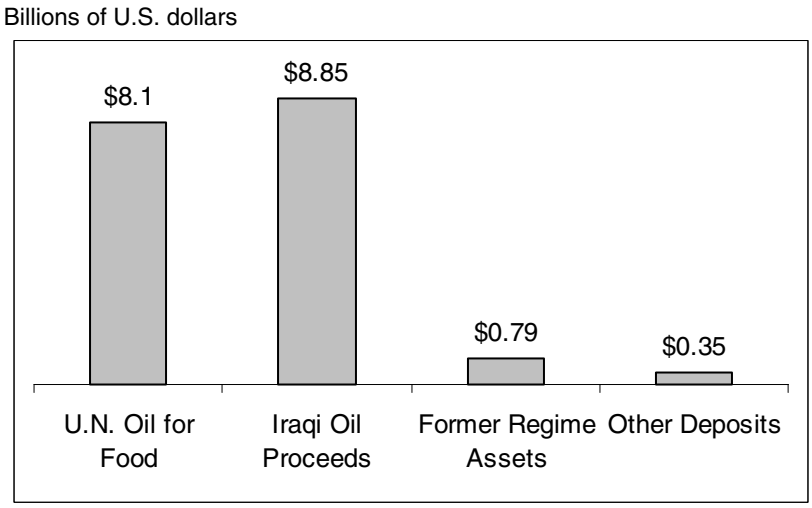
[1]According to CPA officials, since at least March 2004, the PRB has recommended allocations almost exclusively from DFI funds.

Sources of DFI Funds

As of May 6, 2004, the DFI has received about $18 billion in deposits, largely from the U.N. Oil for Food program and oil proceeds.[2] The United Nations deposited $8.1 billion in surplus funds from renegotiated Oil for Food contracts in a series of transfers from May 2003 to April 2004. Net oil revenues of $8.8 billion from the sale of oil for export have been deposited since July 2003. Other sources of DFI funding have come from transferred Iraqi government financial assets. More than 10 countries and the Bank for International Settlements transferred several hundred to several hundred million dollars to the DFI.[3] In addition to these sources, other deposits to the DFI have been made since late June 2003, including $146 million from the World Food Program (see fig. III.1).

Figure III.1: DFI Deposits as of May 6, 2004



Source: GAO analysis of CPA data.

DFI Supports Iraqi Ministry Operations and Reconstruction Projects

The DFI is the major source of funds used to support the Iraqi budget.[4] As of May 6, 2004, the CPA had allocated about $13 billion of the $18 billion in

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[2]As directed under U.N. Security Council Resolution 1483, 95 percent of oil proceeds are to be deposited in the DFI. The remaining 5 percent of oil proceeds are deposited into a U.N. Compensation Fund account to process and pay claims for losses resulting from Iraq's invasion and occupation of Kuwait.

[3]For more information, see U.S. General Accounting Office, *Recovering Iraq's Assets: Preliminary Observations on U.S. Efforts and Challenges*, GAO-04-579T (Washington, D.C.: Mar. 18, 2004).

[4]The CPA, the Ministry of Finance, and the Ministry of Planning and Development issued a 2004 budget in October 2003. It was revised in March 2004.

DFI funds, of which about $8.3 billion has been disbursed.[5] The CPA allocated and disbursed DFI funds[6] under three broad categories: Iraqi ministry operations and expenses, Program Review Board-approved projects, and regional programs. See table III.1 for details on DFI allocations and disbursements.

Table III.1: Project Allocations and Disbursements by Category, as of May 6, 2004

Millions of U.S. dollars

Purpose	Allocations	Disbursements
Ministry operations and expenses	$7,541	$6,106
PRB relief and reconstruction projects		
Humanitarian and human services	2,202	1,292
Essential services	1,439	316
Security	895	21
Economic reconstruction	224	182
Governance	34	21
Public buildings and other reconstruction	27	8
Regional programs	618	333
Total	**$12,981**	**$8,281**

Source: GAO (analysis) and CPA (data).

Note: Numbers may not total due to rounding.

Iraqi Ministry Operations and Expenses

From September 2003 to May 6, 2004, $7.5 billion was allocated from the DFI to support Iraqi ministry operations and expenses; of this amount, $6.1 billion has been disbursed. The amount of the monthly budget disbursements varied from a low of $433 million in October 2003 to nearly $1.5 billion in March 2004. These monthly disbursements covered salaries, pensions, operating costs, some capital project requirements, and transferred expenditures, such as the provision of food and other goods through the public distribution system.

Program Review Board Projects

From July 2003 to early May 2004, the CPA allocated about $4.8 billion for relief and reconstruction projects and services, of which $1.8 billion was

[5]The DFI operates as a series of bank accounts; disbursements are thus actually withdrawals or debits.

[6]Additional deposits and disbursements (accounting for a net balance of $46 million) were made for which we could not obtain detailed information. These transactions are not included in our totals.

disbursed. The process for obtaining DFI funds for these projects began with a written project request to the PRB from the CPA or the Iraqi ministries. Per CPA regulation 3, a Program Review Committee initially categorized, prioritized, and reviewed these project proposals in advance of the PRB. The PRB then reviewed the requests and recommended projects to the CPA Administrator for approval. Voting members of the PRB included five representatives from the CPA; the Director of the U.S. Agency for International Development, Iraq mission; and one representative each from the Commander of the Coalition Forces, the Iraqi Ministry of Finance, the Iraqi Ministry of Planning and Development Cooperation, the United Kingdom, Australia, and the Chairman of the Council for International Coordination.[7]

DFI funding for approved relief and reconstruction projects has generally fallen into six major categories: (1) humanitarian and human services, (2) essential services, (3) security, (4) economic reconstruction, (5) governance, and (6) public buildings and other reconstruction. Some of the larger DFI allocations and disbursements made between July 2003 and May 6, 2004, include the following:

Humanitarian and human services

- $1.86 billion was allocated for imports of liquid petroleum gas for domestic heating and cooking; about $1.07 billion was disbursed.
- $272 million was allocated for food procurement, transport, security, and production; about $204 million was disbursed.
- $22 million was allocated for agriculture; nearly $12 million was disbursed.

Essential services

- $972 million was allocated for power infrastructure; about $157 million was disbursed.
- $437 million was allocated for oil infrastructure; about $150 million was disbursed.
- $30 million was allocated for transportation and telecommunications; about $10 million was disbursed.

[7]In addition, the PRB Chairman was to cast the deciding vote on matters when PRB member votes were tied.

Security

- $842 million was allocated in late April and early May 2004 to address increased security needs, including resources for the Iraq security forces; about $2 million was disbursed.

- $52 million was previously allocated for police and security equipment; $20 million was disbursed.

Economic reconstruction

- $197 million was allocated for the currency exchange; about $180 million was disbursed.

- $27 million was allocated for microloans and employment programs; about $2 million was disbursed.

Governance

- $21 million was allocated and disbursed for regional governance.

Public buildings, miscellaneous ministry projects, and other reconstruction

- $18 million was allocated for a Program Management Office/Iraqi Ministry of Planning and Development Cooperation business complex; about $6 million was disbursed.

- $9 million was allocated for legal fees and settlements; about $3 million was disbursed.

According to the CPA, since May 6, 2004, the CPA Administrator approved additional PRB-recommended allocations totaling about $1.5 billion for the essential services, humanitarian and human services, and economic reconstruction projects, and for other purposes. Essential services projects include $460 million for the oil infrastructure and $315 million for the electricity sector. Humanitarian and human services projects include $200 million to maintain current levels of food procurement through 2004 and $65 million for agriculture development. Economic reconstruction projects include $65 million for vocational training and $65 million to provide capital to critical state-owned enterprises. Examples of other allocations include $180 million for the Iraq Property Claims Commission, $125 million to protect the Iraqi budget from oil revenue volatility, and $25 million for the Victims' Compensation Fund.

Regional Programs

The Commanders' Emergency Response Program and the Rapid Regional Response Program have been allocated DFI funds for local humanitarian, essential services, economic, general construction, security, and governance projects, as discussed below.

- Under the Commanders' Emergency Response Program, the CPA allocated $353 million through the multinational force[8] to military division and brigade commanders; about $214 million was disbursed.[9] According to multinational force officials, commanders have completed more than 21,000 small high-impact projects at an average cost of about $11,000. For example, as of May 8, 2004, multinational force officials reported that about $45 million had been disbursed for more than 4,100 education projects.

- The activities of the Rapid Regional Response Program incorporate and expand upon previous authorities of the Construction Initiative and the Directors' Emergency Response Program. Under the program, about $265 million in DFI funds[10] was allocated to regions and governorates; about $120 million was disbursed. According to CPA, more than 2,100 regional projects designed to create jobs, support local industry, and respond to community needs have been initiated across the northern, Baghdad central, southern central, and southern regions.

International Advisory and Monitoring Board Oversight

Nearly 1 year after the DFI was established, the IAMB approved an independent external auditor to support its oversight of the DFI. An important initial step to ensure the transparent use of DFI funds came 5 months after the May 2003 U.N. resolution recognized the establishment of the DFI.[11] During this period, the IAMB members and the CPA discussed

[8]The multinational force, formerly Combined Joint Task Force-Seven, became known as the Multi-National Force-Iraq on May 15, 2004.

[9]In addition to DFI allocations, the Commanders' Emergency Response Program has received nearly $179 million in seized assets and $140 million in U.S. appropriated funds from Army Operations and Maintenance, for which transfer authority was provided in the fiscal year 2004 supplemental.

[10]In addition to DFI allocations, the Rapid Regional Response Program received at least $46 million in seized funds.

[11]The IAMB chair is currently a U.N. Secretary General representative; representatives of the Arab Fund for Economic and Social Development, the International Monetary Fund, and the World Bank are the other executive head members. The IAMB also has five observers.

terms of reference for guiding the IAMB's operations. The terms of reference were eventually approved in late October 2003. U.N. Resolution 1483 also noted that the IAMB was to rely on independent, external auditors to ensure the transparent use of DFI funds. The external auditor began its work after the contract was signed on April 5, 2004.[12]

The auditor is to perform at least two audits, the first covering DFI transactions from its inception through December 31, 2003, and the second for the period January 1, 2004, through June 30, 2004. According to the contract's statement of work, the audit is to assess, among other things, whether (1) export sales of oil, petroleum products, and natural gas from Iraq were consistent with international best practices, and (2) DFI disbursements were used for the purposes for which they were intended. The contractor is required to produce the first report within 90 days of the contract award. Consistent with its terms of reference, the IAMB is to perform duties similar to those of an outside audit committee.

Under its terms of reference, the IAMB is also to monitor the financial reporting and internal control systems established by the CPA for areas covered by the external audit. The IAMB, in consultation with the CPA, can also determine whether special audits are warranted. Since March 2004, the IAMB has raised issues with the CPA, including concerns about controls over Iraq oil extraction and the CPA's internal control and financial reporting systems.

- **Crude oil extraction:** After reviewing information from the CPA on crude oil extraction controls, the IAMB recommended in March 2004 that metering equipment be expeditiously installed. According to the Ministry of Oil and the IAMB, an absence of functioning meters precludes control over the distribution and sales of crude and refined products. In May 2004, the CPA approved an allocation of $5 million in DFI funds to (1) determine where meters are currently installed, evaluate their condition, and recommend locations for additional meters; (2) make necessary repairs, install new meters, and calibrate all meters; and (3) establish a central control facility to collect all metering data. A CPA senior advisor estimated the project's duration at 1 year or less, but said that each phase of the project would potentially be affected by Iraq's poor security environment. He also said that the project would require visiting many different offshore and onshore sites, and the protection of those conducting the assessment would be difficult. In June 2004, the IAMB noted that the award of metering contracts has been delayed and urged quick resolution of this issue.

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[12]The PRB approved a commitment of almost $6 million in DFI funds to pay for the external audit.

- **CPA internal control and financial reporting systems:** The IAMB also sought clarification from the CPA on its internal controls and financial reporting systems. The CPA briefed the IAMB on the Program Review Board and contracting processes, and on the status of the DFI account, financial operations, and the budget process. The CPA revised the financial reporting on the status of the DFI that appeared on its Web site. The IAMB expressed concern about the use of noncompetitive bidding practices to award DFI funds and advised the CPA to take steps to limit future noncompetitive awards to exceptional circumstances. In April, May, and June 2004, the IAMB reported that it had requested access to audits of sole-source contracts let from DFI funds, including those by the Defense Contract Audit Agency, but had not received them as of June 22, 2004.[13] The IAMB also reported in June 2004 that it had decided to commission a special audit to determine the extent sole-source contracts had been used.

On June 8, 2004, the U.N. Security Council adopted Resolution 1546, which noted that Iraqi oil proceeds would continue to be deposited in the DFI. The resolution also noted that the IAMB shall continue monitoring DFI activities after CPA transfers power to Iraq. In addition, the resolution noted the inclusion of a full voting member designated by the government of Iraq to the board.

Conclusion

The Development Fund for Iraq has been the primary funding source to fully support the interim Iraqi civil administration and projects of varying magnitude in many reconstruction sectors. Given that the CPA oversaw and controlled the use of the DFI, transparency and accountability over the use of the funds has been essential to assuring Iraqis and the international community that the funds have been used to benefit the Iraqi people. However, almost 1 year passed before the external auditor contract was awarded to review the DFI's operations. Thus, transactions worth billions of dollars in Iraqi funds have not been independently reviewed or the results reported. The contractor is not required to report on the results from the first audit until after the scheduled transition of the CPA's authority to Iraq.

[13]As of May 2004, DCAA had audits under way on contracts awarded for projects with both U.S. appropriated and DFI funds.

Oversight Questions

1. What were the reasons for the delay in IAMB's oversight of the DFI? To what extent will these delays affect IAMB's ability to conduct its oversight responsibilities in an expeditious and thorough manner?

2. What measures will be in place to ensure the transparent use of funds after the transition?

3. Will any further U.N. Oil for Food surplus funds or former regime assets be available for deposit into the DFI after the transition?

4. What plans were made to address how the CPA was to transfer the management of the DFI to the transitional Iraqi administration?

5. What interim plans have been made to respond to IAMB concerns about ensuring oil sales are consistent with prevailing international market best practices?

6. How would significant reductions in oil exportation due to pipeline sabotage or other factors impact the sustainability of the Iraqi budget and U.S. reconstruction plans?

7. Who will assume responsibility for overseeing and managing DFI-funded CPA contracts let prior to the June 28 transition?

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IV. Resources

CPA Staffing for the Iraq Reconstruction Effort

Issue

The United States has made an enormous commitment of financial resources toward the reconstruction of Iraq, which was managed by the Coalition Provisional Authority (CPA) and supported by personnel from the United States and coalition partners. The CPA's personnel needs increased as it acquired new missions, elements, and responsibilities.[1] This increase presented additional demands on U.S. and coalition resources to provide adequate numbers of personnel to support the reconstruction effort. This enclosure provides information on (1) the composition of the CPA, and (2) the means by which the United States provided personnel to support the CPA and some of the challenges associated with that effort.

Results in Brief

Staffing of the CPA was dependent on personnel from multiple sources—including U.S. and international military staff and civilians, a large number of which were temporary hires or contractors. The U.S. effort to provide staff to the CPA changed as the mission evolved from a reconstruction and humanitarian coordination effort to the temporary administration of the government of Iraq, and as staffing requirements changed. In addition, the CPA generally operated with about one-third fewer staff than it required. The CPA and U.S. agencies faced multiple challenges—bureaucratic, logistical, and budgetary—in meeting CPA staffing requirements and employed special hiring authorities and incentives to overcome them.

Coalition Provisional Authority Staff from Multiple Sources

Personnel directly supporting the CPA included U.S. and coalition military personnel, U.S. and coalition civilian employees, contractors, civilians hired under special authorities, and Iraqi expatriates from the Iraq Reconstruction and Development Council (IRDC). Coalition detailees to the CPA included personnel from Australia, the Czech Republic, Denmark, Italy, Japan, Poland, Romania, Spain, United Kingdom, Ukraine, and other coalition member countries. Additional indirect support—such as security, transportation, and translation services—was provided to the CPA by

[1]In January 2004, the CPA's Inspector General office was staffed. More recently, the transition of power expected in June 2004 affected CPA requirements.

personnel from various entities, including the United Kingdom, the Combined Joint Task Force-Seven (CJTF-7),[2] the U.S. Army Corp of Engineers, interpreters, and the company Kellogg, Brown and Root.

In the early stages of the rebuilding effort, the Office for Reconstruction and Humanitarian Assistance (ORHA), the organization responsible for managing postwar activities, was composed of about 350 direct and indirect support personnel. This group grew to about 600 while deployed to Kuwait. By May 2004, the group had advanced to Baghdad and grew to about 1,100 personnel. With the establishment of the CPA and the mission's growth, these numbers increased in total to more than 6,000 direct and indirect positions as of April 2004. Of this number, about 1,200 directly supported the CPA mission.

Although the total number of CPA personnel fluctuated as staff requirements changed and personnel rotated through Iraq, the composition of personnel remained consistent. The military services provided the largest portion of CPA personnel—an average of about 28 percent. Approximately 26 percent were civilian detailees from numerous U.S. federal agencies, including the Defense Department (DOD), and an average of 13 percent were detailees from other coalition countries.[3] About 25 percent were contractors and temporary U.S. government employees hired under a special authority.[4] The agency officials we talked to from the Department of State, U.S. Agency for International Development (USAID), and Army Corps of Engineers stated that they had relied on volunteers—exclusive of U.S. military personnel—to meet the demand for CPA staff and had not resorted to forced placement.[5] Table IV.1 shows the composition of CPA direct support personnel from March until June 2004.[6]

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[2]As of May 15, 2004, this entity became known as Multi-National Force-Iraq.

[3]U.S. civilian personnel were detailed to the CPA from various U.S. agencies, including the Departments of Agriculture, Commerce, Energy, Defense, Homeland Security, the Interior, Labor, State, Transportation, the Treasury, Veteran Affairs, the Office of Management and Budget, the National Aeronautics and Space Administration, U.S. Agency for International Development, U.S. Postal Service, U.S. Public Health Service, and the Federal Aviation Administration.

[4]Under 5 USC 3161, the head of a temporary organization may appoint persons to positions of employment in such numbers and with such skills as are necessary to perform the functions required.

[5]The Secretary of State solicited staff outside of the standard placement process through cables requesting civil and foreign service volunteers for 3-month and, later, 6-month tours.

[6]Reliable data on the composition of staff were not available for the period prior to March 1, 2004.

Table IV.1: Personnel Composition of Direct CPA Support in Baghdad from March until June 2004

Type of personnel	March 8, 2004	April 6, 2004	May 4, 2004	June 2, 2004
Special Hiring Authority 3161	226	237	240	203
Coalition detailees	172	160	141	120
U.S. detailees (not including DOD)	149	208	207	209
DOD military	293	377	326	292
DOD civilian	168	81	88	92
Contractor	62	73	72	66
IRDC	28	27	30	27
Personnel in process	98	76	57	41
Total	**1,196**	**1,239**	**1,161**	**1,050**

Source: Coalition Provisional Authority.

Note: According to CPA officials, the data presented above are about 90 percent accurate due to the difficulties of tracking personnel entering and exiting Iraq.

In May 2004, the CPA began to decrease personnel in anticipation of the transition of authority to the Iraqis and the dissolution of the CPA at the end of June 2004. As of June 2, the CPA had a total of 1,050 personnel in Iraq who directly supported the mission. Several elements of the CPA were identified to continue the U.S. effort in Iraq after the transition. According to CPA officials, preliminary plans called for a continued ministry advisory team, a headquarters support group, military and police training teams, and governance teams. A May 11, 2004, National Security Presidential Directive stated that the U.S. Mission in Baghdad and its temporarily established Iraq Reconstruction Management Office will assume those authorities and responsibilities that will continue after the termination of the CPA. The directive also states that the United States Central Command shall continue to be responsible for U.S. security and military operation efforts.

Challenges to U.S. Staffing of Coalition Provisional Authority

The process for meeting the CPA requirements for U.S. personnel evolved as the CPA's mission changed. The original mission of CPA's predecessor, the Office for Reconstruction and Humanitarian Assistance, was to coordinate the efforts addressing the humanitarian, reconstruction, and administration challenges facing Iraq—not to govern the country. In May 2003, CPA replaced ORHA when it became the temporary authority governing Iraq during the period of transitional administration.

The initial staffing process for the reconstruction effort was not always well coordinated between Washington and Baghdad. CPA officials stated that, prior to the CPA's establishment, the requirements for staff were identified and personnel were recruited in an ad hoc manner. For example, U.S. officials from the CPA and the State Department stated that, due to the independent recruiting of staff by some detailees in Baghdad, agency personnel authorities were unaware of personnel who went to Iraq after the

initial deployment in March 2003. Further, officials from the State Department responsible for staffing personnel to Iraq stated that they ultimately sent a representative to Baghdad to physically account for all State Department personnel present in the country. According to a CPA official, by July 2003, the process for identifying personnel requirements was centralized in Baghdad under the guidance of the CPA administrator.

In addition, the CPA had generally operated with about one-third of its direct positions vacant. U.S. and CPA officials most frequently cited the hardship of the posting and the budgetary implications as the reasons for this situation. The hardship of the posting has affected some civilian agencies' abilities to meet their staffing requirements. The security situation in Iraq has also made it difficult to attract and retain personnel. For example, USAID officials cited the security situation as a reason for the early return of some staff and the difficulty in filling direct-hire positions in Iraq. Further, State Department officials stated that some qualified agency personnel who had volunteered to go to Iraq were unable to meet the required medical standards. Another dimension of the hardship of the posting is the limitations of family accompaniment. Beginning in November 2003, the CPA requested that all personnel serve a minimum of 6 months. According to USAID officials, in some cases this required Foreign Service personnel to relocate family members from their previous posts to the United States.[7] State Department officials also cited family relocation issues and travel plans as reasons for delays in providing personnel to Iraq.

State Department officials stated that they had no difficulty in recruiting volunteers for positions in Iraq, attributing this largely to Secretary Powell's support for the mission, incentive packages, and the department's efforts to ensure that those who served in Iraq were not disadvantaged. Other agencies, such as USAID and the U.S. Army Corps of Engineers, while also relying on volunteers, stated that they were constrained in their ability to meet staffing requirements. USAID and Army Corps of Engineers officials said that prior downsizing had left their agencies with a smaller pool of personnel from which to draw. Additionally, some requirements that the CPA attempted to meet were beyond the capability of the agency tasked. For example, according to Department of Justice officials, the department was requested to provide three international law litigators to the CPA but had only three such personnel. To meet the requirement, Justice provided one litigator to the CPA.

In addition, providing personnel on a nonreimbursable basis to the CPA creates an unbudgeted expense to the supplying agency. Replacing detailees creates additional costs for the agencies that their budgets may not be able to sustain. Further, detailing of staff not only creates gaps in the

[7]USAID officials stated that family members are currently not permitted to relocate to countries in the Middle East during a spouse's assignment in Iraq.

supplying agency but increases the workload of those remaining. According to State Department officials, this burden could not be sustained beyond 6 to 12 months.

To counter these challenges, the CPA and executive branch agencies have relied on a number of mechanisms to support the staffing effort, including the use of special hiring authorities, temporary tours of duty (60 to 180 days), and incentive packages. The CPA had relied on a special hiring authority under 5 USC 3161 to obtain temporary civilian employees. Personnel obtained under this authority constituted about 20 percent of CPA staff. The passage of the emergency supplemental in November 2003 provided a specific budget to the CPA. According to a CPA official, this budget imposed a funding limit on CPA's ability to hire personnel under the 3161 authority. In addition, agencies used temporary tours of duty to supply personnel to the CPA due to the hardship of the posting. Agencies also used incentive packages to compensate civilian personnel, which included danger-pay allowances and hardship differential payments.

Conclusion

The United States and the coalition have faced many challenges in identifying, obtaining, and organizing the human resources required to help stabilize and reconstruct Iraq. The U.S. Mission in Baghdad and its temporarily established Iraq Reconstruction Management Office are likely to continue to draw upon staff from multiple sources with the transition of power to the Iraqi interim government. The mission will also continue to face challenges, such as the hardship of the posting, in meeting its requirements.

Oversight Questions

1. What lessons have been learned about the staffing challenges CPA faced in fulfilling its administrative mission and managing the reconstruction effort?

2. How can the U.S. process for staffing a temporary emergency organization, such as the CPA, be improved if the need arises?

3. What steps have been taken to ensure sufficient personnel are available to staff the new U.S. Mission in Iraq?

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V. Security

Iraq Security Trends

Issue

Since the President declared an end to major combat operations on May 1, 2003, the United States had obligated almost $53.3 billion through March 2004 to stabilize the security situation in Iraq. This figure includes about $52.1 billion for U.S. military participation in the multinational force[1] and almost $1.2 billion for Iraqi security forces.[2] This enclosure provides information on (1) current and projected trends in the security situation, and (2) the impact of the security situation on military and civilian operations.

Results in Brief

Our analysis of information from the United Nations, nongovernmental organizations, the Department of Defense (DOD), and the U.S. Agency for International Development (USAID) indicates that the security situation in Iraq began to deteriorate during June 2003, with significant increases in attacks against the coalition and its partners—international and Iraqi—in October-November 2003 and again in April-May 2004. Moreover, since June 2003, the attacks have become more sophisticated, widespread, and effective. In May 2004, the Secretary of Defense and the Commander of U.S. Central Command projected that the level of violence could continue to increase as Iraq moves toward elections for a transitional government, currently scheduled to be held by the end of January 2005.

The increase in attacks has had a negative impact on the presence and operations of international military and civilian personnel in Iraq. In late April 2004, the Deputy Secretary of Defense stated that the multinational force was engaged in combat in Iraq, rather than in peacekeeping as had been expected. About that time, the United States decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than drawing down to 105,000 troops by May 2004 as DOD had announced in

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[1]DOD obligation data as of March 31, 2004. In addition, DOD obligated about $12.2 billion for U.S. military operations in Iraq before April 30, 2003, for a total obligation of $64.3 billion for U.S. military operations during Operation Iraqi Freedom.

[2]U.S. obligations for Iraqi security forces as of April 2004.

November 2003. On the other hand, other countries participating in the multinational force, the United Nations, numerous nongovernmental organizations, and some civilian contractors have reduced their presence or completely shut down operations, while the CPA and U.S. government agencies have severely restricted staff movement around the country. No overall data exist on the effects of these restrictions on political transition and reconstruction efforts in Iraq. However, available evidence suggests that, in general, international civilian staff have had increasingly reduced contact with the Iraqi people. Iraqi staff working for the coalition, including interpreters, have come under increasing threats for cooperating with foreign organizations. Many important reconstruction efforts had to be delayed or cease, and the civilian organizations that remained have faced increased security requirements for their personnel and compounds in the country. U.N. officials and documents have expressed concern that the dangerous security environment could hinder the implementation of Iraq's upcoming elections process.

Current and Projected Trends in the Security Situation

Security Situation Began to Deteriorate in June 2003

According to U.N. reports, the security situation in Iraq began to deteriorate in June 2003. Reports from the U.N. Office of the Humanitarian Coordinator for Iraq show that attacks against international organizations and the multinational force began to increase during June and July 2003.[3] The U.N. Secretary General reported[4] that the overall security situation had deteriorated dramatically by the end of August 2003, a month marked by the bombing of the Jordanian embassy on August 7, the bombing of the U.N. headquarters in Baghdad on August 19, and the killing of an important Shi'a leader on August 29. By September 2003, according to the U.N. Secretary General's report, Iraq had entered a new phase. All international organizations and contractors, as well as Iraqis cooperating with the CPA, were potential targets of deliberate, direct, and hostile attacks. The assessments of contractors and nongovernmental organizations with whom we met generally agreed with the U.N. assessment of these security trends.

Various U.S. and U.N. reports and data indicate that violence escalated sharply against the coalition, Iraqis cooperating with the coalition, international organizations, and international civilian aid groups and

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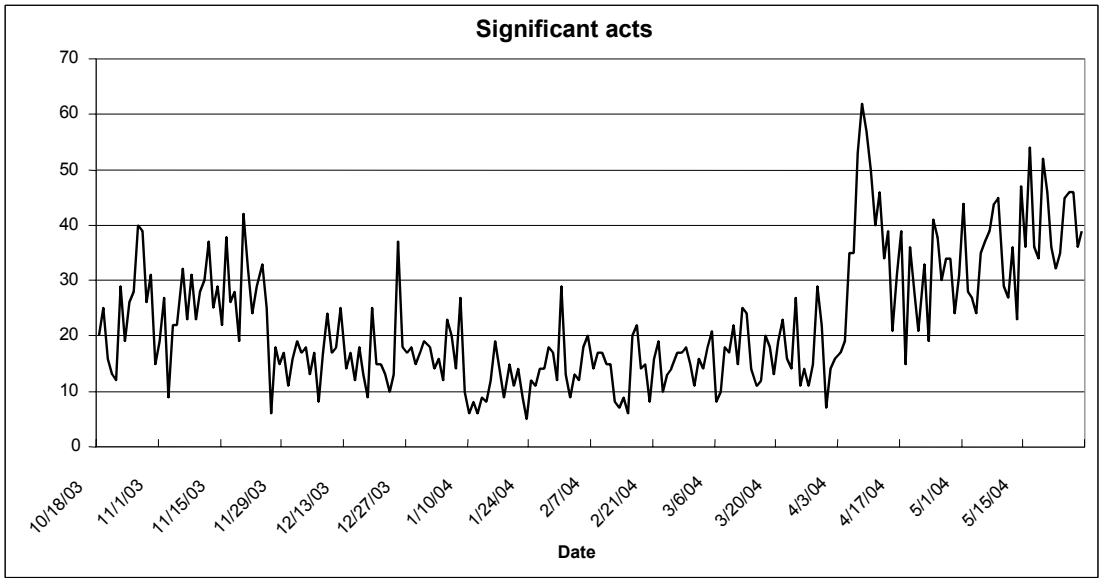
[3]Iraqis have also faced outbreaks of inter-ethnic violence and a large amount of common crime, but we could not identify sources of systematic data on either issue.

[4]Report of the Secretary-General pursuant to paragraph 24 of resolution 1483 (2003) and paragraph 12 of resolution 1511 (2003); U.N. Security Council S/2003/1149; December 5, 2003.

contractors in October-November 2003 and again in April-May 2004. CPA data show an extended increase in certain significant insurgent activities[5] during those two periods, with the level of the attacks in April-May 2004 exceeding the level of attacks during October-November 2003 (see fig. V.1). In April 2004, Sunni insurgents fought the multinational force in Fallujah, Ramadi, Samarra, and Tikrit, while a radical Shi'a militia attacked the force in the southern cities of Karbala, Kut, Nassiriyah, Kufa, Najaf, and Basra, as well as in part of Baghdad.

Figure V.1: Trends in Certain Significant Insurgent Acts, October 18, 2003, through May 28, 2004

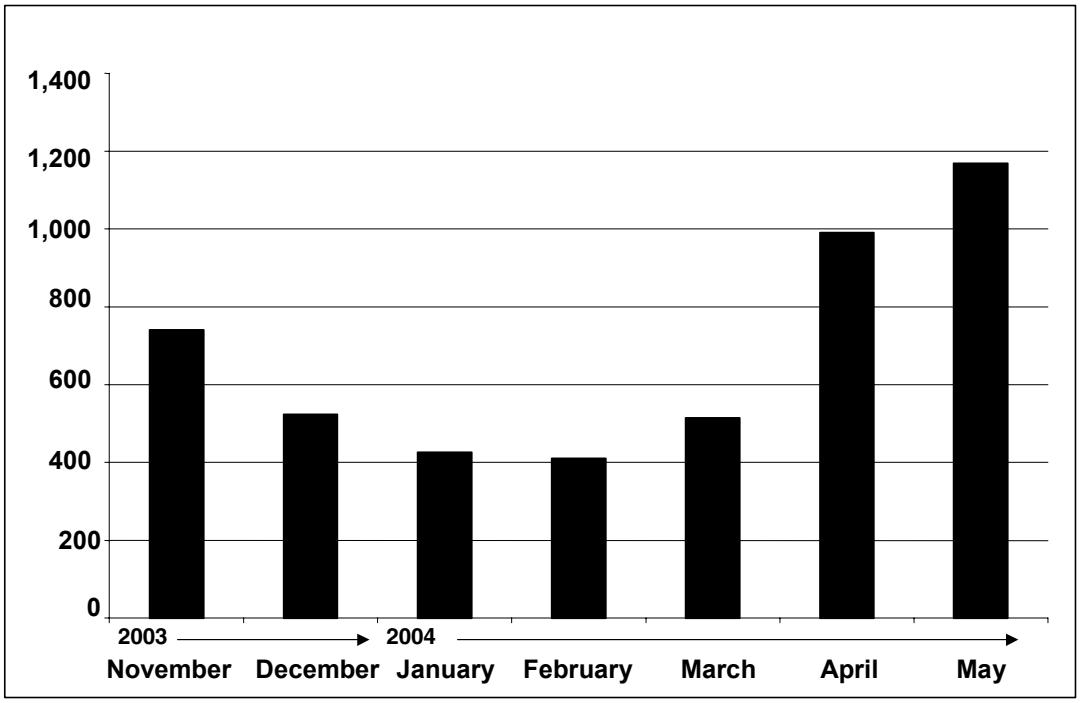


Sources: CPA Office of Policy Planning and Analysis; Regional Security Coordination Center.

According to CPA data, the number of significant insurgent acts against the coalition declined soon after the early April escalation but then rose again in May, with the number of attacks in May exceeding the number of attacks in April (see fig. V.2).

[5]CPA data of certain significant insurgent activities include selected reported attacks affecting coalition operations reported and documented through the multinational force. In assessing security trends, the CPA counts attacks using improvised explosive devices, vehicle-borne improvised explosive devices, mortars, rocket-propelled grenades, and improvised rockets. CPA does not count small-arms fire, hand grenade attacks, and other hostile activities, including most assassinations, kidnappings, and hijackings. According to a CPA official, the number of all hostile acts against the coalition would be higher than the number included here.

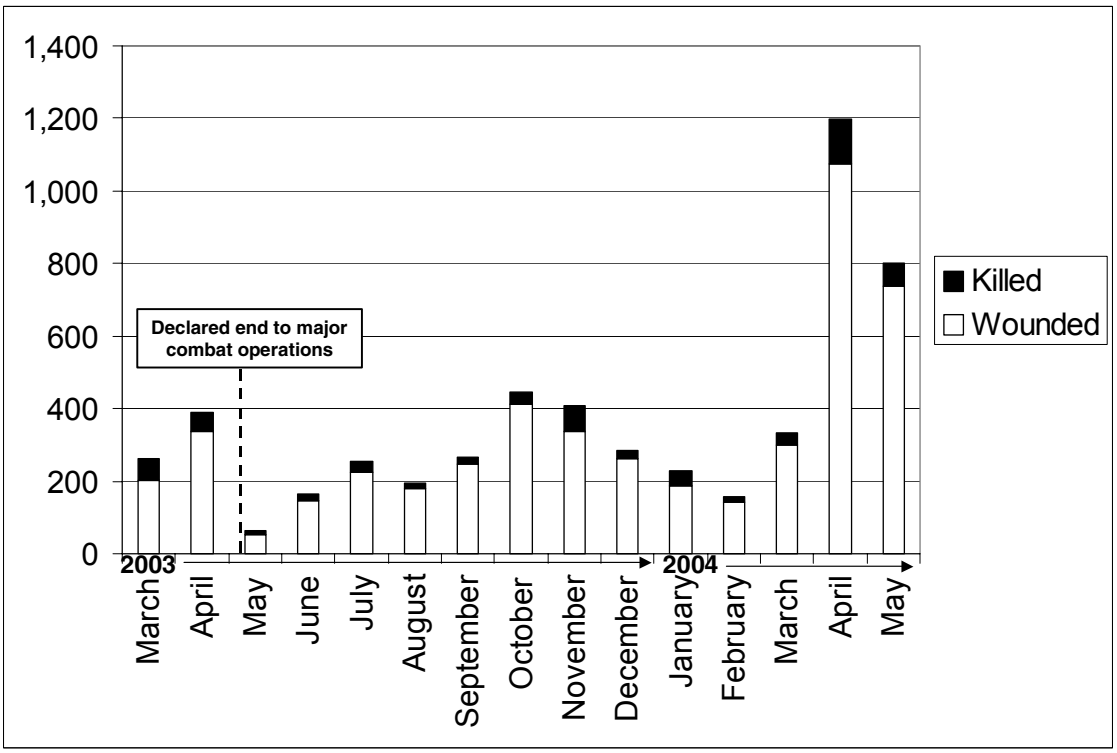
Figure V.2: Number of Certain Significant Insurgent Acts, by Month, November 2003 through May 2004



Sources: CPA Office of Policy Planning and Analysis; Regional Security Coordination Center.

DOD data on the number of U.S. military personnel killed or wounded due to hostile action in Iraq generally support U.N. and CPA assessments of the security situation since the declared end of major combat operations. As shown in figure V.3, initial increases in U.S. military casualties in June-July 2003 were followed by much more significant increases in October-November 2003 and April-May 2004. While the number of significant insurgent acts against the coalition increased from April to May, the number of U.S. military casualties declined.

Figure V.3: Number of U.S. Military Personnel Killed or Wounded Due to Hostile Action in Iraq, March 2003 through May 2004



Source: Department of Defense.

Overall, according to U.N. and U.S. reports, the nature of the attacks against the coalition and its partners changed significantly from the summer of 2003 through the late spring of 2004 in terms of their targets, source, location, sophistication, and effectiveness. In general, the insurgents' targets expanded to cover almost all foreign groups operating in Iraq, whether military or civilian personnel, as well as Iraqi security forces and Iraqi political leaders viewed as collaborating with the occupation. Further, the group of insurgents grew from former regime loyalists to include foreign terrorists, Sunni Islamic extremists, and, most recently, Shi'a radicals. The areas of instability expanded from Baghdad, the Sunni Triangle, and to a lesser extent the Kirkuk and Mosul areas that were already very unstable due to ethnic and political tensions, to include majority Shi'a areas in the south.

Iraqis View Security as Most Pressing Issue

According to State Department public opinion polls, the majority of Iraqis remain extremely concerned about the security situation in their country. The State Department reported in early January 2004 that about 62 percent of residents in five Iraqi cities named safety and security as their greatest worry. According to a late January 2004 State Department report, Iraqis tended to fear general street crime and low-grade explosions as the greatest

threats to self and family. This poll also showed that most Iraqis see the greatest threat to their country's security to be sectarian or ethnic conflict and large-scale attacks. In a later polling report published in mid-June 2004, the State Department reported that security remained the most urgent issue for residents of five Iraqi cities.

Attacks May Continue to Escalate through Early 2005

In late May 2004, the President said there is likely to be more violence in Iraq after the transfer of power. He noted that there are difficult days ahead, and the way forward may sometimes appear to be chaotic. One week earlier, the Commander of the U.S. Central Command had predicted that the situation in Iraq will become more violent after the transfer of power as the country moves toward elections for a new government, which are currently scheduled to be held by January 2005. Further, the Secretary of Defense said in early May 2004 that there will be uncertainty in Iraq and increased attacks against the coalition, Iraqis, and the United States during the period leading up to the elections.

Military and Civilian Responses to the Deteriorating Security Situation

In April and May 2004, the Deputy Secretary of Defense said that the multinational force was engaged in combat and a continuing war in Iraq, rather than peacekeeping as had been expected. The increase in attacks has had a negative impact on the presence and operations of international military and civilian personnel in Iraq. It has led to an increase in U.S. force levels and to a decrease in freedom of movement for international civilians working to rebuild Iraq and assist in its political transition.

United States and United Kingdom Increased Troop Levels as Other Coalition Members Reduced Them

As a result of the increase in violence during April 2004, the United States and the United Kingdom decided to increase their overall force levels in the country. The United States decided to maintain a force level of about 138,000 troops until at least the end of 2005, keeping about 33,000 more troops in Iraq as of May 2004 than the 105,000 troops originally planned. On May 24, 2004, the President said that if military commanders determine that they need more troops to fulfill the mission, he would send them. The following week, the United Kingdom announced that it would send an additional 370 troops to southern Iraq in response to the increased violence, bringing its total troop contribution to the multinational force to about 8,900 military personnel. This figure includes 170 engineering personnel who would deploy for 3 months to help fortify U.K. military bases and facilities in Iraq against the increased threat of mortar and rocket attacks.

In mid-April 2004, the new government of Spain announced that it would withdraw its 1,300 troops from Iraq. The government withdrew the troops much earlier than the United States expected, after violence escalated in the Spanish area of operations in Iraq. Shortly thereafter, Honduras and the Dominican Republic announced they would also withdraw their national contingents from the multinational force.

During April 2004, the United States redeployed forces from Baghdad and northern areas of Iraq to cities in the south that had come under the control of a radical Shi'a militia. The United States did so because Iraqi security forces and at least one contingent of the multinational force would not or could not fight the insurgents. For example, according to a CPA official, Iraqi police in the cities of Karbala, Najaf, and Kut collapsed in April when a radical Shi'a militia overran the cities and took control of police stations. Moreover, according to a USAID report, after heavy fighting in the city of Kut, a non-U.S. contingent of the multinational force withdrew from the city as the militia overran it.

International Civilian Organizations Have Reduced Operations in Iraq and Have Faced Increased Security Requirements

The deteriorating security situation has also adversely affected the operations of civilian organizations in Iraq. The dangerous environment has led many to halt operations completely or to reduce activity by severely restricting staff movement around the country. No systematic data exist on the effect of these restrictions on efforts to assist in Iraq's political transition and reconstruction. Anecdotal evidence suggests, however, that the efforts overall have been scaled back.

In general, international civilian staff have had increasingly little contact with the Iraqi people, and Iraqi staff working for the coalition, including interpreters, have been increasingly threatened for cooperating with foreign organizations. Many important reconstruction efforts had to at least temporarily cease operation. Civilian organizations that continue to operate in the country face increased security measures for their personnel and compounds in the country. The following examples show the effect of the security situation on the operations of the CPA and supporting U.S. agencies, reconstruction contractors, international organizations, and nongovernmental aid organizations.

- Due to the unsafe security environment, the CPA and its supporting U.S. agencies have had difficulty staffing their operations, opening offices throughout the country, and providing protection for U.S. civilian personnel as they travel around the country. U.S. agencies, particularly USAID, had difficulty in attracting and retaining personnel because of

security concerns.[6] In addition, according to a CPA official, as the security situation worsened during 2003, the CPA abandoned plans to fully staff offices throughout Iraq to assist in Iraq's political transition and reconstruction and instead established a much smaller field presence. Further, the CPA established stringent security measures that U.S. government staff had to follow in traveling outside the Green Zone, the coalition's "safe area" in Baghdad, thereby making it difficult for them to move around the country. In late February 2004, the Department of Homeland Security decided to stop sending teams of customs investigators to assist CPA. They could no longer do their jobs because it had become too dangerous for them to move around the country. CPA officials also stated that they were concerned about the safety of their Iraqi employees, particularly their interpreters, as insurgents had increasingly targeted them for cooperating with the coalition.

- In an April 17, 2004, document, the CPA administrator stated that lack of security is the key obstacle to reaching reconstruction objectives. Referring to the entire reconstruction program, the administrator stated that a worsened security situation would mean that projects would take longer to complete and that the kinds of projects undertaken and their costs would change to an unknown extent. Our review of selected electricity projects showed that the security situation delayed the implementation of key projects, thereby contributing to the CPA not meeting its objective of providing 6,000 megawatts of electrical generating capacity to the Iraqi people by its original goal of June 1, 2004.[7] In late March 2004, the CPA Inspector General reported that that rising security concerns were a significant cost driver for CPA activities and contractor projects, representing at least 10 percent to 15 percent of total costs.

- The United Nations and its programs have faced significant setbacks as a result of the deteriorating security situation. Most importantly, after the attacks on the U.N. headquarters in Baghdad in August and September 2003, the U.N. Secretary General redeployed all U.N. international personnel from Baghdad, Basra, and other area offices to neighboring countries, particularly Jordan and Kuwait, where they have continued to support assistance operations inside Iraq.[8] As of late May

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[6]See enclosure IV of this report for more information on staffing.

[7]See enclosure X for more information on these electricity projects.

[8]The Secretary General left a small core presence of international staff in Erbil, Iraq. These staff were to help phase down and terminate the Oil for Food program by November 21, 2003.

2004, the United Nations had not allowed most of its international personnel to return to Iraq.[9] Although Iraqi staff continued some U.N. programs, the United Nations had to scale down or delay both ongoing activities and new initiatives. The United Nations sent three separate assessment teams to Iraq during the first half of 2004 to assist Iraqis in assessing options for forming an interim government and in preparing for national elections. The dangerous security situation forced these teams to restrict their travel around Iraq during the first half of 2004, thereby limiting their interaction with Iraqis during important political discussions about the country's future.

- In discussions during the fall of 2003 and the spring of 2004, nongovernmental organization representatives stated that the deteriorating security situation has forced numerous nongovernmental aid organizations to reduce or shut down operations in Iraq. In response to the dangerous security environment, many nongovernmental organizations and contractors that we interviewed have hired private security to provide protection for their staff and compounds. In addition, one representative emphasized his view that as more international workers leave Iraq, insurgents will increasingly focus their efforts on killing Iraqi nationals who are seen as collaborators.

U.N. officials and documents have expressed concern that the lack of security could threaten Iraq's transition toward a democratic government. According to a U.N. assessment, the lack of security may lead to major disturbances that could undermine the administration of the elections, alter the established timetable, and compromise the overall credibility of the process. By mid-April 2004, the multinational force had begun to consider how it could provide security, logistical, and other support for the elections, but the United Nations and others had not yet developed a specific plan for important tasks such as the registration of political parties, voters, and candidates or the number and locations of polling sites.

Conclusion

Since June 2003, the security situation has become more dangerous for international military and civilian personnel operating in Iraq and for Iraqis who work with them. Instead of engaging in post-conflict nation building, the United States and its partners have been rebuilding the country in a wartime environment. They have attempted to combat a growing insurgency through military, economic, and political measures. The deteriorating security situation, however, has generally hindered the implementation of economic reconstruction and political transition efforts.

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[9]According to a U.N. official, the United Nations has maintained a small office in Baghdad for the past several months.

The United States has had to rely more heavily on the military than it initially planned. U.S. officials have stated that the violence in Iraq may get worse as the country moves toward national elections by early January 2005.

Oversight Questions

1. In light of the dangerous security situation, how can the United States better protect international civilian personnel so that they can more actively assist Iraqis in the country's political transition and reconstruction?

2. What contingency plans exist to address increased attacks against the coalition? How many more U.S. or other multinational force troops would be needed if the security situation were to deteriorate further?

VI. Security

Transitioning Security Missions to Iraqi Forces

Issue

Under U.N. Security Council Resolution 1546, the U.S.-led multinational force has the authority to take all necessary measures to contribute to the maintenance of security and stability in Iraq in accordance with letters annexed to the resolution. Toward that end, the force conducts offensive operations to defeat forces opposed to the coalition, as well as stability operations to provide security needed for the country's political transition and reconstruction. The multinational force is also organizing, training, equipping, mentoring, and certifying Iraqi security forces so that it can transfer security responsibilities to them and eventually draw down the multinational force. This enclosure describes the (1) multinational force's plan for transitioning security responsibilities to Iraqi security forces, and (2) progress in developing Iraqi security forces as of May 2004.

Results in Brief

The multinational force's security transition plan calls for a four-phased transfer of security responsibilities from the multinational force to effective Iraqi security forces. As of March 26, 2004, Iraq had about 203,000 security personnel of greatly varying capabilities. Of these forces, only the Iraqi Armed Forces are specifically mandated for the military defense of Iraq, while the others are intended exclusively for civil law enforcement and protection duties. However, according to senior DOD officials and multinational force documents, these security forces, especially the Iraqi Police Service and Iraqi Civil Defense Corps, were insufficiently trained and equipped for these duties. During the escalation of violence that occurred during April 2004, some of these security forces collapsed. The multinational force has taken action to address training and equipping problems, but it is unclear how this will affect the long-term plan to shift security responsibilities to Iraqi forces.

Security Transition Will Transfer Control to Iraqis in Four Phases

Since the fall of 2003, the multinational force has developed and refined a plan to transfer security responsibilities to Iraqi security forces in four phases. In October 2003, a multinational force document outlined the security transition concept, including (1) an initial phase, called mutual support, where the multinational force establishes conditions for

transferring security responsibilities to Iraqi forces; (2) transition to local control, where Iraqi forces in a local area assume responsibility for security; (3) transition to regional control, where Iraqis are responsible for larger regions; and (4) transition to strategic over watch, where Iraqi forces on a national level are capable of maintaining a secure environment against internal and external threats, with broad monitoring from the multinational force. Transition through these phases is contingent on decreasing threat capability, increasing Iraqi security capability, and the ability of civil administration to exercise control of Iraqi forces.

According to the multinational force document, transferring control for local security to Iraqis should allow the multinational force to reduce the number of troops devoted to stability operations and reduce the number of forward operating bases. This would allow the multinational force to focus on offensive operations against coalition opponents.

The multinational force began to shift responsibilities to Iraqi security forces in February 2004, earlier than planned, citing the growing capability of these forces. In Baghdad, for example, the coalition forces withdrew to bases outside of the city, giving Iraqi forces greater responsibility for security within the city. According to State Department public-opinion polls published around that time,[1] about 20 percent of Iraqis said that the multinational force was very effective at keeping law and order on the streets ,and one-third believed the force was very effective in protecting Iraqis from major threats and civil war. Furthermore, Iraqis preferred that more security responsibilities be transferred to their own police and army. In a later polling report published in mid-June 2004,[2] the State Department said that Iraqis viewed the multinational force as part of the security problem, not the solution. According to the report, Iraqis were confident that Iraqi security forces would be able to maintain security without the multinational force.

Iraqi Security Forces Were Unprepared to Assume Security Responsibilities

Iraqi security forces include more than 200,000 members of the armed forces, police, and other agencies of the Ministry of Interior. These forces have varying missions and capabilities, but most are not trained or equipped to engage well-armed insurgents. The CPA and multinational force reported problems in training and equipping these forces in 2004. According to

[1]U.S. Department of State, Opinion Analysis, Office of Research, M-03-04, Washington, D.C. (Jan. 6, 2004); U.S. Department of State, Opinion Analysis, Office of Research, M-13-04, Washington, D.C. (Jan. 29, 2004).

[2]U.S. Department of State, Opinion Analysis, Office of Research, M-71-04, Washington, D.C. (June 17, 2004).

senior DOD officials, these forces performed poorly in the crises in Fallujah and southern Iraq in early April 2004.

Structure of the Iraqi Security Forces

As of May 2004, the multinational force was responsible for training, equipping, mentoring, and certifying all Iraqi security forces, such as the Iraqi Armed Forces and the Iraqi police. These Iraqi security forces have different missions and controlling authority, as detailed in table VI.1.

Table VI.1: Controlling Authority and Mission of Iraqi Security Forces

Ministry	Security force	Mission
Defense	Iraqi Armed Forces regular army, other services[a]	Will provide the military defense of Iraq when fully operational, including defense of the national territory and protection and security of critical installations, facilities, infrastructure, lines of communication and supply, and population.
	Iraqi Civil Defense Corps	Perform security and emergency service that directly supports coalition operations to provide security and stability. Complements the police force but designed to perform operations that exceed the capacity of the police.
Interior	Iraqi Police Service	Provide primary civil law enforcement for public safety, security, and order.
	Department of Border Enforcement	Monitor and control the movement of persons and goods to, from, and across the borders of Iraq. Includes Iraqi Border Police charged with border and customs enforcement and immigration.
	Facilities Protection Service	Guard and secure individual ministry and municipal facilities against vandalism and theft. These guards are hired and equipped by individual ministries and can vary greatly in capability.

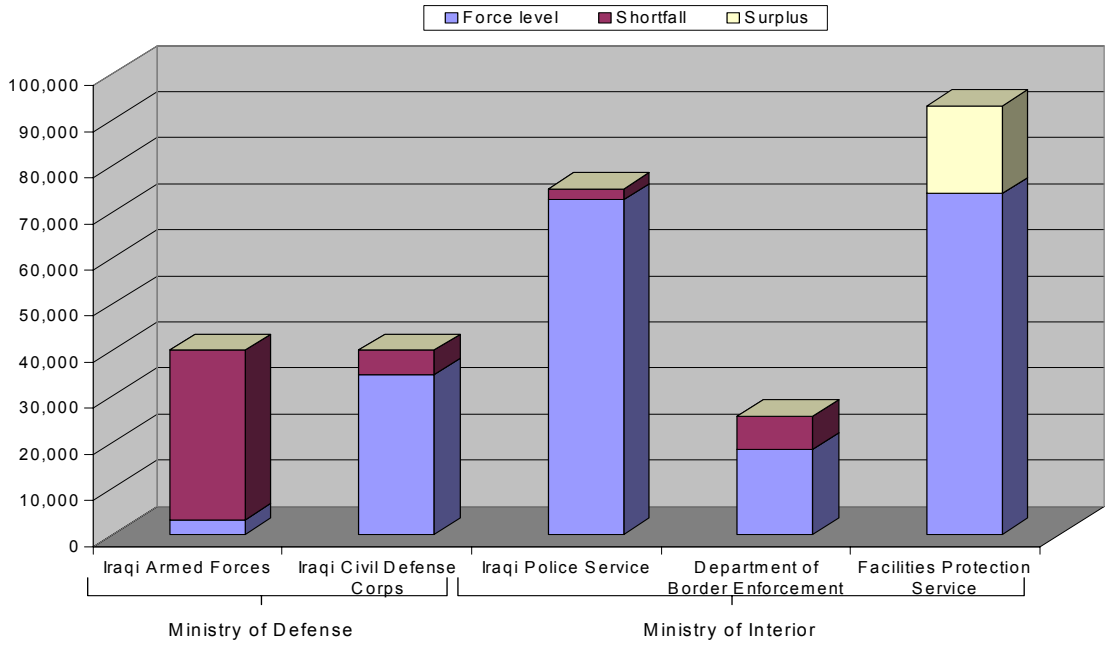
Sources: DOD status reports; CPA Orders 22, 26, 27, 28, 67, 73.

[a]According to a CPA official, these forces include units of the Iraqi Army, Iraqi Naval Infantry, Iraqi Army Aviation, Iraqi Coastal Defense Force, an Iraqi counterterrorism force, and associated headquarters.

U.N. Security Council Resolution 1546 states that after the transfer of power, Iraqi security forces would fall under the command of appropriate Iraqi ministers, and welcomed the continued development of a security partnership between the sovereign government of Iraq and the multinational force. According to an annex to the resolution, the Iraqi Armed Forces will be responsible to the Chief of Staff and Minister of Defense, while the other security forces will report to the Ministry of the Interior or other government ministers. The resolution states that the government of Iraq has the authority to commit Iraqi security forces to engage in operations with the multinational force. According to the resolution, the multinational force and Iraqi government are developing various coordination mechanisms to achieve unity of command of military operations when Iraqi security forces operate with the multinational force.

The total number of Iraqi security forces as of March 26, 2004, just prior to the insurgent activities of early April, was 203,000—approximately 86 percent of the goal set by the multinational force.[3] Of these forces, the Iraqi Armed Forces is the only force specifically trained and equipped for the defense of Iraqi territory and population. However, in March 2004 this force experienced the greatest shortfall in personnel, with only 8 percent of the troops needed. (See figure VI.1 for a breakdown of the numbers for each component and its goals.)

Figure VI.1: Iraqi Security Force Levels, as of March 2004



Source: DOD updates.

Although the other Iraqi security forces existed in greater numbers, they were not intended to fight a pitched battle against well-armed insurgents. Iraqi police officers are tasked solely to uphold general law and order through such activities as performing criminal investigations, arresting suspects, and questioning witnesses. Iraqi Civil Defense Corps soldiers are trained for constabulary duties, such as setting up traffic control checkpoints, patrolling and cordoning off streets, performing crowd control, providing convoy security, and other civil functions. Members of the Facilities Protection Service are trained to guard Iraqi ministry buildings and other fixed sites. According to CPA officials, they are effective

[3]According to DOD updates, as of June 18, 2004, Iraqi Security Forces totaled about 219,000 personnel, including approximately 84,000 police officers, 18,000 Department of Border Enforcement staff, 7,000 Iraqi Armed Forces, 36,000 Iraqi Civil Defense Corps, and 74,000 Facilities Protection Service personnel.

exclusively in locations already controlled by local military and law enforcement personnel. For example, according to a CPA official, Facilities Protection Service guards at a fixed site would be overrun by an enemy force that contained more than 10 to 20 insurgents, or one that had numerous heavy weapons, without prompt help from the multinational force.

Training and Equipping[4] Iraqi Security Forces Had Gaps

The multinational force and CPA had problems training and equipping the Iraqi Police Service and the Iraqi Civil Defense Corps in late March 2004. While some police training occurred at academies in Jordan and Baghdad, according to an official from the State Department Bureau of International Narcotics and Law Enforcement (State/INL), the prevailing security situation has prevented CPA and State/INL police trainers from moving freely across the country and establishing additional training facilities. As a result, multinational force commanders assumed responsibility for temporary police training in their areas of responsibility. State/INL provided the commanders with a temporary curriculum, the Transition Integration Program. The full curriculum is 108 hours long and provides basic police training in such subjects as basic human rights, firearms familiarization, patrol procedures, and search methods. According to a State Department official, the various major subordinate commanders had wide latitude in terms of training police and did not uniformly adopt the Transition Integration Program. They were free to establish their own curriculum and requirements for police, which varied in depth and scope. Training could last between 3 days and 3 weeks. According to a State/INL official, some commanders required trainees to undergo class and field training, while other commanders only required officers to wear a uniform.

According to a multinational force interim assessment from May 2004, the Iraq Civil Defense Corps also lacked proper training. It stated that investment into training the Iraqi Civil Defense Corps units varied among the multinational divisions and that the units in the western and center-south major subordinate commands in particular were the least prepared for combat. Furthermore, the training was not sufficient for high-intensity tasks. One CPA official agreed with this, stating that the training for the Iraqi Civil Defense Corps did not prepare it to fight against well-armed insurgents with mortars and rocket-propelled grenades, for example. The assessment also noted that the Iraqi Civil Defense Corps units contained too many inexperienced officers and soldiers.

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[4]The performance of Iraqi security forces during April 2004 indicated problems with the vetting of security force personnel. However, we were unable to assess the nature and extent of the problems in the vetting process prior to this report.

Providing equipment for Iraqi forces also posed problems. According to DOD officials, both the Iraqi Police Service and the Iraqi Civil Defense Corps were poorly equipped in late March 2004 due to significant delays for provisioning all Iraqi security forces. According to CPA, these delays were related to several factors, including delays in contractor delivery and performance, delays in allocating and releasing the funding, and a shortage of experienced contracting officials in Baghdad.

The Iraqi Police Service was beset by continued delays in equipment provisioning and a lack of awareness of equipment, funding, and contracting status. According to data from the CPA's Provost Marshal's Office, as of March 28, 2004, the Iraqi Police Service was operating with 41 percent of its required patrol vehicles, 63 percent of its required uniforms, 43 percent of its required pistols, 21 percent of its required hand radios, 7 percent of its required vehicle radios, and 9 percent of its required protective vests.

In March 2004, equipment provisioning for Iraqi Civil Defense Corps was months behind schedule. According to a CPA official, no Iraqi Civil Defense Corps units possessed body armor, and many were using Saddam-era helmets for protection. According to a multinational force planning document, as of April 23, 2004, units were still awaiting the delivery of uniforms, helmets, body armor, vehicles, radios, AK-47 rifles, RPK machine guns, ammunition, and night vision equipment. A CPA official stated that most, if not all, of this equipment is currently flowing into the region. A multinational force assessment noted that Iraqis within the Iraqi Civil Defense Corps felt the multinational force never took them seriously, as exhibited by what they perceived as the broken promises and the lack of trust of the multinational force.

Iraqi Security Forces Performed Poorly in April 2004

According to the President, senior DOD officials, and multinational force commanders, Iraqi security forces responded poorly to a series of anti-coalition attacks in April 2004. In western and central Iraq, insurgents attacked the multinational force in Fallujah, Baghdad, Ar Ramadi, Samarra, and Tikrit, while a radical Shi'a militia launched operations to dislodge multinational forces and occupy cities from Baghdad to Basra in the south. In particular, units of the Iraqi Army, Iraqi Police Service, and the Iraqi Civil Defense Corps refused to engage the enemy.

According to DOD officials, the 2nd Battalion of the Iraqi Armed Forces refused to engage insurgents and support the 1st Marine Expeditionary Force in Fallujah. One problem cited included the belief of the soldiers, reinforced by briefings during their training, that they would never be used as an internal security force. Weak battalion leadership and insufficient or poor equipment were also mentioned as contributing factors.

According to a CPA official, Iraqi police forces in Fallujah, Najaf, Karbala, and Kut collapsed. The number of police officers dropped by 2,892 during the week of April 17 to 23, according to the CPA weekly assessment. These declines resulted from officers being killed in the line of duty; sent for retraining and reintegration; or removed from the Iraqi Police Service for actions supporting the insurgency. According to a CPA official and an assessment by the multinational force, the Iraqi Police Service was overwhelmed due to disorganization, insufficient training and equipment, and weak mentoring. However, CPA also said the police forces are civil law enforcement units and are not intended to withstand guerilla attacks. Nonetheless, in other locations they stood up to the attacks.

Iraqi Civil Defense Corps units also collapsed during April, with soldiers staying home, declaring a neutral stance, or resigning throughout central and western Iraq. According to the multinational force interim assessment, desertion was most prevalent between April 2 and April 16. During this time, up to 12,000 Iraqi Civil Defense Corps soldiers did not show up for duty. Table VI.2 shows the decrease in the corps during this time.

Table VI.2: Iraqi Civil Defense Corps Desertion from April 2 to April 16

Location	Staffing decrease	Responsible major subordinate command
Northeastern Iraq, including the cities of Baqubah and Tikrit	About 9,100 to about 6,100, or 30 percent	1st Infantry Division
Baghdad and surrounding area	About 6,200 to about 3,200, or 49 percent	1st Cavalry Division
Central-southern Iraq, including Karbala, An Najaf, and Al Kut	About 3,500 to about 2,500, or 30 percent	Multinational Division-Center South
Western Iraq, including Fallujah	About 5,600 to about 1,000, or 82 percent	1st Marine Expeditionary Force

Source: DOD.

Note: Derived from a DOD briefing and GAO analysis of a multinational force assessment.

The assessment also found that Iraqi Civil Defense Corps units were not sufficiently equipped or trained for high-intensity tasks, such as engaging large numbers of insurgents. Furthermore, lack of equipment and poor training resulted in general fear and disillusionment among personnel. Additionally, better-equipped and better-trained battalions in northern and southern Iraq held together during the crises of mid-April, although they did not face the same level of threat. Iraqi Civil Defense Corps soldiers were also susceptible to intimidation or sympathy for anti-coalition fighters. Finally, soldiers were less likely to carry out their duty when their home township was under insurgent pressure, leading to the collective desertion of units from the troubled townships.

Multinational Force's Response

The multinational force is taking steps to assess and respond to the various problems of the Iraqi security forces and is considering how these forces

can provide security during Iraq's upcoming election process. As of late May 2004, a new team of senior military officers was assessing every unit in the Iraqi security forces. This team will oversee the accelerated training of Iraqi soldiers, police, and other security personnel.

In April 2004, the multinational force began a new reconstitution program for police officers who had deserted in Najaf and Karbala and scheduled senior leadership and additional specialized courses for the end of May. In addition, it planned to begin implementing its equipment distribution plan, define the equipment requirements for the entire Iraqi Police Service and the Department of Border Enforcement, and better inform major subordinate commands about which equipment they would receive and when. Further, the multinational force planned to start institutionalizing a monthly report and certification plan for police stations.

According to a Department of Justice (DOJ) official, in an effort to support the multinational force training program for the Iraqi Police Service, DOJ and its components have developed a number of specialty courses designed to transition the fundamentals of basic training into operational and investigative capacity. The specialty courses are designed to build investigative directorates in the areas of intelligence analysis, counterterrorism, organized crime, basic criminal investigation, post-blast investigations, and fingerprinting. Teams of personnel and experienced contractors from many DOJ components are currently deployed or are preparing to deploy to provide training in support of this initiative.

According to an implementation order published in April 2004,[5] the multinational force is pursuing multiple courses of action to rebuild the Iraqi Civil Defense Corps. It will also develop and rebuild battalions with new equipment scheduled to arrive throughout May 2004. However, a CPA official with access to CPA contracting information stated that Iraqi Civil Defense Corps equipment would probably not make it to Iraq until June or possibly July 2004. The multinational force will also review the criteria for recruitment and possibly change recruiting practices to stop commissioning entire battalions from the same area. The multinational force also plans to ease de-Baathification standards and invite experienced and capable former soldiers and officers to join the Iraqi Civil Defense Corps. The multinational force expects some 4,000 to 5,000 Sunni to be incorporated into the Iraqi Civil Defense Corps in this way. The training program will begin concentrating on developing and mentoring leaders at all levels of the Iraqi Civil Defense Corps. Furthermore, all major subordinate commands will permanently embed training teams within Iraqi Civil Defense Corps battalions. These teams will perform refresher training and mentoring, and provide direction until battalion leadership is fully developed and capable of assuming command.

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[5] FRAGO 689 to CJTF-7 OPORD 04-01.

Given the poor performance of the Iraqi security forces during April 2004, it is unclear what level of security they will be able to provide during the period leading up to Iraq's national elections, which are currently scheduled to be held by the end of January 2005. As of mid-April 2004, the multinational force was considering what sort of security and other support it would provide during the election process. According to a planning document, the extent of this support will depend on the ability of the Iraqis, international organizations, and contractors to provide for security and other support tasks. The document stated that the multinational force expected some areas to be under the local control of the Iraqi security forces by the time elections take place. The document did not acknowledge, however, the poor performance of Iraqi security forces during early April 2004.

Conclusion

Effective Iraqi security forces are critical for transitioning security responsibilities to Iraq. However, Iraqi security forces proved unready to take over security responsibilities from the multinational force, as demonstrated by their collapse during April 2004. Of these forces, only the Iraqi Armed Forces are specifically mandated for the military defense of Iraq, while the others are intended exclusively for civil law enforcement and protection duties. The multinational force identified problems in the training and equipping of the Iraqi forces as reasons for poor performance. Although the multinational force is beginning to address these problems, it is unclear what impact April's security collapse will have on the plans for transitioning Iraq's security to Iraqi security forces or the extent to which these forces will be capable of providing security during the Iraqi election process. What is clear, however, is that the development of effective Iraqi security forces will continue after the transfer of power to an interim Iraqi government.

Oversight Questions

1. How will the Iraqi security forces coordinate with the multinational force after the transfer of power, and how will they resolve potentially differing views on security issues? What arrangements have been made to facilitate coordination between the multinational force and the interim Iraqi government?
2. What kind of provisioning process will be used to equip the Iraqi security forces after the transfer of power? Will this be administered by the Ministries of Defense and Interior, the multinational force, or another body?
3. What level of support does the multinational force expect Iraqi security forces to provide during Iraq's upcoming election process, and what options and contingency plans are being explored?

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VII. Security

Transitioning and Reintegrating Iraq's Militias

Issue

A large but unknown number of militias[1] are operating outside the control of the central government in Iraq. Some of these militias have taken hostile action against the coalition and Iraqi security forces, while others have remained neutral or are participating in Iraq's political transition. In a February 2004 report, the United Nations warned that the existence of militias—especially those connected with political movements—could be a source of coercion and intimidation that would undermine the political credibility of Iraq's upcoming elections, which are currently scheduled to be held by the end of January 2005.

In late May 2004, the Coalition Provisional Authority (CPA) developed a transition and reintegration strategy for disbanding or controlling these militias. CPA Order 91, issued in early June 2004, is intended to provide legal authority for implementing the transition and reintegration process and declares militias outside of central government control, declaring them illegal except as provided by the order and law. This enclosure provides information on (1) the CPA's transition and reintegration strategy for militias and (2) the status of implementing the transition and reintegration process.

Results in Brief

The CPA's transition and reintegration strategy contains three components or tracks for disbanding or controlling militias operating outside the control of Iraq's central government. As outlined in CPA documents and Order 91, the strategy calls for (1) recruiting militia members into officially recognized Iraqi security forces, (2) retiring some militia members with veterans' benefits, and (3) reintegrating others into Iraq's civil society and economy through education, training, and job placement. On June 5, 2004,

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[1]This enclosure uses the term militias to include military or paramilitary forces that are not part of the Iraqi Armed Forces or other Iraqi security forces established pursuant to CPA Orders, Regulations and Memoranda, or pursuant to Iraqi federal law and the Law of Administration for the State of Iraq for the Transitional Period. CPA Order 91 refers to the military forces of the Kurdistan Democratic Party and the Patriotic Union of Kurdistan as armed forces rather than militias.

the CPA announced that nine parties that maintain militias had agreed to develop and implement transition and reintegration plans. However, key elements of the CPA's transition and reintegration process remain to be finalized.

Transition and Reintegration Strategy Has Three Components

The first track of the transition and reintegration strategy focuses on recruiting militia leadership and members to transition to the Iraqi Armed Forces or other government security forces. To aid in recruiting militia leadership, the strategy calls for providing major groups with a sufficient number of slots in the security forces to reduce the perceived threat from the central government and provide local leaders with some control over local security. The strategy anticipates that economic incentives will aid in recruiting individual militia members, noting that the security services provide one of the few current opportunities for paying jobs in Iraq. However, the strategy cautions against legitimizing militia units by moving them into security forces. In this regard, the strategy calls for ensuring that former militia members (1) are paid by the central government, (2) rely on central government systems for advancement and retirement, and (3) develop as members of a professional force. Moreover, the strategy says it is critical to ensure that the chain of command for these security forces is not the same as the chain of command for the former resistance forces. According to the strategy, the transfer of loyalty to a central government that these arrangements are intended to support may take quite some time.

The second track of the transition and reintegration strategy addresses retirement of militia members that were former members of resistance forces. The strategy bases eligibility for veterans' status on individuals' service in these resistance groups and proposes that qualified individuals would receive the opportunity to retire with the same pensions and benefits they would have received had they served in the Iraqi Armed Forces. According to the strategy, the leadership of the former resistance forces will provide service records for these individuals and the Iraqi Veterans Agency[2] will verify them. However, the strategy acknowledges that it is unlikely that most militias kept good records and that militia leaders would willingly share them.

The third track of the strategy is to offer a reintegration program to militia members who do not transition to the Iraqi Armed Forces or other government security services or do not qualify for retirement. This reintegration program would be designed to help these members assimilate

[2]The Iraqi Veterans Agency functions as a bureau under the administration and direction of the Ministry of Defense. It is responsible for managing all aspects of veterans' issues, coordinating provision of support from other agencies to veterans, and directing the veterans' stipend program.

into Iraq's civil society and economy. According to CPA Order 91, the program could include skills screening, education benefits, job training, job placement, and a limited stipend program. The strategy states that the Iraqi Veterans Agency, in collaboration with the Ministry of Labor and Social Affairs, other ministries, and the public health system, will establish a program to accomplish the following:

- screen and register all eligible militia members to determine their skills and match them with job training and placement opportunities;
- provide medical screening and determination of needs;
- identify skills and aptitude for training and job placement;
- provide education, job training, and placement if needed;
- provide a limited stipend program to get militia members through retraining; and
- develop a tracking mechanism tied to the provision of benefits.

The strategy states that a regional approach to program implementation will be necessary because of the great differences in cultures, outlook, and expectations in Iraq. The strategy also recommends planning and executing reintegration efforts in conjunction with local militia leaders to defuse their suspicions and ensure that programs run smoothly.

According to a CPA official, the multinational force is developing a program similar to the transition and reintegration strategy for illegal militias currently fighting the coalition and the new Iraqi government that decide to lay down their arms. Under CPA Order 91, participation in the transition and reintegration strategy is limited to militias identified by the CPA or the Transition and Reintegration Implementation Committee as participating in the political process.

Status of Implementing the Transition and Reintegration Process

As of June 2004, the CPA has been successful in reaching an agreement with nine political parties on the transition and reintegration strategy. The CPA estimates that about 90 percent of the 100,000 militia members will participate in the transition by the end of January 2005. However, while the militias have agreed to transition, they may still operate under the provisions set forth in CPA Order 91 as "Residual Elements," which exempts militia members from an illegal status while following the transition and reintegration plan. Militias that continue to conduct hostile operations

against coalition forces rather than taking part in the transition and reintegration process are deemed illegal and will be subject to penalties.

Some Militias Have Accepted Transition Plans

In early June 2004, the CPA announced the successful completion of negotiations with nine major political parties[3] to bring the militias under their authority under the transition and reintegration process. The CPA reported that these parties had accepted detailed plans, timetables, and terms for the complete transition and reintegration of the armed groups under their authority. However, the CPA transition and reintegration strategy noted that Iraq's security situation must be stable and the political situation must have progressed in such a way that political and militia leaders willingly follow through on their commitments to disband as scheduled. The Transition and Reintegration Implementation Committee established by CPA Order 91 may revise individual transition and reintegration plans, although such revisions are limited to changes in transition and reintegration schedules.

The CPA reported that the June 2004 agreement with the nine major political parities covered about 100,000 former resistance fighters[4] and estimated that about 90 percent of these individuals would complete the transition and reintegration process by January 2005, and that all would complete the process by October 2005.[5] The CPA also estimated that about 60 percent of these militia members would transition into Iraqi security services—such as the Iraqi Armed Forces, Iraqi Police Service, or the Internal Security Forces of the Kurdistan Regional Government[6]—and that the remainder would retire or find civilian employment. The CPA stated that the militia members would transition into Iraqi security forces individually because no militia had been permitted to transfer units into any branch of the Iraqi security forces.

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[3]The parties are the Kurdistan Democratic Party, Patriotic Union of Kurdistan, Iraqi Islamic Party, Supreme Counsel of the Islamic Revolution in Iraq/Badr Organization, Iraqi National Accord, Iraqi National Congress, Iraqi Hezbollah, Iraqi Communist Party, and Da'wa.

[4]As of May 2004, the 3 largest militias accounted for about 88,000 active fighters, according to CPA—about 41,000 in the Kurdistan Democratic Party militia; 31,000 in the Patriotic Union of Kurdistan militia; and 16,500 for the Badr Corps.

[5]Iraq's transitional administrative law states that (1) elections for a transitional government shall take place by January 31, 2005; (2) the National Assembly shall write a draft permanent constitution by August 15, 2005; and (3) the draft permanent constitution shall be presented to the Iraqi people for approval in a general referendum to be held by October 15, 2005.

[6]The transitional law states that the Kurdistan Regional Government will retain regional control over the police forces and internal security in the Kurdistan region.

Under CPA Order 91, the militias of the nine parties that have agreed to transition and reintegration plans can continue limited operations. The order designates militias operating under approved transition and integration plans as "residual elements" and grants them and their members a limited exception to the prohibition against militias while drawing down during the transition and reintegration process. CPA Order 91 permits these residual elements to perform security functions only with the advanced authorization of the Ministry of Interior and the multinational force and prohibits them from recruiting new members or adding weapons. According to a CPA document, to prevent the perception or occurrence of coercion, the order bans these militias from endorsing, financing, or campaigning for candidates for political office. Residual elements that fail to comply with their transition and integration plans and conditions outlined in CPA Order 91 will lose their status as residual elements and be considered illegal militias.

In announcing the June 2004 agreement, the Prime Minister of Iraq's interim government warned that those that chose violence and lawlessness over transition and reintegration would be dealt with harshly. According to a CPA document, political parties that support illegal militias and their leaders will be subject to penalties as defined in the forthcoming CPA order on electoral law. Moreover, under CPA Order 91, former members of illegal militias are barred from holding political office for 3 years after ceasing to be a member of an illegal militia.

Not all militias operating in Iraq had agreed to participate in the transition and reintegration process. On June 5, 2004, the CPA reported that it had not negotiated agreement with several smaller militias due to the security situation and limited resources. In late May 2004, a CPA official told us that some militias had not been contacted because they were small, difficult to contact, or politically less important. Some militias have decided to continue hostile operations against the coalition rather than take part in the transition and reintegration process.

Oversight and Enforcement Mechanisms

CPA Order 91 established the Transition and Reintegration Implementation Committee to exercise oversight of the transition and reintegration process and to take such disciplinary or other action as may be necessary upon a determination that a residual element militia is illegal. According to the order, the committee is to be chaired by the Minister of Interior and will report to the Ministerial Committee for National Security. In addition to the Minister of Interior, the committee is to include permanent representatives from the Ministries of Defense, Justice, Foreign Affairs, Finance, Labor and Social Affairs, and Education, as well as the Iraqi Veterans Agency. According to the order, the committee chair may invite the commander or

other representatives of the multinational force to attend and participate in committee meetings.

In May 2004, the CPA estimated that implementing the transition and reintegration strategy would require little separate funding—a total of about $14.3 million—because it was designed to leverage existing programs to the greatest extent possible. This estimate is based on the following three assumptions:

- Existing programs would pay the cost of screening militia members entering Iraqi security and the transition and reintegration program would only need an additional $1.5 million to screen those accepting pensions or entering job training and placement programs.
- An additional $3.75 million would be needed to fund former militia seeking jobs under an existing $180 million job training program run by the Ministry of Labor and Social Affairs that contained a veterans' preference.
- An additional $9 million would be needed to fund retirement pensions for the number of currently active militia members expected to retire.

The transition and reintegration strategy stated that successfully leveraging these and other programs to assist former militia members would depend on the active development of opportunities and coordination on the part of the office that directs the reintegration efforts to be managed by the Veterans Agency. The strategy noted that the schedules for drawing down militias would depend on the ability of numerous programs to absorb militia members. However, on June 10, 2004, a CPA official told us that some of these programs existed, while others were planned but not yet fully operational. For example, according to this official, many of the sites for the job-training program run by the Ministry of Labor and Social Affairs were shut down when the security situation deteriorated in April and May 2004.

Under CPA Order 91, an illegal militia is subject to immediate confiscation of all weapons and property through measures determined by the Transition and Reintegration Implementation Committee in coordination with the Ministry of the Interior and the commander of the multinational force. The order also states that (1) an illegal militia will be subject to any actions the committee decides are necessary for the safety and security of the Iraqi people and (2) its members will be subject to criminal prosecution in accordance with the laws of Iraq.

CPA Order 91 states that one of the committee's functions is to coordinate with the commander of the multinational force on Iraqi policy, decisions, and determinations that have security implications; however, it does not

specify which entity—the Iraqi security forces or the multinational force—is responsible for taking action against illegal militias if the committee deems military action to be necessary. According to U.N. Security Council resolution 1546, dated June 8, 2004, the multinational force and the Iraqi interim government were putting in place arrangements to establish a security partnership to ensure coordination between the two. The resolution states that the multinational force will have the authority to take all necessary measures to contribute to the maintenance of security and stability in Iraq in accordance with the letters annexed to the resolution. In those letters, the Secretary of State and Iraq's Prime Minister stated that the multinational force will coordinate with Iraqi security forces commanders and civilian leadership at all levels—national, regional, and local—to achieve unity of command in joint military operations.

Conclusion

The CPA in early June 2004 had reached agreement with nine parties to disband their militias, but certain elements of the broader transition and reintegration process remain to be finalized. Although the order calls for the Transition and Reintegration Implementation Committee to coordinate with the commander of the multinational force on Iraqi policy, decisions, and determinations that have security implications, it does not specify which entity—whether Iraqi security forces or the multinational force—is responsible for taking action against illegal militias if the committee deems military action to be necessary. Moreover, the transition and reintegration program is relying on numerous other programs to provide services for militia members who are participating in the program. As of late May 2004, some of these programs were not fully operational.

Oversight Questions

1. What progress has been made in disbanding militias that have agreed to a transition and reintegration plan, and what options and contingency plans are being explored if progress is unsatisfactory?

2. What is the status of efforts to develop a more comprehensive strategy for disbanding Iraq's militias?

3. What progress is being made in encouraging other Iraqi militias to agree to a transition and reintegration plan? If a hostile militia agrees to disband, how would the timetable, monitoring, and enforcement of that militia's transition and reintegration process differ from those for a non-hostile militia?

4. What will be the roles and responsibilities of the multinational force and the Iraq interim government in enforcing provisions of CPA Order 91 that guide the operations of militias as they disband?

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VIII. Governance

Iraq's Federal Government

Issue

The CPA transferred power to a sovereign Iraqi interim government on June 28, 2004. Crucial to the success of the transfer of power is the continued functioning and reform of Iraq's national ministries and local government. According to CPA, under the former regime, national ministries were responsible for providing basic services to all Iraqis but were inefficient and corrupt. Enforcement of anti-corruption regulations was arbitrary and intermittent. Moreover, governing authority was centralized at the national level and subnational governing institutions did not exist. The U.S.-led coalition is helping to rebuild and reform the national ministries and establish and train subnational governing bodies. As of June 2004, about $490 million had been obligated for governance activities, such as support for the transition.[1] In this enclosure, we describe (1) the operation of Iraq's national ministries and U.S. assistance to them and (2) Iraq's subnational government bodies and U.S. efforts to establish them.

Results in Brief

Iraqis have taken control of government institutions at the national and subnational levels with U.S. and CPA assistance, according to U.S. officials. National ministries are providing services to citizens even as reforms are introduced, facilities rebuilt, and staffs trained. However, the security situation hampers the ability of the ministries to provide needed services to Iraqis and maintain daily operations. For example, Iraqi hospitals and infrastructure installations continue to be attacked by insurgents. With U.S. assistance, governorate, municipal, and local government bodies are appearing for the first time and are representing citizens and responding to their needs. However, security impedes public participation at the local level. In addition, the former regime was highly centralized and left Iraq with few government institutions at the local level and none that represented citizens, according to U.S. officials. These are in the process of being developed.

[1]These funds were from U.S. 2003 and 2004 appropriations, the Development Fund for Iraq, and other sources.

Iraq's National Ministries Are Managing Government Operations with Coalition Support

Iraq's national ministries provide many fundamental services to Iraqi citizens, including health care and education, and are operating under Iraqi control with limited input from U.S. advisors. Progress has been made in rehabilitating ministry facilities and management capabilities, but the security situation is impacting the ability of the ministries to carry out their daily functions. U.S. assistance to the national ministries has focused on reconstructing ministry buildings; providing leadership, training, and advice in management; and establishing a framework of regulations and commissions in which ministries may continue to operate after the transfer of power.

Iraq's National Ministries Provide Services, but the Security Situation Hinders Efforts

According to CPA, Iraq's 26 national ministries operate under Iraqi authority and provide services to Iraqi citizens such as health care, water and electricity, education, and security. For example, Iraq's Ministry of Health manages all public health services throughout the country, as well as pharmaceutical purchases and distribution. Ministry staff currently operate the country's 240 hospitals and more than 1,200 primary health care centers. Similarly, the Ministry of Education has more than 300,000 employees throughout Iraq, including teachers. According to a CPA official, the Ministry of Education is responsible for educating about 5.5 million primary and secondary school children. Iraq's Ministry of Finance is responsible for paying Iraq's 1.8 million pensioners and about 670,000 state employees. It also developed the 2005 national budget and is responsible for managing Iraq's debt, establishing economic policy, and collecting taxes and customs revenues. Table VIII.1 lists Iraq's ministries, their estimated budgets, estimated number of staff, and projected number of U.S. and coalition senior advisors after the transfer of power.

Table VIII.1: Estimated Budget and Staffing of Iraq's National Ministries (2004)

Ministry	2004 budget estimates (millions of dollars)	2004 estimated staff[a]	Projected coalition advisors after June 28, 2004
Agriculture	35.5	8,000	4
Communications	6.2	200	18
Construction and Housing	170.2	16,000	6
Culture	9.2	3,000	4
Defense	b	b	b
Displacement and Migration	1.6	Less than 100	10
Education	543.9	325,000	0
Electricity	1.5	1,000	9
Environment	1.6	Less than 100	3
Finance	10544.5	7,000	11
Foreign Affairs	44.4	1,000	0
Health	947.0	105,000	0
Higher Education	122.1	50,000	2
Human rights	1.6	Less than 100	2
Industry and Minerals	8.0	1,000	5
Interior	124.9	65,000	27
Justice	138.6	21,000	5
Labor and Social Affairs	34.9	5,000	4
Municipalities and Public Works	206.0	23,000	4
Oil	1.8	1,000	13
Planning	45.0	1,000	8
Science and Technology	24.3	10,000	3
Trade	10.2	1,000	6
Transport	84.8	2,000	14
Water Resources	145.0	7,000	3
Youth and Sport	14.9	2,000	5

Source: GAO analysis of 2004 Iraq Budget and CPA documents.

[a]The number of staff is an estimate for 2004 and does not include staff who work for state-owned enterprises.

[b]The Ministry of Defense was established by CPA Order 67 in March 2004 and, according to CPA officials, is in the process of staffing and developing a budget.

The security situation in Iraq has presented a challenge to the ministries in their efforts to deliver services and manage internal operations. Attacks and threats have been made on government officials, ministry facilities, and infrastructure installations such as power lines and oil pipelines. For example, in May 2004, the rotating president of the Iraq Governing Council was killed by a car bomb in Baghdad. In June 2004, a deputy minister of foreign affairs and a senior official from the Ministry of Education were killed in separate attacks. Other government officials continue to receive threats on their lives. The Ministry of Oil building in Baghdad has been attacked several times, including in March 2004 when a rocket was fired on the area just outside the ministry. U.S. Agency for International

Development reports state that high-profile entities, including ministry facilities, are expected to be targets of terrorist attacks. Attacks on infrastructure also continue to impact government operations. CPA stated that operations at the Ministry of Oil are constantly being changed due to attacks on pipelines and infrastructure. In other incidences, hospitals and railroad infrastructure have been attacked. According to a CPA report, security problems have hampered the distribution of wheat from delivery ports to facilities throughout Iraq.

To transition full control of ministries back to Iraqis before the transfer of power, CPA introduced a "graduation" program. After graduation, Iraqi officials have full authority for making decisions. According to CPA officials, CPA established four criteria for ministry graduation. To graduate, each ministry must have an interim minister, a budget, an inspector general's office, and its own facilities. As of early June 2004, 12 ministries had graduated, beginning with the Ministry of Health in March 2004. According to U.S. officials, all remaining ministries would be under Iraqi control by the time power is transferred to the interim government, regardless of whether they have met the graduation criteria.

U.S. Assistance to National Ministries

U.S. assistance has focused on restoring facilities, enhancing ministries' capacity to function as government agencies, and providing a legal framework of CPA orders for continuing reforms. According to U.S. officials, when the coalition took over the national ministries, most offices were in poor condition, having been looted or burned by outgoing government officials and members of the Ba'ath Party. Ministries also suffered from a culture of corruption fostered under the previous regime, according to CPA. For example, from 1997 through 2002, the previous regime used illicit contracting and kickback schemes to acquire an estimated $4.4 billion in illegal revenues through the U.N. Oil for Food Program.[2]

To quickly restore essential government functions, USAID implemented its "Ministry in a Box" program. Through this program, USAID provided a standard package to the ministries, including the furniture, equipment, and materials necessary for 100 ministry employees to resume work. Substantial facilities reconstruction is still necessary, however. The coalition began reconstructing public buildings in fiscal year 2003; the United States expects to obligate almost $80 million to public building reconstruction for 2004 and more than $50 million for further rehabilitation efforts in 2005.

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[2]U.S. General Accounting Office, *United Nations: Observations on the Management and Oversight of the Oil for Food Program*, GAO-04-730T (Washington, D.C.: Apr. 28, 2004).

To help reform the ministries, the CPA removed all Ba'ath party members in the top 4 of 10 party levels, which effectively removed most ministry leadership. Because most ministries had few, if any, middle managers to fill the vacant leadership positions, CPA assigned U.S. advisors from various agencies, including the Department of State and the Department of Defense, to work directly with the Iraqi interim minister appointed by the Governing Council. According to a former senior advisor, the advisors had broad managerial authority, including the authority to hire and fire ministry employees, determine ministry budgets, change ministry structures and functions, and make major policy decisions.

U.S. advisors will continue to work in most of the 26 ministries after the transfer of power, but it is unclear how much influence they will have. According to a CPA official working with the Ministry of the Interior, coalition advisors will have no authority after the transfer of power to make decisions for the ministries. Nonetheless, certain key ministries will have many U.S. advisors. For example, the Ministry of the Interior, responsible for the Iraqi Police, customs, immigration, and fire services, will have 27 U.S. advisors. The Ministry of Finance, responsible for the national budget and other financial management duties, will have 11 advisors.

CPA also promulgated orders and regulations to guide Iraq's ministries and continue reforms after the transfer of power. Since May 2003, CPA introduced orders to foster a free market economy in Iraq, provide security and stability, and combat corruption. The orders remain as laws of Iraq, but the transitional government to be elected by January 2005 has the right to amend or rescind any of them once it takes power.[3] The following paragraphs describe some of these orders.

- To foster a free market economy, some CPA orders lay out Iraq's rules for banking, trade liberalization, tax policy, and foreign investment. For example, to attract foreign investment in Iraq, CPA Order 39 on foreign investment specifies the terms and procedures that foreign investors must follow.

- CPA Order 68 establishes the Ministerial Committee for National Security to coordinate national security policy. According to the order, after the transfer of power, the committee will be led by the head of Iraq's interim government and will consist of key Iraqi ministers. The order states that the Commander of the multinational force in Iraq may be invited to attend and participate in the committee's meetings.

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[3]Iraq's Transitional Administrative Law states that CPA orders remain in place until amended or rescinded by duly enacted legislation. See U.S. General Accounting Office, *Iraq's Transitional Law*, GAO-04-746R (Washington, D.C.: May 25, 2004).

- Several orders address corruption in Iraq. CPA Order 55 authorized the Governing Council to establish the Iraq Commission on Public Integrity and gives it responsibility for enforcing anti-corruption laws and public service standards. Order 57 establishes inspectors general offices in each of the ministries to conduct investigations and audits of ministry operations and expenditures. Order 87 sets Iraqi rules for public contracting and states that public contracting should meet international standards of transparency and fairness.

Iraq Is Developing Subnational Government Bodies with Coalition Assistance

With U.S. financial and technical support, Iraqis are establishing representative councils at the subnational level. In most of Iraq's 18 governorates, some councils and subnational government units monitor the delivery of public services and represent their constituents' concerns to higher levels of government. U.S. support through USAID's Local Governance Program is working to establish these subnational institutions and build governing capacity at the governorate, municipal, and local levels. Despite progress, Iraq's security situation and lack of governing capacity at the local level present challenges to continued reform.

According to U.S. officials, democratically elected councils at the governorate, municipal, and local levels of government have been established in many areas throughout Iraq and are acting as representative bodies under authorities that CPA established. According to contractors working for USAID, council members in these areas have been elected by their communities at public meetings to fulfill local needs and represent their constituents at each higher level of government. For example, the 88 elected neighborhood councils in the city of Baghdad send delegates to sit on district councils. Representatives from the 9 Baghdad district councils then meet on the Baghdad city council to preside over city business, such as the selection of the city mayor. Iraq's councils derive their legal authority from CPA Order 71, issued in April 2004. Order 71 gives governorate councils the authority to set priorities for the provinces, monitor delivery of public services, represent the concerns of their constituents, generate and collect revenues by imposing taxes or fees, and initiate and implement projects.[4]

According to Order 71, each governorate may, by majority vote, form subprovincial regional councils, municipal councils, and other relevant local councils. U.S. officials stated that in most areas such councils exist. However, the capacity and authority of the councils vary throughout the

[4]According to U.S. officials, most national ministries have offices, known as departments, in each of Iraq's 18 governorates. These departments are led by directors general and are responsible for implementing the ministry's programs at the governorate level.

country. In some areas, they are soliciting input from citizens, prioritizing community needs, and requesting grants from the government and the international community to fulfill those needs, according to U.S. officials. For example, the city of Kirkuk is purchasing additional garbage removal equipment to dispose of excess waste with a grant funded by USAID's local governance program. However, in other areas, such as the mostly rural Maysan governorate in eastern Iraq, local councils serve only as advisory bodies that present local community needs to government institutions. According to USAID, they have no political authority or explicit role in government. Local government officials throughout Iraq were training to independently manage government affairs once the transfer of power takes place.

USAID's local governance program is intended to establish and provide technical assistance to councils at the governorate, municipal, and local levels. The objectives of the program are to build the capacity of local administrators to deliver essential services, develop transparent and participatory policy processes at the local level, and develop civil society institutions that foster participation in political processes. U.S. officials have trained council members in democratic processes, as well as administrative officials in running local government offices. Training has included teaching council members how to run democratic council meetings, organize into committees, solicit input from citizens, and resolve conflicts. Assistance in developing anti-corruption procedures and in auditing has also been part of the local governance program. In addition, U.S. officials have trained governorate and local officials in developing budgets at the subnational level. U.S. officials stated that, in the past, capacity for budget preparation at the subnational level did not exist because national ministries developed budgets for their entire operation, including local departments.

Despite efforts that have been made in building government and implementing democracy programs at the subnational level, the security situation has hampered some of these efforts. For example, U.S. and Iraqi officials implementing the local governance program have had to pull staff out of certain areas and limit field visits and public appearances in other areas to ensure staff safety and avoid putting their audiences at risk. In some governorates, nongovernmental organizations implementing democracy-building programs have had all of their facilities destroyed and looted. Members of representative councils and other local government officials have also been threatened, attacked, and in some cases killed. These security threats hinder assistance efforts and require those providing assistance to adjust their operations and sometimes suspend their work.

In addition to the security situation, Iraq faces the challenge of building a decentralized democratic government structure in a country with a history of highly centralized nondemocratic government operations. Under the

previous regime, localities were not involved in government activities or decision making. This has left the country with little or no capacity at the municipal and local levels for such essential tasks as budget development and responding to community needs, according to U.S. officials.

Conclusion

According to U.S. officials, Iraq's 26 ministries are carrying out the daily responsibilities of the national government, and some are providing basic services under full Iraqi authority. However, their operations are hindered by the security situation and the country's history of corruption. CPA promulgated orders to address some of these issues. At the subnational level, representative councils are operating at the governorate, municipal, and local levels, and in some areas they operate as governing bodies. These bodies are new to the country's formerly centralized government structure, and challenges remain to building democratic government institutions, including providing a secure environment and building effective local participation in a country that was highly centralized.

Oversight Questions

1. What role will U.S. advisors play now that power has been transferred to a sovereign Iraqi government, and what is the exit strategy?

2. How fully are the Iraqi ministries implementing the anti-corruption provisions, such as those dealing with oversight and public accountability? What impact are the orders having?

3. What are the indications of the effectiveness and sustainability of U.S. and other efforts to promote democratic governance at the local level? What long-term assistance programs are the United States and others planning to follow up on the initial efforts?

4. What oversight are the United States and other donors conducting over grants and other funding going to development of local government?

5. How is the security situation affecting the capacity of the Iraqi ministries to provide services to Iraq? What specific government services are at risk, and what strategies are being put in place to mitigate the risks?

IX. Governance

Reforming Iraq's Judicial System

Issue

The rule of law in Iraq is a prerequisite for political stability, economic development, and public confidence in public institutions. Key to establishing the rule of law is reforming Iraq's judicial system so that it is fair and transparent. The legal and physical foundations of Iraq's judicial system were in disarray at the end of major hostilities in May 2003, with the majority of its courthouses damaged or destroyed, according to the U.S. Department of Justice (DOJ). Since then, the CPA undertook efforts to assess, rehabilitate, and reform the judicial system. This enclosure describes (1) the status of Iraq's judicial system, (2) coalition efforts to reform the system, and (3) challenges to establishing a fair and transparent judicial system in Iraq.

Results in Brief

The CPA began the process of establishing a functioning independent judiciary in Iraq. However, challenges such as security and training have hindered these efforts. As of June 2004, the CPA reported that courts were open but not functioning at pre-war levels, and that Iraqi judges were trying cases. CPA completed a review of all Iraqi judges and approved or rejected them, took steps to reform Iraq's legal code, and issued orders to restore judicial independence. Nonetheless, efforts to rebuild Iraq's judicial system and restore the rule of law face multiple challenges, including providing adequate security for judges and other court personnel, some of whom have been assassinated; ensuring the independence of the court system so that it operates without influence from the executive branch of the government; providing adequate training for judges and attorneys; and developing an accurate system for data collection so that court performance can be measured. U.S. officials state that rehabilitating Iraq's judicial system will take years.

Status of the Iraqi Judicial System

Various reforms have begun to improve Iraq's judiciary, including restructuring its courts, training and protecting judges, and modifying the roles and responsibilities of the Ministry of Justice.[1] Iraqi judges are currently trying cases and courts are operating, according to CPA officials and documents. The CPA reported that the Court of Cassation adjudicated approximately 4,200 appellate cases in May 2004, up from 3,000 in April 2004.[2] However, CPA officials also stated that courts were not functioning at pre-war levels. For example, by some rough measures, courts in Baghdad were functioning at about one-third of their pre-war capacity. Further, according to the former senior advisor to the Ministry of Justice, some courts hear few, if any, cases in any given month, and some judges have refused to move cases forward due to concerns for their safety. Protection for judges remains inadequate, according to this advisor, and several judges have been assassinated.

Iraq has a multitiered court system. The CPA and DOJ estimate that there are approximately 130 courthouses, 570 courts, and 710 judges in Iraq. A DOJ assessment from July 2003 identified 12 types of courts, including appellate courts, criminal courts, civil courts, and juvenile courts, among others. In addition to these courts, the former regime established Revolutionary Courts and Special Courts to handle matters related to the security of the state and official corruption. These courts, which were independent of the regular judicial system and staffed by Ba'ath party officials with no legal training, undermined the integrity of the Iraqi judicial system under the former regime. In May 2003, CPA dissolved these courts.

Since April 2003, two new courts have been established in Iraq. In June 2003, CPA established the Central Criminal Court of Iraq (CCCI) to try the most serious criminal cases. The CCCI convicted the captain of a Ukrainian ship for oil smuggling in October 2003 and the former mayor of Najaf for corruption in November 2003. Although the CPA Administrator identified the CCCI as one of his top priorities in the justice sector, difficulties with transporting the accused to court and a lack of support from the United States have limited the CCCI's caseload. The Law of Administration for the State of Iraq for the Transitional Period, or the transitional law, signed on March 8, 2004, established an additional high court in Iraq—the Federal Supreme Court. This court will have jurisdiction over cases between the transitional government and the subnational governments, and over claims that a law conflicts with the transitional law.

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[1]Iraq's judiciary is based on a civil law system similar to France's. Under this system, there are no juries. Judges hear cases, determine guilt and innocence, and sentence the convicted.

[2]The Court of Cassation is Iraq's highest appellate court.

The Ministry of Justice operates independently from the judiciary and has assumed new responsibilities since May 2003. The ministry publishes the *Legal Gazette* and manages land deeds and records.[3] Its State Consultative Council provides legal advice to the executive branch and drafts and proposes revisions to legislation. In addition, CPA Order 10 vested authority over all prison facilities in the Ministry of Justice in June 2003.

Efforts to Reform the Judicial System

When the United States and its coalition partners took control of Iraq in April 2003, the Iraqi judicial system was in a state of chaos, according to a DOJ assessment. Coalition officials have undertaken several efforts to rehabilitate the Iraqi judiciary since April 2003. These efforts include:

- working to re-establish judicial independence,
- removing corrupt judges and prosecutors,
- reforming the legal code,
- reconstructing and fortifying courthouses to provide adequate security for judges and prosecutors, and
- rehabilitating prisons.

However, experience at USAID suggests that such reforms will take many years to complete.

CPA and the Iraqi Governing Council took several steps to restore the judiciary's independence. During the previous regime, the judiciary was under the control of the Minister of Justice, and the regime's Revolutionary Command Council frequently interfered with the ministry, according to DOJ. CPA Order 35, issued in September 2003 and intended to re-establish judicial independence, reinstated a Council of Judges to supervise the judicial and prosecutorial systems of Iraq. The transitional law also states that the judiciary will be independent and separate from the legislative and executive authorities, including the Ministry of Justice. CPA Memorandum 12, issued in May 2004, provided that the Council of Judges and Court of Cassation will have their own budgets and staff independent of the Ministry of Justice.

In June 2003, CPA Order 15 established a Judicial Review Committee to review the suitability of Iraqi judges and prosecutors. The committee, composed of three Iraqi members and three international members, has the authority to remove such officials from office, confirm their continued holding of office, and appoint replacements for vacated offices. The committee completed its review of all of Iraq's judges and prosecutors in early 2004. According to the committee, it reviewed approximately 870

[3]The *Legal Gazette* is the official publication for Iraqi laws, including all CPA orders and regulations. Publication of the *Gazette* resumed in June 2003.

judges and prosecutors and removed approximately one fifth of these officials. It also appointed approximately 110 new judges and prosecutors and reinstated 80 who had been removed under the former regime. According to a former member of the committee, decisions to remove judges and prosecutors were based primarily on the criteria of Ba'ath party membership, allegations of corruption, and the individual's competence and reputation.

CPA issued several other orders and memoranda to reform Iraq's legal code. For example, CPA Order 7 generally re-established the 1969 Iraqi Penal Code as the penal code of Iraq. Order 7 also prohibits torture and suspends capital punishment. CPA also worked with the Iraqi Governing Council to develop the transitional law to govern Iraq until a permanent constitution is adopted. The transitional law guarantees Iraqis several basic rights, including protecting certain rights of the accused. Specifically, it states that the accused is presumed innocent until proven guilty and has the right to remain silent. The transitional law bans the use of torture in all circumstances and protects against unlawful arrest and detention.

CPA also initiated projects to reconstruct Iraq's courthouses, the majority of which had been either destroyed or severely damaged. According to CPA, funding from the Commander's Emergency Response Program played the most significant role in refurbishing courthouses. In addition, an April 2004 report from the Office of Management and Budget indicated that $135 million had been allocated to add security and repair Iraqi courthouses in fiscal years 2004 and 2005. Some of the construction includes structural repairs such as electrical, sanitary, and civil works. However, as of February 2004, CPA staff in Baghdad stated that construction had been delayed due to difficulties with the budgeting process.

To provide security to government infrastructure, including courthouses, CPA created the Iraqi Facilities Protection Service (FPS). Since courthouse security was nonexistent before May 2003, according to a former CPA official, CPA had to provide new FPS officers with basic equipment. CPA also gave FPS advice and training on courthouse security operations through the U.S. Marshals Service. However, as recently as June 2004, courthouses were not adequately fortified to ensure the security of court personnel, according to a former CPA official.

Challenges to Establishing the Rule of Law in Iraq

Despite CPA efforts to rehabilitate and reform Iraq's judicial system, significant challenges remain. Security for court officials, while improving, continues to affect the functioning of the courts. CPA has issued orders re-establishing an independent judiciary, but questions remain about how to implement this.

The security situation in Iraq has hindered the operation of the courts due to the lack of security for judges, prosecutors, and witnesses. According to a memorandum from a former CPA senior advisor to the Ministry of Justice, security is essential to renovating court facilities. Although personal protection for judges is improving, several judges have been assassinated. In March 2004, approximately 250 judges had personal security details, but no additional judges were to receive details until June 2004. One Iraqi judge stated that he had 18 bodyguards and had survived three attempts on his life since being appointed to the CCCI. Furthermore, while a team of U.S. Marshals began establishing a witness protection program in March 2004, witness intimidation continues to be a problem, according to DOJ officials.

Because judicial independence had been completely eroded under the former regime, ensuring the independence of the judiciary is also a challenge. In addition, while CPA orders and the transitional law have established a separate and independent judiciary, some implementing issues remain. For example, it is still unclear whether prosecutorial and judicial departments will be separated. Although the July 2003 DOJ assessment recommended separating prosecutorial functions from the judiciary, DOJ officials state that the basic judicial structure will be maintained and prosecutorial functions will not be separated from the judiciary. According to CPA, Iraqi judges and prosecutors opposed the separation. Therefore, CPA officials concluded that the Iraqi people should consider such a fundamental change when drafting the constitution.

Ensuring adequate and appropriate training of judges, prosecutors, and attorneys is also a challenge. DOJ identified training at all levels as one of the strategic priorities for Iraq to pursue after the transfer of power on June 28, 2004. Attorneys from DOJ's Office of Overseas Prosecutorial Development, Assistance, and Training have trained hundreds of Iraqi judges on basic tenets of human rights, due process, and rule of law, according to DOJ officials. In addition, CPA held weekly training sessions for court-appointed defense counsel. However, a former CPA official said that CCCI officials continue to need training regarding these tenets. Another official said that, in some trials, CCCI defense attorneys asked no questions and therefore needed more training. Although USAID helped reopen the Iraqi Judicial College and is reviewing the college's curriculum to include due process, rule of law, and human rights, as of June 2004, only a quarter of Iraq's judges had received this training. In addition, a former member of the Judicial Review Committee concluded that rehabilitating

Iraq's judicial system would take years as a competent body of legal professionals is developed.

The lack of a system of data collection and measurement makes it difficult to accurately assess the functioning of the judicial system. While CPA's strategic plan included the development of quantifiable measures of effectiveness, such as the time from arrest to trial and the number of felony trials, by February 2004 no progress had been made on developing these measures. One example of a systemic approach is in DOJ's framework for overseas prosecutorial training and development. As part of the framework, an overall objective of strengthening judicial independence is identified, several subobjectives and specific tasks toward this objective are listed, and several measures of progress identified. While CPA's strategic plan included the establishment of an independent judiciary as an objective, it lists only one task related to this objective and includes no measures of progress.

Conclusion

CPA began the process of building a functioning judiciary in Iraq. However, establishing a fair and independent judicial system in Iraq will extend beyond the transfer of power and take many years. To accomplish this, Iraqis will confront significant challenges and require U.S. and international assistance. These include delineating the prosecutorial and judicial functions clearly; ensuring the independence of the court system so that it operates without influence from the executive branch of the government; providing adequate security for court personnel so that all cases can be handled fairly; providing adequate training for judges, attorneys, and others so they fully implement due process; and developing an accurate system of data collection so the courts know how they are performing.

Oversight Questions

1. What steps did CPA take to help ensure judicial independence after the transfer of power? What functions will the Ministry of Justice retain and acquire? What functions will the judiciary assume?

2. What are the results of U.S. efforts to help ensure adequate training for Iraqi justice personnel?

3. What are the results of U.S. efforts to help develop a data collection and analysis system for Iraqi courts? Are these efforts resulting in reliable data to reform Iraq's justice system?

X. Essential Services

Restore Iraqi Electricity Program

Issue

According to a United Nations/World Bank needs assessment[1] and discussions with several U.S. government officials, Iraq's power infrastructure had deteriorated due to years of neglect during the previous regime, destruction caused by the 1991 and 2003 conflicts, and looting during the summer of 2003. Inadequate electricity levels present public health challenges and affect Iraq's oil sector, which plays a dominant role in its economy. The Coalition Provisional Authority (CPA) and Iraqi authorities recognized that reconstructing the power sector is critical to reviving Iraq's economy, supporting essential infrastructure, and improving daily well-being. Visible improvements in the delivery of essential services, including electricity, were also considered critical in establishing a secure, peaceful, and democratic Iraq. Accordingly, the CPA and U.S. government departments and agencies have made available about $7.7 billion to repair Iraq's power infrastructure.

This enclosure focuses on progress to date in implementing the U.S. Army Corps of Engineers' (Corps) Restore Iraqi Electricity (RIE) program, a major component of the U.S. assistance effort for the power sector funded at almost $1.4 billion. We chose this program because the first phase has been under way since September 2003, and the CPA had set project goals for the June 2004 time frame. In this enclosure, we discuss (1) the progress made under the RIE program, as well as overall progress in providing Iraq's electrical needs; (2) the effect of the security environment on the cost and pace of RIE projects; and (3) oversight of the RIE program.

Results in Brief

The CPA set a goal for Iraq of 6,000 megawatts of generating capacity by June 30, 2004, in anticipation of the higher demand for power during the summer months. As of late May 2004, the Corps expected that 59 of the 66 RIE projects expected to help meet this goal would be complete by June 30. On June 1, the daily peak generation capacity in Iraq stood at about 4,200 megawatts, an improvement over the capacity at the start of the RIE program, but still short of the CPA's goal. However, even if the 6,000-

[1]United Nations/World Bank, *Joint Iraq Needs Assessment: Electricity* (New York: October 2003).

megawatt goal is reached, it will fall short of the estimated peak summer demand of 7,000 to 8,000 megawatts. Due to several factors, including the worsening security situation and increased demand, average daily hours of electrical service in some governorates was worse at the end of May 2004 than it was prior to the war. Hours of electrical service in the country as a whole, while more equitably distributed, also did not show a marked improvement over the immediate postwar levels of May 2003 and worsened in some governorates. U.S. government reports and discussions with Corps officials indicate that a deteriorated security environment has affected the pace and cost of RIE projects. RIE contractors report numerous instances of project delays due to the difficulties in safely getting employees and materials to project sites. In addition, estimates of security-related costs reach as high as almost 18 percent of total costs for one contractor. The Corps' Transatlantic Program Center and Gulf Region Division share oversight responsibility for the RIE program. Corps staff based in the United States and Iraq and RIE contractors coordinate through weekly videoconferences to facilitate oversight. The Defense Contract Audit Agency (DCAA) also performs reviews of contractor costs and procedures. Ongoing DCAA audits have resulted in disallowing $16.5 million in costs for one subcontractor. As of May 21, 2004, documentation for $113 million in subcontractor costs was still under review or had not yet been submitted.

Background

In January 2004, the CPA approved a reconstruction plan for Iraq that set a June 1, 2004, target of 6,000 megawatts[2] of daily "peak deliverable" generating capacity.[3] In October 2003, the Iraqi Ministry of Electricity and the CPA Electricity Advisory Team published a detailed plan to increase power in 2004. These plans also included restoring hundreds of kilometers of electric transmission and distribution lines, electric power control systems, and other electric facilities. The RIE program is a major component of the strategy to reach this goal. As of late May 2004, the CPA changed the goal date for achieving the 6,000-megawatt target to June 30 instead of June 1.

About $1.38 billion has been made available for RIE projects to date. Of this amount, $756 million was allocated from the Development Fund for Iraq,[4]

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[2]A megawatt is a measure of the rate at which electric energy can be transferred and is used as a measure of electric generation capacity.

[3]"Peak deliverable" generation capacity is the generation capacity that can be delivered to users given the capabilities and constraints of installed generation equipment and electric transmission and distribution facilities.

[4]The Fund is held on the books of the Central Bank of Iraq and financed from multiple sources, including oil revenues and assets of the former Iraqi regime. It is to be used for the economic reconstruction and repair of Iraq's infrastructure, among other things. Until

and the remaining $626 million was made available from funds Congress appropriated for the Iraq Relief and Reconstruction Fund.[5] The Corps' Transatlantic Program Center used $1.06 billion of this money to issue task orders to contractors for the first phase of RIE projects, known as "RIE 1," beginning in September 2003. The three largest contract obligations for this phase went to Perini Corporation ($356.5 million), Fluor Intercontinental ($335 million), and Washington Group International ($310 million).[6] According to Corps officials, as of May 5, 2004, the CPA's Program Management Office had allocated to the Corps almost $323 million for two additional RIE phases, known as "RIE 2" and "RIE 3." RIE 2 continues the efforts of RIE 1 to help achieve 6,000 megawatts of generating capacity by June 30, 2004. RIE 3 projects are not of an emergency nature but are necessary to add additional capacity to the electrical grid. Of the $1.38 billion made available for RIE projects, about $1.32 billion has been committed to contracts and task orders.

In addition to the Corps' RIE program, two other contracting efforts are currently contributing to Iraq electrical reconstruction. USAID contractor Bechtel National is undertaking electricity work as part of its two infrastructure contracts totaling $2.8 billion.[7] Also, in March 2004, the Corps, on behalf of the CPA's Program Management Office, awarded three electrical capacity contracts for a total of up to $1.5 billion, or $500 million each. The Program Management Office awarded these contracts to the same three prime contractors that received RIE 1 contracts, but these efforts are not part of the Corps' RIE program. We do not discuss the status of these efforts in this enclosure.

Despite Progress in Power Sector, CPA Did Not Meet the June 1 Goal

Power generation capacity in Iraq has generally improved since the RIE projects began in September 2003, but the progress of overall electrical reconstruction was not sufficient to meet CPA's 6,000-megawatt goal, and electrical service in some areas is worse than it was before the war.

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the transfer of authority to Iraqi sovereignty, the CPA administrator managed the Fund on behalf of the Iraqi people.

[5]Congress appropriated funds to the Iraq Relief and Reconstruction Fund in the Emergency Wartime Supplemental Appropriations Act, 2003, P.L. 108-11, and the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106.

[6]In addition, about $54 million has been allocated for Corps headquarters costs and for miscellaneous projects, including police for the electricity ministry and emergency generators.

[7]This amount is the total amount of the two contracts for all Bechtel reconstruction activities in Iraq, including rehabilitating the power, water, and sanitation sectors and repairing and reconstructing ports, roads and bridges, schools, and health facilities.

According to the Corps, RIE had added 1,295 megawatts in additional capacity of its planned 1,348-megawatt contribution to the goal by the end of May 2004.[8] As of June 1, 2004, although peak capacity fluctuated during this period, Iraq's daily peak generation capacity had increased to about 4,200 megawatts, an improvement from about 3,400 on September 25, 2003—the date on which the Corps issued the first RIE task orders. However, improvements to the electrical system have had limited effect in terms of daily electrical service for the Iraqi people. The level of service in Iraq's 18 governorates, as measured in the average hours per day of electricity, has not shown substantial improvement from conditions present at the end of major combat in May 2003. The late completion of some RIE projects contributed to the CPA not meeting its goals. As of May 29, 2004, Corps reporting indicated that just over half of the RIE 1 and 2 projects would be complete by the initial CPA goal date of June 1. According to Corps data, additional projects should be complete in time to help meet the revised goal date of June 30, but 7 power generation projects were not expected to be complete by June 30.

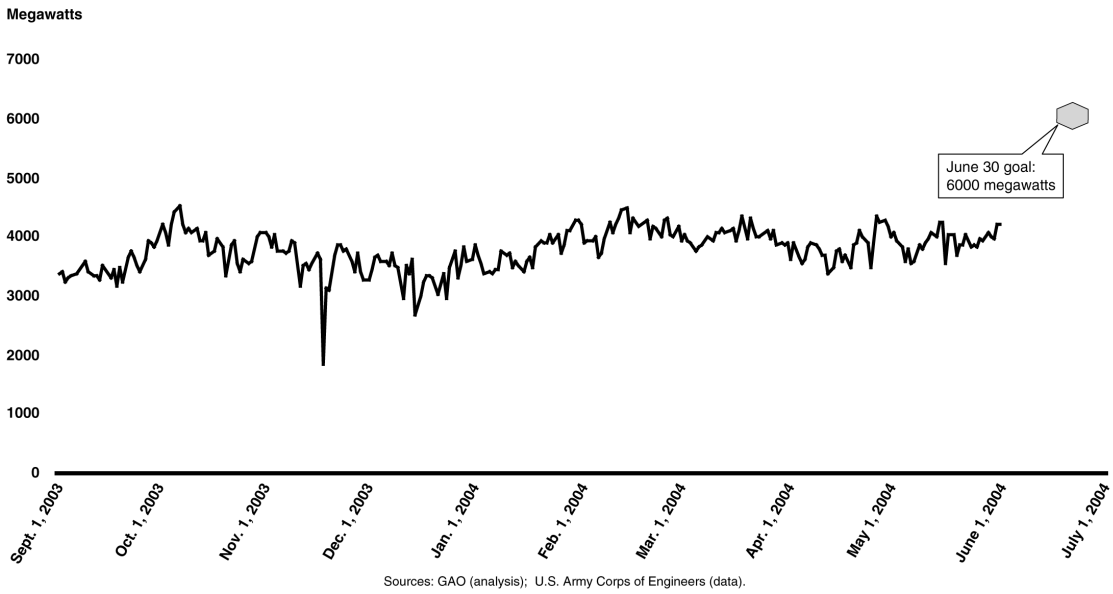
Hours of Electrical Service Generally Are Not Improved from Prewar Conditions

As of June 1, 2004, Iraqi peak distributable generation capacity had not yet been restored to the goal of 6,000 megawatts but had reached about 4,200 megawatts, a level near where it has been since January 2004 (see fig. X.1). This level was short of the 4,400-megawatt interim goal set by the CPA for October 2003 and the June goal of 6,000 megawatts. Even if met, however, the 6,000-megawatt goal will not be sufficient to meet Iraq's needs this summer. Current estimated demand for electricity in Iraq is about 6,500 to 7,000 megawatts, according to the World Bank.[9] CPA and USAID officials also stated that Iraq needs about 7,000 to 8,000 megawatts of generation capacity to meet increased peak summer demands.

[8]Not all of this additional capacity is reflected in Iraq's actual peak generation, the measure used for the CPA goal of 6,000 megawatts.

[9]*Joint Needs Assessment: Electricity*.

Figure X.1. Iraqi Peak Electric Power Generating Capacity, September 2003 through June 1, 2004



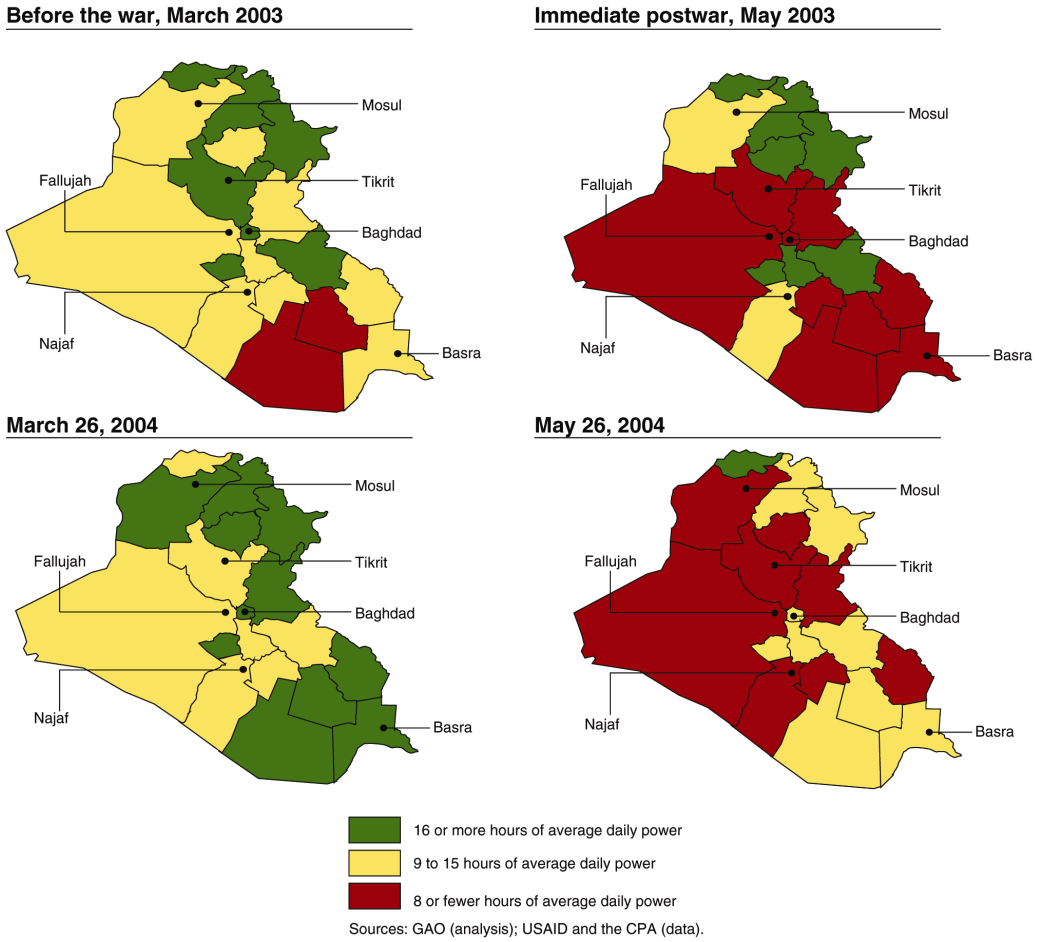
Sources: GAO (analysis); U.S. Army Corps of Engineers (data).

Note: The low point in November was due to a problem with the transmission line from Baiji to West Baghdad that triggered a series of failures causing plants to shut down in both the central and southern regions of Iraq.

The CPA had made some progress in restoring electricity throughout Iraq since the end of the war. As shown in figure X.2, Baghdad and large areas of southern Iraq averaged 8 or fewer hours of electricity a day following the war. As of May 2004, some of these areas were averaging between 9 and 15 hours daily. However, as of May 26, 2004, the level of service in the country as a whole was not near 24 hours a day except in the extreme north of the country.

As of May 2004, the available electrical service in Iraq's governorates, while more equitably distributed, had not improved substantially from the situation before the war. Although some improvement in service was made earlier in 2004, the situation deteriorated due to the worsening security situation and increasing demand as of May 26, 2004. At that time, 8 of Iraq's 18 governorates had electricity for an average of 8 or fewer hours a day, and 9 had electricity for between 9 and 15 hours daily (see fig. X.2). According to Corps officials, this change is partly a result of the CPA's more equitable power distribution policy. The former regime provided certain areas of the country, such as Baghdad, with greater electricity and limited power in other areas, notably the Shi'ite regions in southern Iraq.

Figure X.2. Average Daily Electrical Power Distribution by Governorate



Note: Data for 2003 are based on a survey of Iraqis countrywide in fall 2003; 2004 data are from the CPA.

Late Completion of RIE Generation Projects Contributed to the CPA Not Meeting Its June 1 Goal of 6,000 Megawatts

The CPA expected RIE 1 and 2 projects to contribute to the initial CPA goal of 6,000 megawatts of generating capacity by June 1, 2004. The overall progress of RIE 1 and 2 projects toward this goal was mixed. The majority of RIE generation projects were not completed by June 1, but all management, transmission, distribution, and control projects were completed in advance of this date. Although, according to the Corps, RIE had added 1,295 megawatts of its planned 1,348 megawatts in additional capacity by the end of May 2004, many projects are not yet complete. As of May 29, Corps data showed that only 22 of 53 RIE 1 and 2 generation projects were expected to be complete by June 1 (see table X.1). This late completion of some RIE generation projects contributed to the CPA not meeting its 6,000-megawatt goal. In all, 35 of the total 66 RIE 1 and 2

projects were expected to be complete on June 1, and 59 were expected to be complete before June 30.

Table X.1: Estimated Completion Date of RIE Projects, by Project Type

	RIE 1			RIE 2			
	By June 1	June 2-June 30	After June 30	By June 1	June 2-June 30	After June 30	TOTAL
Generation	16	7	4	6	17	3	**53**
Transmission, distribution, and controls	9	0	0	1	0	0	**10**
Management	3	0	0	0	0	0	**3**
Total	**28**	**7**	**4**	**7**	**17**	**3**	**66**
	• **28 of 39 RIE 1 projects complete by June 1** • **35 of 39 RIE 1 projects complete by June 30**			• **7 of 27 RIE 2 projects complete by June 1** • **24 of 27 RIE 2 projects complete by June 30**			

Source: GAO analysis of U.S. Army Corps of Engineers' report.

Security Environment Affects the Cost and Pace of RIE Projects

Several factors, particularly the deteriorating security environment, pose particular challenges to the Corps in managing and implementing RIE projects. According to a Corps request to the CPA for an additional $55 million from the Development Fund for Iraq, nearly all projects have exceeded targeted budget projections due to unanticipated security expenses, underestimated level of effort, and contracting challenges. Based on our review of Corps documents and contractor reports, it is clear that security costs add to the overall cost of reconstruction and that security incidents have slowed its pace. From our review of contractor reporting in April and May 2004, we have identified numerous examples of security concerns leading to problems such as project shutdowns, refusal of subcontractors to work at project sites, delays in the shipment of key materials, and the inability or unwillingness of Iraqi labor to work on projects.

Security Concerns Add to Cost and Slow Reconstruction Pace

To varying extents, RIE 1 contractors are reporting or are expected to report substantial security costs. For example, Perini estimated the total cost of security at $63.4 million through August 2004, or almost 18 percent of its $356.5 million contract, and Washington Group International's security costs were nearly $44.5 million, or 14.3 percent of its $310 million contract.[10] According to Corps officials, the variation in security costs is in part explained by differences in the nature and location of the projects

[10]These figures may change based on ongoing DCAA audit work. All costs stated here are from Corps documentation; GAO has not verified these figures.

performed by the three contractors. Fluor, for example, used the protection of the coalition's "Green Zone" in Baghdad for some functions. Security for RIE projects under these contracts extends through the construction period. At the end of construction, the Iraqi Ministry of Electricity will assume responsibility for security.

According to interviews with Corps personnel and reviews of recent contractor reports, the security situation has affected the implementation of RIE projects, particularly as violence increased during April 2004, as shown by the following examples:

- Washington International locked down its power plant construction site at Mosul for 3 days in April and at Mullah Abdullah for 5 days due to security concerns. Incidents at Mosul included ambushes, small arms and mortar fire, and snipers. On May 13, 2004, the contractor also stated it was incurring substantial costs to satisfy the security concerns of a subcontractor. Despite additional precautions, the subcontractor refused to come to the project site, and the subcontract was terminated. A Texas subcontractor will continue the work.

- At the Qudas power plant near Baghdad, Fluor reported that insurgent activities on supply routes prevented truck convoys with materials from reaching the project site. During the week of April 15, 2004, Fluor reported that its Qudas workers needed to leave at 4 p.m., instead of 6 p.m., to make it through checkpoints and arrive home before dark. This resulted in a daily loss of 2 hours of labor. During the week ending May 6, Fluor reported that attendance appeared to have returned to normal, but attendance problems reappeared during the week of May 21.

- Fluor is developing a change order request[11] for delays at the Taiji and Zaferina power plants in Baghdad and at the Nasiriyah water intake project due to the impact of civil unrest on schedule and cost. For example, Fluor evacuated its personnel from the Nasiriyah project in central Iraq during the week of April 22 but resumed work the following week. Fluor also evacuated its field personnel from the Najaf power generation project during the week of May 21 due to civil unrest and the entry of the military into Najaf.

- RIE 2 contractor CH2M Hill/Dragados/Soluziona reported during the week of April 16, 2004, that a subcontractor would not send personnel to the Haditha Dam project site, about 140 miles northwest of Baghdad, due to changing conditions and concerns with security. The Corps deferred the subcontractor's project to a later date. The same report stated that death threats had been issued against another

[11]A change order is a written order from a contracting officer making a unilateral contract modification within the general scope of the contract.

subcontractor's Iraqi personnel, who have declined to come to the site. Access from Baghdad to the site was also constrained because the road to Haditha passes through Fallujah and was under fire and inaccessible. On May 13, this contractor submitted a written request for a schedule extension due to work restrictions resulting from significant site access and security issues.

Concerns about the effect of security on the pace of reconstruction also rose to the level of the former CPA administrator. In a cable to the Departments of Defense and State and the White House on April 17, 2004, the CPA administrator observed that security is the key obstacle to reaching reconstruction objectives. Referring to the entire reconstruction program, the administrator stated that a worsened security situation would mean that projects would take longer to complete and that the kinds of projects undertaken and their costs would change to an unknown extent.

Corps and DCAA Provide Oversight

Two organizations within the Corps—the Transatlantic Program Center and the Gulf Region Division—manage and oversee the RIE program. These two organizations coordinate their efforts through joint participation in weekly teleconferences and other reporting. DCAA has also provided oversight through its audits of RIE contracts, and it has identified concerns with contractor cost estimating and purchasing systems and unsupported subcontractor costs. DCAA's efforts are ongoing but to date have resulted in disallowing $16.5 million of unsupported subcontractor costs.

Corps Gulf Region Division and Transatlantic Program Center Oversee RIE Program

The contracting, management, and oversight responsibilities for RIE are split between the Transatlantic Program Center in Winchester, Virginia, and the Gulf Region Division in Iraq. The Transatlantic Program Center managed RIE before the creation of the Gulf Region Division and continues its oversight responsibilities for RIE 1 projects, with support from Gulf Region staff. For RIE 2 and 3, the Gulf Region Division has assumed more contract administration functions that had been handled by the Transatlantic Program Center for RIE 1, particularly program and project management support. The Transatlantic Program Center, however, continues to provide support to the Gulf Region Division during solicitation and award of RIE 2 and 3 task orders.

The Gulf Region Division manages and supports RIE 2 and 3 projects from its Baghdad office and at project locations. As of May 2004, 72 civilian personnel, including one contracting officer in Baghdad, provided oversight for RIE projects within the Gulf Region Division. The division's field offices, which are located at all project sites, are responsible for monitoring

and verifying contractor performance. These offices include a quality assurance representative or construction inspector and a project engineer. The staff in these offices verify contractor reporting on project status.

Required reporting includes daily quality control reports and weekly progress reports from the prime contractors. The weekly reports include a schedule for completion of subtasks, cost reporting, an identification of construction and security issues, and completion percentages for projects. To summarize the status of RIE projects, the Gulf Region Division compiles a weekly list and provides it to the CPA, the Ministry of Electricity, and others. The division also conducts weekly contractor video teleconferences with its contractors in Iraq and their headquarters offices in the United States. In addition, Transatlantic Program Center management staff participate in weekly video teleconferences with the regional division to coordinate and maintain visibility on the projects. We participated in several of these videoconferences between the Corps and contractor staff.

DCAA Questioned Some RIE Contractor Procedures and Costs

DCAA has conducted several price proposal audits and evaluations of the three RIE 1 contractors. Initially, it found weaknesses in cost estimating and purchasing systems and unsupported subcontractor costs totaling $220 million, or almost 22 percent of the total cost of the contracts. As of May 21, 2004, $90.5 million of this amount had been supported and approved for payment by DCAA, $16.5 million had been disallowed for one subcontractor, and DCAA was reviewing revised plans for purchasing and estimating. At that time, documentation for $113 million in subcontractor costs was still under review or had not yet been submitted.

The three largest RIE 1 contracts are cost-reimbursement contracts under which the government has agreed, subject to cost ceilings, to reimburse the contractor for all reasonable and allowable costs incurred in performing the work. An award fee (profit) is also provided to the contractor. To meet urgent operational needs, as is the case in Iraq's reconstruction, agencies are permitted to authorize contractors to begin work before the key terms and conditions, including price, of the contracts or task orders have been defined and agreed upon. While this approach allows agencies to initiate needed work quickly, it also can result in potentially significant additional costs and risks for the government.[12]

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[12]See U.S. General Accounting Office, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605 (Washington, D.C.: June 1, 2004), for additional discussion of contracting for Iraq reconstruction.

Conclusion

Iraq's electricity sector deteriorated due to neglect by the prior regime, destruction caused by the 1991 and 2003 wars, and looting in the summer of 2003 following Operation Iraqi Freedom. Sufficient power is needed to help ensure economic growth, support essential infrastructure, and improve the well-being of the Iraqi people. As of late May 2004, average daily electrical service since the immediate postwar period had not significantly improved in the country as a whole and was worse in some areas. To meet anticipated summer demand, the CPA set a goal of restoring generating capacity to 6,000 megawatts by June 30. Most RIE projects designed to meet this goal are expected to be completed by at that time, but not all will be finished, and the worsening security environment has affected the pace and cost of these projects. Moreover, the anticipated peak summer demand is estimated at 7,000 to 8,000 megawatts. The possibility that electrical capacity will not meet the peak summer demand raises concerns about the ability of the coalition to support power dependent infrastructure, improve Iraq's economy, and promote stability in Iraq.

Oversight Questions

1. How are delays in electricity projects affecting the reconstruction goals of other key sectors, such as oil and water and sanitation?

2. What are the plans for meeting Iraq's future electrical needs beyond the 6,000-megawatt capacity goal following the transition to sovereignty on June 28, 2004?

3. What is the full range of factors contributing to the length of time required to meet Iraq's electrical needs?

4. What management and oversight framework has been planned for the $1.5 billion in electricity contracts let by the CPA's Program Management Office in March 2004?

5. What measures are being taken to monitor and ensure adequate maintenance and security of improved facilities?

6. How will ongoing electricity reconstruction efforts be coordinated among the U.S. government and relevant Iraqi ministries, including the Ministries of Electricity and Irrigation?[13]

7. What are the lessons learned from the management and implementation of RIE projects that can be applied to other reconstruction projects?

[13]The Ministry of Irrigation controls the quantity and timing of water moving through Iraq's dams to power plants.

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Objectives, Scope, and Methodology

As part of our broad effort to monitor Iraq reconstruction, we focused on issues associated with (1) resources, (2) security, (3) governance, and (4) essential services. We conducted our review from March through June 2004 in accordance with generally accepted government auditing standards. We did not travel to Iraq during this period due to security concerns.

Resources: Funding and Staffing

To monitor the use of resources in the reconstruction of Iraq, we focused on the sources and uses of U.S., Iraqi, and international funding. In addition, we reviewed U.S. efforts to provide staff to support the Coalition Provisional Authority (CPA) in rebuilding Iraq and the challenges faced.

U.S. agencies and the CPA provided us with electronic data files for appropriated funds, the Development Fund for Iraq (DFI), vested assets, and seized assets. These files generally included objective or project descriptions with allocated, obligated, and disbursed amounts. We assigned each of the funding line items to eight broad categories based on the descriptive information available in the data files. To assign the data to a category, we relied on project descriptions from agency and CPA data files.

In addressing the amount of U.S. funds that have been appropriated, obligated, and disbursed for the Iraq reconstruction effort, we collected funding information from the Departments of Defense, State, and the Treasury; U.S. Agency for International Development (USAID); and the CPA. Data for U.S.- appropriated funds are as of April 30, 2004, with the exception of CPA's Program Management Office data on obligations and disbursements in fiscal year 2004, which are as of May 25 and June 16, respectively. We also reviewed the public funding documents of the Office of Management and Budget and the CPA Inspector General. Although we have not audited the funding data and are not expressing our opinion on them, we discussed the sources and limitations of the data with the appropriate officials and corroborated them, when possible, with other information sources. We determined that the data were sufficiently reliable for the broad comparisons in the aggregate and the category descriptions we have made.

To identify sources and uses of Development Fund for Iraq funds, vested assets, and seized assets, we relied on funding data from the CPA. These data included DFI funds committed from July 2003 and vested assets and seized assets committed from May and June 2003 through May 6, 2004, respectively. To determine the reliability of these data, we examined the financial files and interviewed CPA officials responsible for the data. Based on these evaluations, we determined the data are sufficiently reliable for the purposes of describing the major deposits to the DFI and the allocations and disbursements by major categories.

To address international assistance for rebuilding Iraq, we collected and analyzed information provide by the State Department's Office of Iraq Economic Reconstruction.

We also collected and reviewed documents from the CPA, United Nations Development Group, and World Bank Group. To describe the activities of international donors, we relied on interviews with U.S. and CPA officials and reviewed documents pertaining to the international donor conferences. To assess the reliability of the data on the pledges and commitments made by international donors, we (1) interviewed the officials at State and the Council for International Coordination who are responsible for compiling these data based on information provided by the World Bank and U.N. Development Group, the governments of the international donors, and the Iraqi Ministry of Planning and Development Coordination and (2) performed reasonableness checks of the data against other sources of information. We determined that the data on major international pledges were sufficiently reliable for the purpose of comparing the amounts pledged by international donors. We also determined that the data on pledges made by non-US international donors at the 2003 Madrid Conference were sufficiently reliable for the purpose of describing grants and loans at the aggregate level. Further, we determined that the data on donor commitments made to the International Reconstruction Fund Facility were sufficiently reliable for the purposes of comparing committed contributions and deposits by country. Finally, we determined that the Iraqi government's estimated costs for project proposals were sufficiently reliable for the purpose of showing what the Iraqi government had requested in 2004. However, we did not examine the estimating methodology used by the Iraqi government and cannot attest to its accuracy.

To address the staffing effort for the CPA, we collected and analyzed information provided by the CPA, USAID, the Department of State, and the Army Corps of Engineers. We interviewed officials from these departments as well as from the Departments of Justice and the Treasury. We relied primarily on staffing data from the CPA personnel office, as its data was the most comprehensive and it was responsible for processing and managing CPA personnel requirements. To assess the reliability of these data, we (1) interviewed the officials at the CPA who are responsible for compiling these data and (2) performed some basic reasonableness checks of the data against other sources of information. According to CPA officials, the staffing data are only about 90 percent accurate due to the difficulties of tracking personnel entering and exiting Iraq. We determined that the data from March 2004 onward were sufficiently reliable for the purposes of making comparisons of the type of personnel directly supporting the CPA.

Security

With respect to security issues, we focused on (1) the current and projected security trends and the impact of the security situation on military and civilian operations, (2) the multinational force's plan for transitioning security responsibilities to Iraqi security forces and the progress made, and (3) the CPA's transition and integration strategy for militias and the status of implementing the transition and reintegration process.

To analyze the security trends in Iraq and the impact on military and civilian operations, we obtained information from DOD on casualty data of U.S. military personnel due to hostile action in Iraq from March 2003 through April 2004 and from the CPA on the number of certain significant insurgent activities affecting coalition operations from October 2003 to May 15, 2004. We also obtained documents and interviewed officials

from the CPA, the Department of State, the multinational force, the United Nations, and nongovernmental organizations on the security situation in Iraq and its impact on operations. We also obtained information from State about opinion polls in Iraq on the security situation. We corroborated the data on insurgent activities with classified sources. We determined that the data were sufficiently reliable for establishing general trends in the security situation.

To describe the plan for transitioning security responsibilities to Iraqi forces and the progress made, we obtained and reviewed the transition plan and related documents, orders, and status reports on progress in building Iraqi forces and their performance from the CPA and DOD. We interviewed officials from the CPA, Defense, and State on the plans and progress being made. We obtained data on the number of Iraqi security forces from DOD. We corroborated the information with classified sources and public testimony and statements from U.S. officials about the situation. We determined that the data were sufficiently reliable for the purpose of describing the plan and progress on transitioning security responsibilities to Iraqi forces.

To describe the plan for and status of reintegrating Iraq's militias into civilian life, we obtained and reviewed the CPA's Transition and Reintegration plan and supporting documentation, such as CPA Order 91. We also discussed the status, progress, and challenges to this effort with CPA officials implementing the plan. The number of militia members participating in the plan is a CPA estimate. We discussed the estimate with CPA officials to determine their approach for deriving the estimate. We determined that the information was sufficiently reliable for the purpose of indicating the general size of the militias.

Governance

For the governance issue, we examined (1) the status of the Iraqi national ministries and U.S. efforts to strengthen the ministries and establish subnational governing institutions and (2) the status of the Iraqi judicial system and U.S. efforts to reform it. To examine the status of Iraqi ministries, we reviewed CPA orders, documents, budgets, and periodic reports describing Iraq's national ministries; we also reviewed CPA and USAID reports and documents on developments in subnational government institutions and U.S. assistance to these bodies. We also interviewed officials from the CPA, USAID, and nongovernmental organizations implementing U.S. programs at the subnational level in Iraq to determine how the national ministries and subnational governing bodies are operating and how the United States has assisted them. The budget information on the number of Iraqi civil servants in each ministry is an estimate published by the Ministries of Finance and Planning and is subject to revision. We interviewed CPA officials about the budget preparation and the process of compiling the data, and we examined both the original 2004 budget and the revised budget. We reviewed the guidance for preparing the budget. We determined that the data were sufficiently reliable for the purpose of describing the general number of staff in Iraqi ministries.

To examine the status of the Iraqi judicial system, we reviewed related CPA orders, weekly reports, correspondence and memoranda, CPA's strategic plan, and an

assessment of the judicial system prepared by the Department of Justice. We also spoke with officials from the CPA, Justice, and USAID about the status of Iraq's judiciary, U.S. efforts to rehabilitate it, and the results of these efforts. We found the information on the number of judges in Iraq to be generally consistent with several CPA documents.

Essential Services: Restoring Iraqi Electricity

For the essential services issue, we focused our initial effort on the Army Corps of Engineers' Restore Iraqi Electricity (RIE) program[1] because it is a major component of the U.S. assistance effort to rebuild the power sector. Specifically, we reviewed the status of the effort, the effect of the security environment on progress, and oversight of the program. To determine the progress made in restoring electricity, we reviewed weekly and daily status reports prepared by the Corps and the CPA and weekly status reports from Corps contractors from April and May 2004. We compiled these data and analyzed the result to provide summary data. For additional context on the status of electrical service under the previous regime and in May 2003, we used survey data prepared under contract to USAID. To assess the reliability of the survey data, we reviewed the survey methodology and questionnaire and compared the results with testimonial evidence on electricity distribution. We noted that more than 7,000 individuals were surveyed but that it may be difficult to make precise comparisons among governorates. However, we determined that the survey data were sufficiently reliable to provide a broad indication of electrical distribution by governorate. To document the effect of Iraq's security environment on RIE progress, we interviewed Corps and CPA officials in the United States and Iraq, participated in videoconferences between the Corps and its contractors, and reviewed a selection of RIE contractor reports from April and May 2004. We also obtained documents from the Corps for data on security and contract costs and funding. To document the oversight framework for RIE projects, we interviewed Corps officials in the U.S. and Iraq and reviewed a number of examples of their reporting. We also participated in teleconferences between U.S. and Iraq-based Corps officials and between Corps officials and RIE contractors to observe and document the nature of oversight coordination. We obtained a summary of DCAA reporting from the Corps and used this summary to document the status of DCAA review.

We reviewed the data for anomalies and documented the Corps' processes for assuring data reliability from contractor reports, and we interviewed officials familiar with the data collection. We determined that the data were sufficiently reliable to meet our reporting objectives.

[1]Although other efforts directed at improving Iraq's electricity are under way, our review addresses only the RIE portion of the overall program and its relationship to the CPA's goal of 6,000 megawatt of peak deliverable capacity.

Staff Acknowledgements

Key contributors to this report include J. Robert Ball, Monica Brym, Julie Chao, Lyric Clark, Lynn Cothern, Muriel Forster, Dave Hancock, Laura Helm, John Hutton, Sarah Lynch, Judith McCloskey, Tetsuo Miyabara, Valérie Leman Nowak, Stephanie Robinson, Jonathan Rose, Michael Simon, Audrey Solis, George Taylor, and Phillip Thomas. Martin de Alteriis, Beverly Bendekgey, Sam Bernet, Joseph Brown, David Bruno, Patrick Dickriede, Philip Farah, Etana Finkler, A. Rahman Ford, Beth Hoffman, Hynek Kalkus, Mary Moutsos, José M. Peña, III, Michael Rohrback, Nanette Ryen, and Juan Tapia-Videla provided technical assistance.

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