

SPECIAL REPORT: Status of U.S. Reconstruction Efforts in Iraq

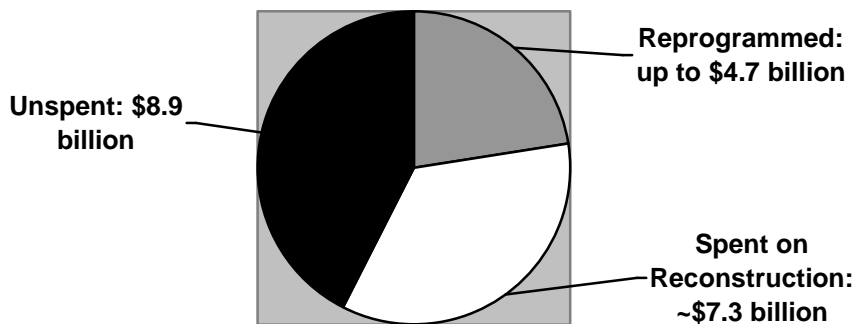
"The existence of the [reconstruction] gap simply means that the completion of the US-funded portion of Iraq's reconstruction will leave many planned projects on the drawing board."

-- Special Inspector General for Iraq Reconstruction Stuart Bowen,
10/18/05

Where Has America's Reconstruction Money Gone?

Congress appropriated more than \$250 billion in taxpayer funds for Iraq, including approximately \$20.9 billion in taxpayer funds for reconstruction projects in Iraq roughly two years ago. The vast majority of these reconstruction funds either have not been spent, have been used for other activities such as security, or have been squandered to waste, fraud, and abuse.

Nearly Two-Thirds of Reconstruction Funds Either Remain Unspent or Have Been Spent on Other Activities



Nearly half of the reconstruction money remains unspent. According to the State Department's most recent Weekly Status Report, only \$12.0 billion of the \$20.9 billion appropriated by Congress for reconstruction in the Fiscal Year 2003 and Fiscal Year 2004 Supplemental Appropriations bills has been spent. (11/30/05)

Another quarter of the funding was diverted from providing basic services to security costs and other priorities. According to the Government Accountability Office (GAO), the State Department had realigned over \$4.7 billion from large electricity and water projects to other priorities, including security costs and training Iraqi security forces as the security situation deteriorated. (GAO-05-876)

Billions of dollars may have been lost to waste, fraud, and abuse. There is no reliable measurement indicating the total amount of funding lost to waste, fraud, and abuse, but all indications are that this amount is substantial. A report by the House Governmental Reform Committee's minority staff has documented \$1.4 billion in questioned and unsupported expenses by Halliburton in Iraq. (6/27/05) Inspector General teams auditing reconstruction contracts in Iraq have turned up several examples of misuse of American funds:

- In a group of 54 contracts audited by one team, there were no papers or records of expenses for 10 of the contracts. (*Los Angeles Times*, 11/17/04)
- U.S. administrators in the South-Central region could not account for \$20.5 million in Development Funds for Iraq grants. (SIGIR quarterly report, 10/30/05)
- "\$7.3 million was mismanaged and \$1.3 million entirely wasted" during construction of a police academy in Babylon, according to the Inspector General. (*New York Times*, 10/31/05)
- At least three individuals have been charged with criminal violations in connection with Iraqi reconstruction contracting. The Special Inspector General's office is looking into at least 50 other cases of possible criminal misconduct. (*New York Times*, 12/2/05, *Washington Post*, 11/18/05)

Security costs are eating up a large share of expended reconstruction funds.

Security costs are eating into the funding available for reconstruction projects, forcing the U.S. to scale back and cancel projects, and delaying the implementation of other projects. According to *USA Today*, "the higher-than expected costs of protecting workers [on reconstruction projects] against insurgent attacks – about 25 cents of every reconstruction dollar now pays for security – has sent the cost of projects skyward. The result: some projects have been eliminated and others cut back." While security costs are now estimated to account for 25 percent of expenditures, State Department Inspector General Howard Krongard has "said that in some extreme cases, 80 percent of a project's cost is spent on security." (*Washington Post*, 10/19/05)

A small portion of reconstruction funds has actually been spent on reconstruction projects, with limited results. It appears that significantly less than \$7 billion of the \$20 billion appropriated has actually been spent on reconstruction activities. Not surprisingly, this small fraction has been minimally effective. For example, the GAO has reported that many of the reconstruction projects already completed have fallen flat. While there is not sufficient data to estimate how many projects have failed, the GAO documented that "U.S.-funded water and sanitation projects representing \$52 million of approximately \$200 million spent on completed projects," or one-quarter of the work, "were inoperable or were operating at lower than normal capacity." (GAO-06-179T)

The Return on America's Investment: A Troubling Picture

While the Administration has continuously cited a number of new schools built, new roads paved, new businesses created, and new cell phones in use, the simple fact is that Iraqis' basic needs – jobs, essential services, health care – remain unmet. Our reconstruction efforts have been marred by delays, mismanagement, and waste. Moreover, despite Administration's promise that the world community would cover the lion's share of reconstruction, it appears the United States troops and taxpayers are bearing the majority of the cost to rebuild Iraq.

Iraq's economic progress has fallen significantly short of Administration's goals.

Clearly, efforts to grow Iraq's economy have been challenging because Saddam Hussein left his nation's economic infrastructure in shambles. However, the Bush Administration has exacerbated the challenge by its poor planning and policies. The nonpartisan governmental organization U.S. Institute of Peace has concluded that "the coalition's failure to prevent rampant post-invasion looting had a lasting adverse impact upon reconstruction" and "the coalition's economic accomplishments were overshadowed by its unfulfilled promises. During the occupation, the CPA [Coalition Provisional Authority] failed, or was unable, to:

- prevent rampant looting of infrastructure and production facilities; attract foreign investment;
- implement its newly enacted economic regulations;
- restructure state-owned industries;
- fulfill promises of substantial job creation;
- meet targets for electricity production (despite increases);
- restore oil output to prewar levels;
- eliminate costly, distorting energy and food subsidies; [and]
- combat corruption in reconstruction projects." (USIP Special Report 138, April 2005)

The Bush Administration has repeatedly trumpeted growth of Iraq's economy as a sign of progress. Certainly, any growth is a positive and welcome sign. However, there are several indications that Iraq's economic growth may not be as strong as the Administration suggests. The World Bank projects a real growth rate in the Iraqi Gross Domestic Product of 3.7 percent for 2005. But where the Administration uses this figure as a cause for optimism, the World Bank itself is pessimistic about that figure, reporting that "the recovery of the oil sector propelled real growth to 47 percent in 2004. But in 2005 real growth is projected to be 3.7 percent, as oil production and exports are impeded by sabotage and dilapidated infrastructure." (www.worldbank.org/iq) And despite record-high oil prices, some experts now expect GDP growth to be even lower than expected. The most recent *Economist Intelligence Unit* states, "with oil output likely to rise more modestly than previously forecast, we have adjusted down our projection for real GDP growth and oil revenue." (10/31/05) In addition, consistently high unemployment and underemployment rates demonstrate that the gains in Iraq's economy are not dispersed across the

population and that new jobs are not being created in large numbers, most acutely in the Sunni community where the insurgency is strongest.

Over half of Iraqis are unemployed or underemployed. Although we know that unemployment among young Iraqi men is likely to create an easy pool for insurgent recruiting efforts, over half of the Iraqi population remains unemployed or underemployed. Unemployment in Iraq has remained steadily above 25 percent (consistently estimated between 27 and 40 percent) since the war began, with no measurable change since at least January 2004. (Brookings Institution Iraq Index) These figures are twice as high among young Iraqi men – the most attractive recruiting pool for the insurgents. (*World Bank* country update, September 2005) Underemployment is also a serious problem, with 20 to 25 percent of the working age population underemployed. (Michael O’Hanlon, *Japan Times*, 10/17/05)

Electric Production Remains Below Pre-war Levels. Iraq’s electricity supply is still below pre-war levels. The average supply measured in megawatt hours was 95,000 prior to the war; in November 2005 it had fallen to 89,900. (Brookings Institution Iraq Index) The Administration’s own reports show no sustained progress in improving electricity supply in the last two years. Currently, the nation averages 11.9 hours of electricity per day; residents in Baghdad average only 6.1 hours per day. Unfortunately, with the onset of winter, the falling supply of electricity has been matched by a rise in demand, creating a growing chasm between what the Iraqi people need and what they are receiving. (State Department Weekly Status Report, 11/30/05)

Much of the country still lacks access to clean water and sewage systems. Only 25 percent of our reconstruction funds appropriated for this purpose have actually been spent. Not surprisingly, according to *USA Today*, “nearly half of all Iraqi households still don’t have access to clean water, and only 8% of the country, excluding the capital, is connected to sewage networks.” The Administration’s plan was originally to build 81 water and sewage treatment programs, but it has scaled back its list to 13 projects. (*USA Today*, 10/10/05)

Iraq’s health care system offers little to most Iraqis. The *Los Angeles Times* reports that, “although reliable statistics are scarce, it does not appear that U.S. spending has markedly improved Iraq’s bleak healthcare landscape. Easily treatable conditions such as diarrhea and respiratory illness account for 70% of deaths among children, according to a 2004 Iraqi Health Ministry study...The Health Ministry estimates that as many as 25% of Iraq’s 18,000 physicians have fled the country since the U.S.-led invasion in March 2003.” The *Times* notes, “a U.N. study this year found that a third of the children in southern and central Iraq are malnourished, the same as in 2003. And the American contractor in charge of revamping the health care system completed less than half its goals, according to a scathing U.S. audit.” Furthermore, slow progress in other areas of reconstruction have impacted health care: a 2004 survey of 214 Iraqi clinics found that “only 10% had a regular water supply, only half had electric generators, and less than a third had ‘functional and relatively clean’ toilets.” (*Los Angeles Times*, 10/30/05)

Oil production – Iraq’s chief source of revenue – remains below pre-war levels. *USA Today* reports that, despite progress in fixing Iraq’s antiquated oil production system, the country’s oil wells produce about 1.9 million barrels of crude oil a day, lower than 2003 levels and well under the 3.5 million barrels Iraq was producing before the 1991 Gulf War. (10/10/05) One problem is that sabotage by insurgents is slowing production by about 500,000 barrels of oil per day, or about \$28 million each day. (*Houston Chronicle*, 11/18/05) Oil production reached a peak of roughly 2.5 billion barrels a day in March and April 2004 – over a year and a half ago – but has fallen substantially since then. Despite the repeated statements by Administration officials that proceeds from Iraq’s oil production would pay for the rebuilding of Iraq, the truth is that such statements, like so many other Administration predictions about Iraq, have proven to be false.

International Contributions. In addition to failing to ensure a significant return on America’s investment in Iraq’s reconstruction, the Bush Administration has also failed to rally the international community to follow through on its commitments to support Iraq’s reconstruction. Other nations and international financial institutions pledged approximately \$13.3 billion in assistance through loans and grants for Iraq’s reconstruction at the Madrid Donors Conference in 2003, more than two years ago. Through March 2005, Iraq has been able to access just \$436 million in loans and only \$167 million in grants – a total of less than five percent of the international community’s pledge. (GAO-05-876) The State Department now reports that the international community has made available to Iraq \$3 billion out of the \$13.3 billion pledged; however, it is unclear how much of that funding Iraq has been able to use. (Section 2207 Report, October 2005)