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The Role of US Aid in a Strategy for Iraq

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Anthony H. Cordesman

The US is now caught in the dilemma of partial success. Failure in Iraq is easy to deal with; it means quick withdrawal. Full and rapid success is easy to plan for and it is easy to create programs and budgets that reinforce what already exists. Al Qa'ida's reversals of the last eight months, however, have created a very different situation.

This paper suggests that US aid must be a critical part of any US effort to build on the success achieved to date, and to deal with the problems that remain. Specifically, it makes four major suggestions:

- Aid must be tailored to act as a major incentive for security and political accommodation.
- All aid efforts must be integrated into a cohesive plan, program, and budget and clearly tied to the Joint Campaign Plan.
- US aid will be needed for at least 3-5 years to come, and well into the next Administration. Plans are needed that provide consistent efforts over time.
- Current aid efforts lack transparency and meaningful measures of effectiveness, and are not explained or justified in terms credible enough to win lasting support from the Congress, American people, and outside analysts and media. Sustaining the necessary effort requires both transparency and depth.

The Most Important US Weapons: Time, Patience, and Resources

The US still faces a high risk of failure in creating a stable and secure Iraq. There is still a risk that Sunni Islamist extremists can become resurgent if Iraq's Sunnis are not given a fair share of wealth and power, or if the Iraqi central government continues to delay in supporting and co-opting the tribal uprising in Anbar.

Al Qa'ida in Iraq, however, is only part of the challenge. The Baghdad area is secured by US-led forces, but is not permanently secured, and can plunge back into sectarian conflict and strife. Diyala and North Central Iraq remains a combat zone. Southern Iraq is effectively being abandoned to an intra-Shi'ite power struggle -- led by the Hakim and Sadr factions -- before Iraqi forces are ready and the central government has a functional presence. Al Qa'ida elements are resurfacing in the north around Mosul, and the tensions between Arab, Kurd, and Iraq's minorities continue to grow and become more violent.

None of these developments indicate that Iraq will be a failure, but virtually any of them makes it clear that it is far too early for the US to claim any kind of victory, and that creating security and stability are going to take years of additional US effort. No one can

predict a timeline at this point, or know exactly how much US military and aid support will be needed.

What is clear is that the prospects for any form of decisive success in 2008 are very slim to none, and that US support will be required well into the next Administration. The US is far better off planning for a slow phase down of its efforts over the life of the next Administration, than setting more impossible deadlines and making any kind of coherent plan and strategy impossible.

The Broader Strategic Context

Aid dollars are only one element of such a strategy. The US needs to be very careful about rushing down troop levels. It is obvious that the current mix of US and Iraqi forces is still very marginal relative to the threat from Sunni insurgents and hard-line Shi'ite militias. The progress in developing the Iraqi Army, while very real, is occurring at rate where the goals set for 2008 in early 2007, now probable need to be slipped to 2009.

The rapidly evolving mix of various Iraqi police, security, and militia forces requires a very strong US aid effort well into 2010, and often an embedded US advisory team. This does not mean that the US needs to maintain its present force levels, but a run-down to a limited US combat presence in a “strategic overwatch” role – a force of three to five brigade equivalents -- may easily take three or more years. It is also clear that rushing down below 15 brigade equivalents too early in 2008 can reverse the gains of 2007 by leaving too many gaps in Anbar, Diyala, and the other governorates at risk; by leaving no surplus capacity to deal with new sectarian and ethnic problems; and by forcing the Iraqi government to take over too much of the security mission in Baghdad too soon.

The pivotal issue remains Iraqi accommodation at the local, regional, and national level, and such accommodation will be awkward, unstable, and inevitably produce new incidents, clashes, and at least local patterns of violence and sectarian and ethnic cleansing. US patience should not extend beyond this spring if the Iraqi's do not make a major beginning in *some* areas.

Some progress, however, will be enough. It should be clear that there is virtually no prospect that Iraqis can agree on every key aspect of accommodation in 2008, much less implement such accommodation in a stable form. Key issues like bringing Ba'athist and non-Ba'athist Sunnis back into the power struggle, sharing oil revenues and resources, dealing with federalism and Kurdish autonomy, providing local security and something approaching a meaningful rule of law, dealing with more than four million displaced persons, and creating effective governance are going to take some three to five years of aid before Iraq's new political system, government, and security forces can really take over.

Mandating benchmarks can't threaten Iraqis into making existential compromises and Iraqi legislative action does not, by itself, forge accommodation or implement tangible,

workable programs. Instant reconciliation is a dangerous fantasy, and any degree of mutual Iraq trust in practical forms of accommodation will take at least several to build.

Moreover, Iraq's weak and Shi'ite dominated central government, still developing security forces, and lack of clear national leaders and popular political parties mean that aid will continue to be needed at the local and provincial level for at least several years. Some form of US pressure and "sticks" will remain important, but "carrots" are going to be the key in many cases. Accommodation must ultimately be built on incentives and growing confidence, not on threats and the fear of something worse.

Dollars and Bullets: Aid to Date

One of the first lessons the US military drew about its operations in Iraq was that dollars were as important as bullets. This lesson initially led to the Commander's Emergency Response Program or CERP – money that could be used immediately in the field to help bring stability, buy local support, and create a climate of security. These lessons have been reinforced steadily over time, creating a civil equivalent of CERP, and steadily expanding the role of aid teams in the field and groups like the Provincial Reconstruction Teams (PRTs) and more recently the Embedded Provincial Reconstruction Teams (EPRTs).

Encouraging and supporting accommodation, and backing the military progress made in 2007, is going to require the same focus on aid as well as bullets, and aid at a broad range of different levels. The US mission in Iraq already recognizes this, and aid is evidently going to be a key element of the Joint Campaign Plan that is being developed to define a practical strategy, plan, program, and budget request for continued US action in Iraq. This plan is also being developed at a time when there is far better cooperation between the US State Department and the military than in past years, and a full ambassador has been appointed to coordinate the various aid efforts in Iraq – a step that should have been taken in 2003 and not in 2007.

It is clear, however, that the US still faces major problems in formulating and executing an effective aid program; that it must build on a troubled and flawed foundation of past programs; and that it must persuade what will at best be a doubting Congress to fund a sustained future effort. The fact is that Iraq has already received massive amounts of aid. The October 30, 2007 report to Congress by the Special Inspector General for Iraqi Reconstruction (SIGIR) put the total value to date of US, other foreign, and Iraqi reconstruction programs at \$103.9 billion. This included \$45.4 billion in US funds, \$18.4 billion in international support, and \$40.1 billion in Iraqi funds.

The total value of US aid was divided in to four major and 28 smaller accounts -- which SIGIR, the GAO, and others found still lacked any clear strategic plan, coordination, effective auditing, and meaningful measures of effectiveness nearly five years after the fall of Saddam Hussein. The total included \$13.9 billion for the Iraqi security forces (ISFF), \$2.3 billion for the Commander's Emergency Response Program, \$3.3 billion in Economic Support Funding (ESF), \$20.8 billion in Iraq Relief and Reconstruction Fund

(IRRF) money, and \$5.0 billion in funding for Other Relief and Reconstruction Funds (in 28 different accounts).

In spite of SIGIR and GAO efforts, it is extremely difficult to know how most of this money was spent, what it achieved, how effectively it was used, and how much of the requirement it meant. In spite of some consistently Panglossian reporting by the various agencies administering the aid efforts, independent audits and review have consistently found it is extremely difficult to go beyond the broad allocation of money by program or contract and assess the impact of such spending. Moreover, many of the claims that have been made about the effectiveness of such aid have either used meaningless metrics or ones carefully chosen to claim success when time showed such progress had not occurred and public opinion surveys showed most Iraqis either felt aid efforts have failed or had not occurred in ways that affected them.

What is clear is that most of this aid money has now been disbursed or spent. Most was spent on an annual basis. The State Department also reports that \$18.7 billion of the longer term aid funding that is part of the \$20.8 billion in Iraq Relief and Reconstruction Fund (IRRF) was disbursed as of December 5, 2007, and \$20.1 billion was obligated. A total of \$7.2 billion of the \$13.9 billion in ISSF aid had been spent, but most of the rest was obligated.

There seems to be no clear way at this point in time to figure out how much additional money the Congress will actually fund as part of its FY2008 appropriations, but the President's request for FY2008 did not call for the US to sustain past levels of spending, or to provide all the funds needed to finish and transfer many of the aid efforts that have been completed or are underway. No longer term funding plan or equivalent of a five year aid plan, program, and budget have been made public, and nothing in SIGIR or GAO reporting indicates any coherent plan for longer term aid spending existed before the US mission in Iraq began to develop its Joint Campaign Plan.

It is also difficult to determine how much and how well Iraq can now spend its own funds on development, accommodation, and security. The Department of Defense did, however, report in October 2007 that Iraq was now making a substantial effort:

The Iraqi Government 2007 budget that does, however, provide \$10.1 billion for capital investment and provincial reconstruction. The provinces have now obligated the \$2.3 billion in reconstruction funds from 2006, many of which were carried into 2007, and have also obligated 47 percent of their \$2.4 billion in 2007 funds. The focus is now on disbursement. Of note, the Governor of Anbar signed 17 contracts worth \$5 million in August after the provincial government returned from their period of seclusion in Baghdad due to security concerns in Anbar.

Dollars and Accommodation: Aid to Come?

Iraq and Afghanistan both provide brutal lessons about the need for better central planning and administration of aid efforts inside the U.S. government, for better auditing systems, for joint civil-military efforts in wartime theaters, for more reliance on local authorities and contractors, for realistic analysis requirements, for monitoring of public

opinion, and for meaningful and honest measures of effectiveness. The key to success in both Iraq and Afghanistan, however, is to draw on these lessons to move forward, not focus on past mistakes.

It is also clear that if aid can be used to help Iraq reach accommodation, and to bring stability and security, this will be far more cost-effective than using (and risking) US troops or paying the longer term cost of failure. While the Congress has still not voted for a full defense bill, the Senate voted on December 14, 2007 to authorize \$696 billion (\$479.7 billion) in military spending, including \$189 billion (\$130.3 billion) for the wars in Iraq and Afghanistan. The Congress is expected to add some \$70 billion (\$48.25 billion) in war spending to a separate government-wide spending bill. The Senate bill also included several provisions intended to increase the oversight of contractors and the rebuilding of Iraq and Afghanistan. More specifically, it would require that private security contractors working in a war zone comply with military regulations and orders

Aid dollars are not a substitute for an adequate level of US forces, but they have proved to be a cost-effective force multiplier. *If* the US can develop the right programs, *if* the gains against Al Qa'ida in Iraq over the last six months can be consolidated, and *if* the Iraqi government shows the ability to use aid effectively and to support accommodation; US aid can provide a substantial increase in security in the near term. These factors are also the key to sustained US influence and success in Iraq.

At the same time, the US civil and military aid will need to be tailored to a new set of requirements. It will also need to be sustained for at least several years to come, to phase down more slowly than US forces, and to phase down in proportion to the real world progress the Iraqi government makes in building its capacity in every critical area.

In practice, much will depend on the quality of the Joint Campaign Plan being developed by the US Mission. No one on the outside can credibly determine Iraqi needs, US priorities, the status of existing programs and efforts, Iraqi self-financing capability, and the combined practical and political impact of new US efforts and funding. Warfighting, enhancing accommodation, and aid are almost certain to be inextricably linked for at least the next two the three years, and it is clear that aid efforts must be flexible enough to be able to rapidly respond to circumstances, rather than tied to plans and efforts that do not prove successful or quickly become out of date.

That said, the US government does need to make sure that its future aid plans are far better structured, implemented, and audited than in the past. Accordingly, below are twenty questions that Administration witnesses, aid requests, and documents should explicitly address in shaping a future aid program.

1. What plans does the USG have to help Iraqis reach political accommodation?

US aid activity should only be part of a broader US effort to help Iraqis reach political accommodation. The programs to support this effort, and US goals

and plans to achieve them, need to be clearly laid out in both the Joint Campaign Plan, and in aid plans and progress reporting. The false precision and deadlines of the Congressionally mandated benchmarks create unrealistic expectations and judgments. The US cannot standby, however, and offer aid without conditions or fail push the Iraqis towards more meaningful goals for progress

2. What is the strategy, plan, program, and estimated five-year budget cost of USG efforts?

The Congress may not appropriate long-term aid budgets, but the USG needs to clearly demonstrate that it has a workable, well thought out, and integrated long-term program that is cost-effective, and affordable, and deserves continuity over time.

Such a use of planning, programming, and budgeting -- backed by suitable auditing measures of effectiveness -- can simultaneously act as a powerful incentive for political accommodation and as a way of exposing and challenging Iraqi misuse of funds and corruption.

Transparency is also key to sustained Congressional and public support, and to working with the Iraqi government at all levels, making the Iraqi people aware of the US effort, and defusing conspiracy theories.

3. Does the USG have a detailed strategy, plan, program, and proposed budget to sustain aid activity after FY2008 funding expires? To cover the transition to the next Administration and beyond?

The next few years will be a critical. The US cannot afford to lose focus during a Presidential campaign year, and during the 3-7 months a new Administration can take to complete its confirmation process and begin full-scale operation. “Bridging” the efforts of the current and future Administration will be a key aspect of any aid plan and its execution.

4. How does the USG assess the spending activities of the Iraqi government, coordinate its plans with Iraqi plans, and plan for increased Iraqi planning, management, and execution of the overall reconstruction and development effort?

The fact the Iraqi government is now spending over \$10 billion on reconstruction and development is not a measure of success. The question is what is the Iraqi government is spending money on, how does such spending impact on accommodation and stability as well as development, and does such spending promise to be effective.

Moreover, US aid should be used to lever, rather than substitute for, Iraqi government spending, and clear signal that the US aid effort will phase down over time rather than continue indefinitely.

5. What does the USG do to plan, coordinate, and assess the overall aid effort in Iraq within the U.S. government?

Future US aid plans and programs must be an integrated interagency effort combining all aspects of the civil and military branches. It must be clearly documented that all US aid efforts are part of an integrated strategy and plan, and that all agency and individual programs and planned spending is tied to this plan. At the same time, a clear, central line of authority must be defined inside Iraq, and for interagency coordination in Washington.

There also should be one single integrated reporting and accounting for all aid activity. There are legal and functional reasons why the total US aid effort has been divided into four major and 28 smaller accounts. There is no reason why they are not integrated at the planning, programming, and reporting level, and there is no excuse for the present mix of highly compartmented reports and fiscal data. There should be an integrated plan for Iraqi Security Forces Fund (ISFF), Commander's Emergency Response Program, Economic Support Funding (ESF), Iraq Relief and Reconstruction Fund (IRRF) money, and funding for other relief and reconstruction funds in some 28 different accounts.

6. How are the USG plans, programs, and activities coordinated with the activities of other aid donors and the Iraqi government?

While US-Iraqi coordination is likely to be the key, it is equally important to show that US plans and programs take full account of the actions of other foreign donors, particularly the remaining members of the Coalition.

7. What programs has the appointment of the first aid coordinator in Iraq, Ambassador Reis, made in developing a coordinated overall aid program, plan, budget request, and measures of effectiveness?

The lack of a central coordinator with real authority -- and exercising that authority to bring together all elements of the aid effort, including measures of effectiveness -- was a key problem during 2003-2007. It should be made explicitly clear that these problems have been solved, what the new lines of authority are, and how they relate to lines of authority in Washington.

8. What has the USG done to create measures of effectiveness that validate its requirements, the cost-effectiveness of its programs, and their sustained impact in meeting validated requirements over time?

Nothing the aid community has done in Iraq, Afghanistan, or in the past has demonstrated that good intentions are a substitute for demanding measures of effectiveness. Far too often, the aid community confuses spending or project starts with meaningful accomplishments. It produces vacuous statistics like the number of buildings started or completed, increases in electric generating capacity, etc.

US aid efforts and public reporting must be tied to meaningful measures of effectiveness have to measure real output relative to validated requirements. These measures of effectiveness should include Iraqi public opinion polls and measures of consumer satisfaction. They should address cost and auditing issues, and show that the project has sustained impact and will be (or has been) successfully transferred to local funding and operation.

Planning, execution, and reporting need to be regional and focused on key accommodation, security, and stability issues. Iraq will face a substantial amount of conflict for at least the next three to five years, and serious problems with sectarian and ethnic divisions. The US aid effort cannot use measures of effectiveness that pretend it is taking place in peacetime in a unified country that is not a broken state. It must provide assessments that focus on key political and security issues, and trace its impact to the most relevant issues shaping Iraqi and US success.

9. What unclassified reports does the USG issue -- or contribute to -- that contain such measures of effectiveness and report upon them?

There is no credibility in a government without transparency, without credible detailed reporting, and without measures of effectiveness. Topical public affairs without substantive plans and measures of effectiveness also inevitably become exercises in bureaucratic self-glorification or self-defense, or exercises in political propaganda. It deprives governments of public and legislative support, rather than builds it.

10. How are the PRT and EPRT programs, CERP, and other local and provincial aid efforts designed and coordinated to meet needs in the field, and what are the measures of effectiveness?

Accommodation and security need to be built from the top, but it is equally important to build them at the local or provincial level where direct action can be carried out to help encourage accommodation and reduce sectarian and ethnic tension.

The level of combined aid activity impacting on given localities and governorates needs to be tailored to key security and stability challenges. If the pressure from Al Qa'ida continues to diminish, some Shi'ites may see the situation as one to exploit along sectarian and ethnic lines, and the central

government has so far been slow to act in moving towards accommodation with Sunnis unless the US has taken action. The US also needs to address the collapse of allied Coalition PRT efforts in the south (Thi Qar and Basra), and the need for aid programs targeted at the Arab-Kurdish fault line.

11. How is the USG addressing key regional problems in using aid to help bring stability and security?

The US aid strategy and program must look beyond the priorities of the central government. An effective US aid effort must be clearly and openly tied to an assessment of all Iraqi efforts, and to needs at the local and governorate level.

a. In the south and the divided Shi'ite provinces?

Intra-Shi'ite power struggles now present a major threat to Iraqi security and stability. It should be made clear what aid can and cannot do to reduce the threat of violence and factional power struggles. It is unclear how much the key rival factions – particularly the Sadr faction – will accept such aid, but the effective power vacuum left by the British could produce serious Shi'ite infighting, as well as new extremist efforts to push out Sunnis, Christians, and the more secular Shi'ites. The US also needs to be careful about the impact such struggles could have in expanding Iranian influence.

b. In Anbar and western Iraq?

The potential collapse of the tribal awakening, and Sunni willingness to move towards accommodation with the central government, are the single greatest risks of reversing the gains of 2007. This is a critical priority for aid, and the need is reinforced by the lack of any cohesive Sunni political leadership, and growing rivalry between emerging tribal leaders, local and provincial leaders, and the leaders of the Sunni political parties represented in the national assembly.

c. In Diyala and the north?

This region is another key combat theater and one needing tailored aid efforts. The potential resurgence of AQI, central government alienation of the Sunni tribes, and security in the north and along the Kirkuk-Hawijah-Bayji axis, plus Sunni-Kurd problems over Kirkuk, require major advances in accommodation that aid may be able to help incentivize or sustain.

d. In the greater Baghdad area and central Iraq?

Aid can be a powerful tool in helping Iraqis go from US-led and enforced security to mutual cooperation and some degree of trust.

e. In dealing with displacement problems and repatriation needs?

It is not enough to end excessive discrimination against mid-level Sunni Ba'athist and other Sunnis. The Iraqi government will also need incentives to deal with the repatriation of refugees and the internally displaced.

12. How are the USG, and the overall U.S. aid effort, addressing the need to provide warfighting support to commanders and needs at the local, provincial, and national level? How is the linkage between overall aid, PRT, and CERP aid activity being planned, managed, and assessed?

The US country team has gradually bridged the gap between civilian aid and military efforts. There still, however, is much to be done in ensuring that aid supports both military efforts in the field, and sustained security and stability. It is also clear that aid planning and program execution should not separate aid in governance and economic development from aid in creating effective local security forces, courts, and the rule of law.

13. How does the USG measure the satisfaction of US commanders and officers in the field with its efforts?

US military commanders generally show great appreciation and respect for the aid workers actually in the field. Many, however, feel far too few civilian aid workers are actually present in the field, and there has been far less faith in the management and coordination of aid efforts planned and managed in Washington and the Green Zone. The bureaucratic perception in Washington and the Green Zone that aid efforts are well focused and coordinated has also had little support in many military commands. The evaluation of aid should involve detailed assessments of its relevance and impact from field commanders, not just Iraqis.

US aid plans and reporting need to show that US civil and military efforts are better coordinated, that the US military has integrated civilian aid activity into US operations in the field, and that issues like security and transportation are dealt with on a team basis in the field. The US military has often had good reason to complain about the lack of adequate civilian partners in the field, but part of the blame has clearly been with the lack of military security and transportation support and willingness to give aid a suitable priority.

14. Does the USG have a detailed plan and proposed budget to ensure that existing and current projects are sustained and transferred to Iraqi funding and operation?

Both the GAO and SIGIR have raised serious questions about the ability and willingness of the Iraqi government, and Iraqis generally, to complete and

sustain many of the US aid efforts already underway. This needs explicit explanation in plans, analysis, and reporting. It should also be made clear how the US is transferring responsibility for given aspects of aid planning, execution, and auditing to Iraqi officials.

15. How is the USG helping to address the critical issue of rehabilitating and expanding Iraq's petroleum sector and exports?

Petroleum is the key source of funding for the government, accommodation, future Iraqi security efforts, and development. The IMF estimates that such revenues make up around 60 percent of GDP and 89 percent of the Iraqi government budget, with about 70% of all exports now coming from Southern Iraq. DOE/EIA reported the impact of exports on trade as follows in August 2007:

Merchandise Exports: (2006E), (2007 F) \$31.7 billion, \$30.8 billion (Global Insight)
Exports – Commodities Petroleum, Petroleum Products
Oil Export Revenues (2006E) \$31.3 billion (ITAO), IMF (\$28.6 billion)
Oil Export Revenues/Total Export Revenues (2006E) 97% (IMF)
Merchandise Imports (2006E), (2007F) \$24.3 billion, \$28.8 billion

The DOE/EIA country report on Iraqi petroleum development issued in August 2007 summarizes the challenge as follows:

Experts agree that Iraq may be one of the few places left where vast reserves, known and unknown, have barely been exploited.

After more than a decade of sanctions and two Gulf Wars, Iraq's oil infrastructure needs modernization and investment. Despite a large reconstruction effort (including Iraq Relief and Reconstruction Fund (IRRF) support of \$1.72 billion), the industry has not been able to meet hydrocarbon production and export targets since 2004. According to the January 2007, Special Inspector General for Iraq Reconstruction (SIGIR) report, Iraq's petroleum sector faces technical challenges in procuring, transporting and storing crude and refined products, as well as managing pricing controls and imports, fighting smuggling and corruption, improving budget execution, and managing sustainability of operations. Oil production has not recovered to pre-war levels, and parliament and cabinet officials are working to map out investment and ownership rights that will help move the industry forward.

Another challenge to Iraq's development of the oil sector is that resources are not evenly divided across sectarian-demographic lines. Most known hydrocarbon resources are concentrated in the Shiite areas of the south and the ethnically Kurdish north, with few resources in control of the Sunni minority...For this reason a legal framework for investment in the hydrocarbon sector remains a main policy objective. According to reports by various U.S. government agencies, multilateral institutions and other international organizations, long-term Iraq reconstruction costs could reach \$100-billion or higher, of which it is estimated that more than a third will go to the oil, gas and electricity sectors. In addition, the World Bank estimates that at least \$1 billion in additional revenues needs to be committed annually to the oil industry just to sustain current production.

...According to the Oil and Gas Journal, Iraq's proven oil reserves are 115 billion barrels, although these statistics have not been revised since 2001 and are largely based on 2-D seismic data from nearly three decades ago. Over the past two years, multinational

companies, at the request of the Government of Iraq (GoI), have reexamined seismic data and conducted comprehensive surveys of Iraq's hydrocarbons reserves in locations throughout the country. Geologists and consultants have estimated that relatively unexplored territory in the western and southern deserts may contain an estimated additional 45 to 100 billion barrels (bbls) of recoverable oil. While internal Iraqi estimates have ranged into the hundreds of billions of barrels of additional oil, the seismic data under review by a host of international firms seem to be pointing to more conservative, but significant, increases. Iraq has the lowest reserve to production ratio of the major oil-producing countries.

The State Department reported on December 5, 2007, that the US had now obligated some \$1.544 billion of \$1.714 billion in IIRF, plus a significant part of the \$3.6 billion disbursed on electricity funding. The effectiveness of such aid, however, has been a virtual black box in past aid efforts, and EIA and other assessments of the Iraqi petroleum sector are scarcely reassuring. This should be a clearly focused and targeted part of any future aid effort.

It also is an area where USG aid efforts may be able to play a major role in helping Iraq solve the problem of both making as rapid an increase in production and export revenues as possible, and in helping survey the nation's total oil and gas reserves. (EIA estimates based on data now several decades old put proven reserves at 112 trillion cubic feet (Tcf) of gas, and probable reserves have been estimated at closer to 275-300 Tcf) If – as many now estimate – Iraq has substantial exploitable reserves in Sunni areas in the west, and Kurdish areas in the north, this could defuse much of the potential struggle for control of reserves and reassure Sunnis and Kurds that they can fully benefit from the nation's petroleum wealth.

Linking aid to sharing of revenues and reserves in ways that reinforce any progress made in the oil law and that supports political accommodation could have a major impact.

16. How does the USG measure the effectiveness of aid efforts in governance and improving the justice system? What are the results to date?

Throwing money at improved governance and improving the justice system is no substitute for building real-world capability at the local and provincial level. This is a critical aspect of both aid and reporting on aid efforts, and one where both total funding levels to date, and their impact, are far from clear.

This also is a critical area for improved civil-military and interagency cooperation. While the effort to use aid to build effective Iraqi military forces has had some success, the effort to create effective national and local police forces remains highly problematic – as does the role and capability of other security elements like the Facilities Protection Service.

Building Iraqi forces is becoming the most expensive single part of the US aid effort. The SIGIR reports that over 30% (\$13.94 billion) of the more than \$45 billion the US spent on aid through October 2007 was spent on the Iraqi

security forces (ISF). The phase out of major economic aid through IRRF may raise this percentage to close to 50%.

The direct funding of the ISF is also only part of the story. If one looks at the allocation of IRRF aid, a major part of the \$20.8 billion total also went to security, bringing the total to over \$20 billion:

| | Apportioned | Obligated | Disbursed |
|---|-------------|-----------|-----------|
| Security and Law Enforcement | 4,985 | 4,961 | 4,848 |
| Justice, Public Safety, and Civil Society | 2,264 | 2,244 | 2,127 |
| Total | 7,249 | 7,105 | 6,975 |

SIGIR reports that the US provided 33% of the \$4.7 billion the Ministry of the Interior spent on Iraqi forces in 2007, and 47% of the \$7.7 billion spent by the Ministry of Defense. While the US aid share of MOI spending went down from 41% to 33% between 2006 and 2007, actual spending remained about the same because the total cost of MOI activity rose from \$3.2 to \$4.7 billion. In contrast, US aid spending rose from 31% to 47% of MOD spending during 2006-2007, while the MOD spending level rose from \$4.9 billion to \$7.7 billion.

Success, however, is still slow even for the regular military. The State Department Weekly Status report for December 5, 2007 notes that only 161,380 personnel are now assigned to the 208,111 authorized manning for the regular armed forces, and that the 161,380 is a total from GOI payroll data and not personnel actually present for duty. Actual manning present for duty is probably closer to 130,000 – or around 60-65% of the total.

The National Police have an authorized force of 33,861 and around 32,500 men on the payroll. Retraining and new uniforms have not, however, solved the problem of ties to sectarian cleansing, abuses of Sunnis, and links to the Sadr and other militias.

The Border Enforcement force now has 38,751 men supposedly on the payroll for an authorized force of 38,000. Some 31,400 men of this total are said to be trained. Actual manning present for duty is unclear, but seems to be 30,000+.

The regular Iraqi police present the most serious problem. The State Department Weekly Status report for December 5, 2007 states that 255,601 personnel were assigned to an authorized manning level of 271,850. Once again, however, this is a total for GOI payroll data and not personnel actually present for duty. Actual manning present for duty is probably closer to 180,000-192,000. Equally significantly, only 142,138 of the personnel supposed on the payroll have been trained. This is 55% of those supposedly

in service, and probably is a significant exaggeration of the retention of those trained.

Many of the regular police – probably more than half -- are now recruited locally and have little or no meaningful training. Many have strong sectarian and ethnic ties and links to insurgent groups or militias. Training, equipment, and facilities remain major problems in many areas, and bribes are common for both “trained” and untrained local recruits. Passive action and corruption remain major problems.

These problems are now being compounded by the creation of large tribal forces that are to provide local security, be absorbed into the police, or given jobs – many now funded with US aid. This force seems to approximate some 70,000 hires -- although many are temporary and not yet part of any formal force. Moreover, there is another element of the ISF which is not shown in State Department reporting which seems to have a nominal strength approaching 200,000 men called the Facilities Protection Service, which is a chaotic mix of low-grade security forces with virtually no training, and strong ties to given factions.

At present, only about a third of the 491,532 men supposedly on the payroll of the Iraqi security forces consist of regular military, with some credibility as growing and effective forces. If the growing local militias and FPS are added to the total – a paper number of some 750,000 – the percentage drops to a little over 20%.

A fundamental rebalancing and restructuring of these forces is required over the next few years and must be executed in ways that bring security and stability, not a new source of tension or violence. The security forces, however, are only part of the problem. The level of courts, jails, and other elements of the rule of the law are generally even weaker and more unstable than the total mix of Iraqi security forces.

It is clear that the US aid program has so far made extremely slow progress in creating effective courts and criminal justice capabilities in the field. The rule of law is critical in making the transition from military and paramilitary “win and hold” operations to any lasting form of security and stability. It is equally critical to reducing Iraq’s rampant levels of organized and street crime, and sectarian and ethnic tensions and cleansing. Government presence, government services, and transfers of funds are also critical elements of going from “win and hold” to build.

The ability to formulate effective aid programs in these areas will be a key test of both whether the future aid effort has overcome past problems, and whether it is focused on current and future needs.

17. How does the USG measure its impact on critical issues like unemployment and underemployment? On the levels of services provided to ordinary Iraqis in given cities and regions?

Macroeconomic data are not unimportant, but they say nothing about how Iraqis perceive their lives and prospects, and the extent to which aid and government services enhance security and stability. Data on inflation, total oil earnings, and GDP have little practical impact where unemployment and underemployment exceeds 30%, with much higher levels for youth. Electricity, water, and sewer capacity is equally meaningless if it is not delivered to the people in combat or troubled areas. Aid needs to be measured in terms of the end user.

Far too much of the aid planning and reporting to date has talked broadly about job creation, increases in investment, and macroeconomic trends without addressing the impact of USG, other aid, and Iraqi government efforts on the actual living standards and perceptions of the ordinary Iraqi. It has not focused on the critical issue of youth employment, or addressed the conditions, needs, and progress in high risk or combat areas. There has been little or no discussion of the impact of aid and other efforts on insurgent and militia recruiting.

18. How does the USG assess Iraqi satisfaction with its efforts at the national, governorate, and local level? How does the USG reaction to the negative results of public opinion polls by groups like D-3, Oxford Analytica, and ABC/BBC/ARD?

The US does not need politicized polls to show off claimed success. It needs to know Iraqi perceptions and know them in terms of Iraq's sects, ethnic groups, and regions. Again, such data should be transparent and serve as ongoing benchmarks of the success of the US aid effort.

19. What has been the impact of the detailed audits the USG has made of its aid efforts to date, of the levels of success and failure, the impact of waste and corruption, and the percentages spent on overhead and security versus program?

US government reviews of the aid effort should not take place in a vacuum. Aid reporting should specifically address criticism and suggestions, and describe the reaction and success of remedial measures.

20. What specific suggestions and criticisms by SIGIR has the USG validated and what specific actions has the USG taken in response?

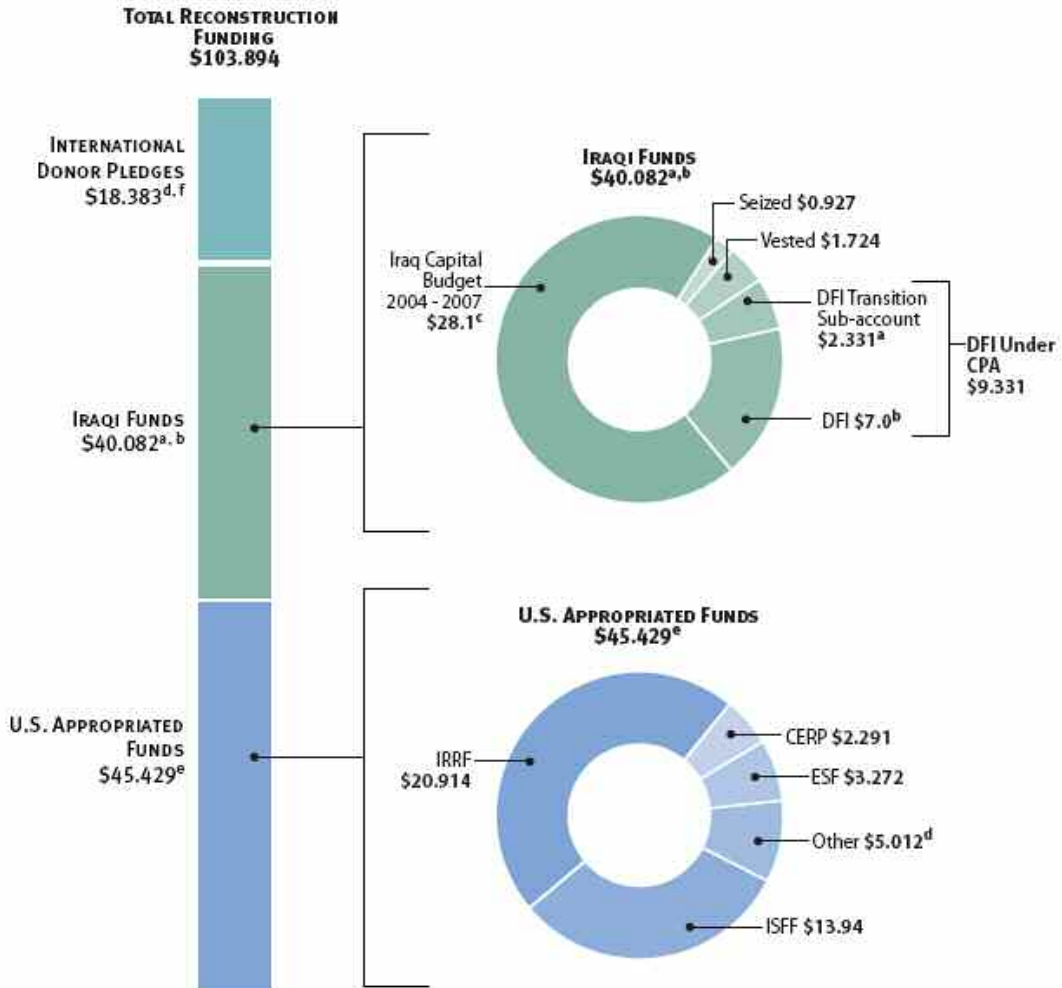
SIGIR is only part of the assessment effort, but it is a particularly critical one. Its recommendations deserve special attention, and if SIGIR is found to have

problems with its integrity or effectiveness, it should be fixed, not disbanded. If there is any single lesson about managing aid that comes out of the Iraq War, it is that the aid community, the US military, internal inspector generals, and US contractors cannot be trusted to be self-policing or rise above political expediency and bureaucratic politics. The Congress, American people, and Iraqis need to see transparent review of the effectiveness and integrity of the aid effort.

In short, dollars -- like bullets -- need to be aimed, and success needs to be judged on the basis of whether they hit their target. This will be anything but easy. No one can force accommodation on Iraq – either through carrots or sticks. The practical answers to many of these questions may be that the Iraqi government and Iraqi factions will not accept the kind of conditional aid that is needed. The US must, however, try to use aid as effectively as possible to meet Iraq's near term needs for security and accommodation. There will be no long-term the US can influence without such progress.

Figure 2.1

SOURCES OF IRAQ RECONSTRUCTION FUNDING - \$103.894 BILLION
\$ Billions



a. Includes August 11, 2004 transfer of \$86 million cash from the Central Bank of Iraq for CERP at the authorization of the Ministry of Finance.

b. In previous Quarterly Reports, SIGIR reported approximately \$20 billion in DFI cumulative deposits to fund Iraqi government operations and reconstruction programs. SIGIR has refined that number to reflect only reconstruction funding, which is approximately \$7 billion, according to GAO audit 05-876 (July 28, 2005, p. 2).

c. U.S. Embassy, Iraq, response to SIGIR data call, October 15, 2007.

d. May include humanitarian aid or other types of assistance.

e. Where Iraq-only appropriations are unavailable, SIGIR assigned 85% for Iraq based on historical trends.

f. International donor pledges are discussed in detail later in this section.

| U.S. P.L. 110-28 "BENCHMARK" | ICI COMMITMENTS BY THE GOI | PRESIDENT'S PROGRESS REPORT* | GAO* |
|--|--|---|--|
| Constitutional review completed (i) | An Inclusive constitutional review. (3.1.2) | Satisfactory: Constitutional Review Committee formed. | Not met: No amendments passed and no referendum scheduled. |
| De-Ba'athification legislation enacted (ii) | De-Ba'athification Committee will be restructured and divested of its political aspects. (3.3.11) | Satisfactory: Laws not passed but progress made. | Not met: Laws drafted. |
| Hydrocarbon law implemented (iii) | Develop an energy sector that meets Iraq's needs and maximizes the benefits of hydrocarbons for all Iraqis, reinforcing national unity and institutions. (4.5) | Unsatisfactory: progress toward enacting and implementing law is unclear. | Not met: 3 of 4 components drafted, none under consideration. |
| Creating semi-autonomous regions (iv) | No comparable benchmark. | Satisfactory: Laws passed with a delayed effective date. | Partially met: Law enacted, elections slated for 2008. |
| Provincial election laws enacted and date set (v) | The GOI will set a date for governorate and municipal elections for early to mid 2007. (3.1.2) | Mixed: Although a commission has been established, other key elements are lagging. | Not met: Commission law enacted and implemented; supporting laws not enacted. |
| Addressing amnesty (vi) | Proposed law and a series of confidence-building measures for a Disarmament, Demobilization, and Re-Integration (DDR) program, including an amnesty program consistent with accepted norms of transitional justice and appropriate to the Iraqi context. (3.2.3) | No Assessment: "No assessment can be made until the necessary preconditions have been reached for granting general amnesty." | Not met: No law drafted. |
| Legislation for militia disarmament, ISF accountable to central government (vii) | Create political agreement and the legislative framework necessary for the disbanding of militias, including legislation to control the possession and proliferation of weapons. (3.2.3) | No assessment: "No assessment can be made until the necessary preconditions have been reached for implementing a strong militia disarmament program." | Not met: No law drafted. |
| Baghdad security plan committees established (political, media, economic services) (viii) | Conduct outreach programs to ensure support and implementation of the Baghdad and Basrah security plans. (3.2.1) | Satisfactory: Operationalization of non-kinetic policies and services in support of Baghdad Security Plan. | Met: Committees established. |
| 3 trained and ready brigades to support the Baghdad Security Plan (BSP) (ix) | Operation BSP—specific benchmark. | Satisfactory: Performance is leading to growing confidence in ISF's counterinsurgency experience. | Partially met: Forces provided some of limited effectiveness. |
| Security officers with tactical and operational independence from political interference (x) | The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1) | Mixed: PM and others working to curb sectarian violence. Unsatisfactory progress at eliminating political intervention throughout the chain of command. | Not met: Political intervention continues. |
| Ensure ISF provide even-handed enforcement of law (xi) | The government will work with international partners to develop well-trained, disciplined, and capable Iraqi security forces that fully understand and respect human rights and the rule of law. (3.2.1) | Mixed: The Iraqi Army has made progress in even-handed law enforcement. Some elements of the Iraqi Police still act with a sectarian bias. | Not met: ISF continue to be engaged in sectarian-based abuses. |
| Assuring the BSP eliminates safe havens for "outlaws" (xii) | Operation (BSP)—specific benchmark. | Satisfactory: In accordance with assurances Coalition forces conduct operations in all areas. | Partially met: Militia infiltration of ISF enables some safe havens. |
| Sectarian violence reduced. (xiii) | As a priority of the GOI, a Disarmament, Demobilization, and Re-Integration (DDR) program, aimed at the dissolution and re-Integration of militias. (3.2.3) | Mixed: sectarian violence reduced but militia control over local security is unsatisfactory. | Not met: Militias control some local security; unclear where sectarian violence has decreased. |
| A plan for joint security stations in Baghdad neighborhoods (xiv) | Operation (BSP)—specific benchmark. | Assessment: "The Government of Iraq has made satisfactory progress toward establishing the planned Joint Security Stations in Baghdad neighborhoods." | Met: 32 of 34 stations established. |
| Increasing the number of independently capable ISF (xv) | Developing and sustaining ISF to targeted and authorized strengths and capabilities with the aim of achieving self-sufficiency. (3.2.1) | Mixed: There is progress in development and operations of ISF but increasing the number of independently operating ISF units is unsatisfactory. | Not met: Number of independently operating units has declined. |

| U.S. P.L. 110-28 "BENCHMARK" | ICI COMMITMENTS BY THE GOI | PRESIDENT'S PROGRESS REPORT* | GAO ^b |
|--|--|---|---|
| Protection for the political rights of minority parties (xvi) | The government of Iraq will continue its efforts to expand the range of participation for groups interested in the [National Reconciliation] Initiative, regardless of their ideological or political orientation, [including] establishment of inclusive, legitimate, and sustainable political institutions. (3.1) | Satisfactory: Rights of minority political parties are protected. | Met: Legislators rights protected; minority citizen rights protected. |
| \$10 billion of Iraq revenues spent on reconstruction (xvii) | Commitment will ensure that legislation, regulation, systems, and processes are in place that will allow efficient and effective disbursement of budget resources. (5.3) | Satisfactory: Progress has been made as ministries and provinces are executing a greater portion of budgets than in prior year. | Partially met: Funds allocated but unlikely to be spent. |
| Ensuring that political authorities do not undermine or make false accusations against the ISF (xviii) | The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. (3.2.1) | Unsatisfactory: Evidence of government's effort to mitigate the issue, there remains much to be done. | Not met: unsubstantiated allegations continue to be made. |

Notes:

- ^a The President's assessment is to be made in relation to whether "satisfactory progress" in meeting the benchmarks has been achieved (Section 1314(b)(2)(A) and (D)).
- ^b The GAO metric for benchmark assessment is whether or not the benchmark has been achieved.

TABLE 1.1

