



Increased Costs of Iraq Demand Increased Accountability

The White House appealed to Congress on September 8 for an additional \$87 billion in spending for the continued occupation and reconstruction of Iraq and Afghanistan in 2004. This follows the \$65 billion that the White House recently received for its activities in Iraq in 2003. Of the \$87 billion, \$66 billion would be directed towards military operations, and \$21 billion would go towards reconstruction activities in Iraq.

It is now apparent that what was once billed as a quick yield investment in the reconstruction of Iraq has become a heavy burden for American taxpayers. Administration officials have acknowledged that the \$21 billion will fall far short of the estimated \$50-\$100 billion required for Iraq's reconstruction over the next few years. To meet this shortfall, President Bush's request relies on over \$40 billion in contributions from allies at the international donors' conference scheduled for late October in Madrid. Potential donors have made clear that their military and economic support is contingent on a UN Security Council resolution mandating a multi-national security force in Iraq and transfer of political control to an interim Iraqi government. These nations also insist on greater transparency in the management of Iraqi assets, and a timeline for the prompt transition to full Iraqi self-governance, including a new constitution and national elections.

The Cost

The Administration has admitted that its initial claims that Iraq's oil revenues would be able to cover the huge costs of reconstruction were vastly overstated. US officials project Iraqi oil revenues at \$12 billion in 2004, and \$20 billion in both 2005 and 2006. With the cost of operating the Iraq government estimated at \$15 billion annually, this will leave very little money to help finance the massive capital investments needed to restore basic services to Iraq.

The latest White House appeal asks for \$6 billion to repair Iraq's electric power system; it is estimated that this will cost \$15 billion over the next several years. Similarly, the White House is asking for \$3.7 billion to repair Iraq's water and sewage systems, a project that could require \$16 billion over the next few years. Restoring basic education will cost up to \$12 billion, healthcare up to \$20 billion, and oil production up to \$40 billion by the decade's end. Were the Administration to adopt a multilateral approach, these costs would not have to be shouldered by the American taxpayer alone.

American taxpayers deserve to know up front the full cost of Iraq's reconstruction and not be surprised with requests for supplemental appropriations throughout the year. The White House needs to deliver realistic cost estimates for Iraq's reconstruction over the next 5 year period so that Iraq can be fit into a long-term budgetary strategy.

In addition to demanding increased transparency, members of Congress should also insist that the Administration work multilaterally to rebuild Iraq's infrastructure and economy, involve Iraqis at all policymaking levels, and develop a comprehensive plan for returning sovereignty to Iraq.

Congressional Oversight Recommended for Iraq

Any sound funding strategy for Iraq must include the following principles:

A Political Map for International Involvement

- ▶ A feasible strategy as to how the US will obtain large-scale international participation in Iraq.
- ▶ A general schedule for the rotation and eventual withdrawal of U.S. and foreign troops.

- ▶ Complete the terms of reference for the International Advisory and Monitoring Board as mandated by UN Resolution 1483 to monitor Coalition management of Iraq's revenue, so that it can begin its work. The terms should ensure that the IAMB has Iraqi voting members and that there is a plan to transfer the Board's responsibilities to an elected Iraqi successor government.

Transparent Governance of Iraqi finances

- ▶ Despite the Provisional Authority's promises of transparency in the management of Iraq's public finances, it has failed to meet its own requirements. Flows to and from the Development Fund for Iraq should be made public as required by UN Resolution 1483's transparency obligations.
- ▶ The *Program Review Board*, which determines Iraqi expenditures, should make all of its meeting minutes public, as required by its founding order.
- ▶ Full information about the execution of Iraq's 2003 budget and a draft of the 2004 budget should be made public.
- ▶ CPA accounting reports of its contracting should also be made public. Congress should require answers about which companies will profit from the billions of dollars in U.S. reconstruction spending there. The lack of transparency over contracts for Iraq's reconstruction creates the potential for abuse of taxpayer money, and also tarnishes America's image as a liberator of Iraq.
- ▶ The Administration must ensure that reconstruction spending is transparent; that contract opportunities are available to all bidders, specifically those who are able to provide the highest and speediest quality service at the lowest cost, regardless of nationality; and that Iraqis are actively involved in and increasingly in charge of the reconstruction of their country. The more Iraqis themselves carry out their country's reconstruction, the lower the likely cost to the US.
- ▶ The balance of funds in the Development Fund for Iraq should be made public and updated at regular intervals.

Full Iraqi Participation

- ▶ Among other steps, Iraqis should be given membership on the International Advisory and Monitoring Board that oversees Iraq's Development Fund. They should be included on the 11-member Program Review Board beyond their one member at present. And they should be represented on every evaluation committee that awards tenders, and have a vote in that decision.
- ▶ Iraqis should also be given an opportunity to comment extensively on the Iraqi budget for 2004, just as we Americans expect the chance to debate our own budget.
- ▶ U.S. taxpayers should demand an overall timeline for transition to Iraqi self governance, including a plan for handing over progressively more fiscal authority to the Iraqi Governing council and Cabinet.

A Fiscally Sound Budgeting Strategy

- ▶ Open a frank and open dialogue with Iraqis and the American public on the appropriate level of troop deployments. Empower Iraqis not only to implement but also to plan, lead and devise a sound security policy based mainly on Iraqi police and armed forces.

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Iraq Revenue Watch monitors Iraq's oil industry to ensure that it is managed with the highest standards of transparency and that the benefits of national oil wealth flow to the people of Iraq. Iraq Revenue Watch complements existing Open Society Institute initiatives that monitor revenues produced by the extractive industries.

In many parts of the world, the lack of proper stewardship over oil resources has resulted in corruption, the continued impoverishment of populations, and abuses of political power. By prompting governments to tackle these problems early, the Open Society Institute hopes to help Iraq avoid this plight.

The Open Society Institute currently supports a recently launched initiative, Caspian Revenue Watch, which monitors the development of oil production in the Caspian basin. The goal is to promote transparency, accountability, and public oversight in the management of oil and natural gas revenues.

Iraq faces even greater challenges than the Caspian region. If Iraq is to become an open, democratic society it will need to develop transparent accountable institutions for ensuring honest management of oil revenues.

There is an urgent need for Iraq Revenue Watch given the current occupied status of the country. The Coalition Provisional Authority and the Iraqi Governing Council should establish rules that ensure complete transparency regarding Iraqi oil revenues. So doing will foster a stable, democratic Iraq, and will protect the Coalition Provisional Authority from charges of misappropriation during this period of trusteeship over Iraq's reconstruction.

The **Open Society Institute**, a private operating and grantmaking foundation based in New York City, implements a range of initiatives throughout the world to promote open society by shaping government policy and supporting education, media, public health, and human and women's rights, as well as social, legal, and economic reform.

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