

## Reconstructing Iraq's Budgetary Institutions

### *Coalition State Building after Saddam*

The invasion of Iraq led to a costly nine-year state-building and reconstruction effort. Reconstructing Iraq's budgetary institutions proved to be a vital element of the state-building project, as allocating Iraq's growing oil revenues to pay salaries and pensions, build infrastructure, and provide essential public services played a key role in the Coalition's counterinsurgency strategy. Consistent with the literature on state building, failed states, peacekeeping, and foreign assistance, this book argues that budgeting is a core state activity necessary for the operation of a functional government. Employing a historical institutionalist approach, this book first explores the Ottoman, British, and Ba'athist origins of Iraq's budgetary institutions. The book next examines American prewar planning, the Coalition Provisional Authority's rule making and budgeting following the invasion of Iraq in 2003, and the mixed success of the Coalition's capacity-building programs initiated throughout the occupation. The budgetary process introduced by the Coalition offered a source of institutional stability in the midst of insurgency, sectarian division, economic uncertainty, and occupation. This book sheds light on the problem of "outsiders" building states, contributes to a more comprehensive evaluation of the Coalition in Iraq, addresses the question of why Iraqis took ownership of some Coalition-generated institutions, and helps explain the nature of institutional change.

**James D. Savage** is Professor of Politics at the University of Virginia. He received a PhD in political science, an MPP in public policy, and an MA in economics at the University of California, Berkeley. Savage is the author of *Funding Science in America: Congress, Universities, and the Politics of the Academic Pork Barrel* (Cambridge, 2000); *Making the EMU: The Politics of Budgetary Surveillance and the Enforcement of Maastricht*; and *Balanced Budgets and American Politics*. His articles have appeared in publications such as the *Journal of Politics*, *Review of International Political Economy*, *Legislative Studies Quarterly*, *Comparative Political Studies*, and *Public Administration Review*. He is the recipient of numerous fellowships and awards, including the American Political Science Association's Harold D. Lasswell dissertation prize, an Olin-Bradley postdoctoral fellowship at Harvard University, a Council on Foreign Relations–Hitachi International Affairs fellowship, a Fulbright–European Union Affairs fellowship, and a Jennings Randolph Senior Fellowship at the United States Institute of Peace.

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JAMES D. SAVAGE

*University of Virginia*



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*For Lenore*

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## Preface

The December 2011 withdrawal of American troops from Iraq ended the nine-year war that cost the United States more than sixty-five hundred military, civilian employee, and contractor deaths; more than seventy-two thousand wounded; \$1 trillion in short-term costs and perhaps another \$2 billion or more in longer-term obligations in military benefits and health care expenses; America's international credibility; and years of effort at reconstructing Iraq's state and civil society.<sup>1</sup> U.S. Coalition allies also incurred losses, including the United Kingdom's 179 military deaths. For the Iraqis, the war resulted in more than a hundred thousand dead, countless thousands of civilians wounded, and millions of Iraqis displaced from their homes. At the time this is being written, the legitimacy of Iraq's governing coalition remains tenuous. As Prime Minister Nouri al-Maliki attempts to consolidate his power by marginalizing his opposition, he ordered the arrest of Iraq's Sunni vice president, Tariq al-Hashimi; an attempt was made to assassinate the Sunni minister of finance, Rafia al-Essawi; the governor of the Central Bank of Iraq, Sinan al-Shabibi, was suspended; and Muqtada al-Sadr has called for new elections. Street protests and demonstrations that occurred during the Arab Spring reflect the Iraqi people's deep dissatisfaction with the provision of basic public services. More than a million Iraqis remain unemployed. Millions of other Iraqis fled their homeland, perhaps never to return. Corruption is endemic and undermines efforts at developing good governance and the rule of law. Regional and sectional issues threaten Iraq's nationhood and contribute to the resurgence in sectarian violence. In the midst of this familiar list of woes that challenge an embryonic Iraq, why study the Iraqi budgetary process?

<sup>1</sup> Associated Press, "Iraq: Key Figures Since the War Began," December 3, 2011. <http://news.yahoo.com/iraq-key-figures-since-war-began-205810481.html/>.



Whenever I mentioned to colleagues that I was writing about budgeting and Iraq, they presumed the budget in question was the U.S. budget, and that my subject was how many billions of dollars Iraq would cost and how much would be borrowed from abroad to finance the war.<sup>2</sup> As a public budgeting and finance scholar, however, I was curious to learn about what the Coalition was doing to help stand up Iraq's own budget. Everyone knew about the gutting and looting of Iraq's ministries and the desperate need to rebuild the country's infrastructure and for the government to pay its bills. Colin Powell warned President Bush that the invasion of Iraq meant that "You will own all their hopes, aspirations, and problems. You'll own it all."<sup>3</sup> Given my parochial interests, for me this included owning the responsibility of helping the Iraqis budget. So, in 2006 I began searching out and interviewing government officials in the agencies that might logically have a role in such a task. My interest in Iraqi budgeting was soon shared in a more prominent way, for in 2007 the ability of the Iraqis to budget became the subject of President Bush's press conferences and the congressional testimony of General Petraeus and Ambassador Crocker. Building Iraq's ability to spend its budget served the broader counterinsurgency strategy, and "budget execution" became the mantra and metric of the Coalition's various capacity-building programs. The American government, by law, raised Iraqi budgeting to a benchmark for measuring success in Iraq. Whether the Coalition could beat back the insurgency, reconstruct the Iraqi state, and provide urgently needed public services were all tied to the Iraqis' ability to budget. By definition, the term "reconstruction" refers to "the process of rebuilding degraded, damaged, or destroyed political, socioeconomic, and physical infrastructure of a country or territory to create the foundation for long-term development."<sup>4</sup> This book, therefore, is about the Coalition's struggle to reconstruct Iraq's budget, and how the Iraqis have used their budget process to create some sense of political and institutional stability in the midst of a violent insurgency, sectarian division, economic uncertainty, and occupation.

This research is based, in part, on some one hundred interviews and sustained contact with a wide range of U.S. government officials, officials affiliated with Coalition partner government agencies, donor agency officials, contractors, and Iraqi officials. Finding primary source material for this book often proved to be difficult. The debate surrounding the decision to invade Iraq and the nature of the occupation is ongoing, intensely partisan, and divisive. Reputations and careers are at stake. Moreover, it is important to remember that the United

<sup>2</sup> On the cost of the war, see James A. Baker III and Lee H. Hamilton, *The Iraq Study Group Report*, New York: Vintage Books, 2006; Linda J. Blimes and Joseph E. Stiglitz, *The Three Trillion Dollar War: The True Cost of the Iraq Conflict*, New York: W.W. Norton & Company, 2008.

<sup>3</sup> Bob Woodward, *Plan of Attack*, New York: Simon & Schuster, 2004, 150.

<sup>4</sup> Dan Snodderly (ed.), *Peace Terms: Glossary of Terms for Conflict Management and Peacebuilding*, Washington, DC: United States Institute of Peace, 2011, 44. Also see James D. Savage, "Iraq's Budget as a Source of Political Stability," *Special Report*, 328, United States Institute of Peace, March 2013.

*Preface*

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States has been effectively engaged in a war on terror since September 11, 2001, and this broader security context has been compounded by the invasion and occupation of Iraq. This state of affairs was especially acute as violence in Iraq intensified in 2006, during the 2007 surge, and through the 2008 American election. Many federal government documents remain classified; agency officials are hesitant to speak; interviews are commonly agreed to only if they are conducted off the record. Many of these individuals are civil servants who work in sensitive positions of a highly political nature, and their candor and generosity may best be thanked by avoiding linking their identities with their direct comments.

I am truly indebted to a number of colleagues who offered invaluable advice on strengthening this project. John Gilmour and Melvin Leffler patiently and heroically read my entire manuscript. Martha Derthick, John Duffield, John Echeverri-Gent, Sydney Milkis, William Quandt, Herman Schwartz, Sven Steinmo, and Joseph White, each in their own way and at critical moments, provided me with encouragement and helpful comments.

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Lewis Bateman and Shaun Vigil's editorial support and guidance at Cambridge University Press proved to be invaluable.

This book is dedicated to my dear wife, Lenore, whose love, friendship, and joyful smile encouraged me through the long years of researching and writing this book.

Abbreviations

ARDP	Accelerated Reconstruction Development Program
CBI	Central Bank of Iraq
CDP	Capacity Development Plan
CERP	Commander's Emergency Response Program
CPA	Coalition Provisional Authority
CPA OMB	Coalition Provisional Authority Office of Management and Budget
CPI	Commission on Public Integrity
CRC	Civilian Response Corps
CRS	Congressional Research Service
CSO	Bureau of Conflict and Stabilization Operations
CTO	Cognizant Technical Officer
DFI	Development Fund for Iraq
DFID	Department for International Development
DG	Director-General
EPCA	Emergency Post-Conflict Assistance
ePRT	embedded Provincial Reconstruction Team
FMIS	Financial Management Information System
FSO	Foreign Service Officer
GAO	Government Accountability Office
GOI	Government of Iraq
HR	House of Representatives
IAMB	International Advisory and Monitoring Board for Iraq
ID	Iraq Dinar
IFMIS	Iraq Financial Management Information System
IIG	Iraq Inspector Generals
IMF	International Monetary Fund
IRMO	Iraq Reconstruction Management Office

IRRF	Iraq Relief and Reconstruction Fund
ISFF	Iraq Security Forces Fund
ITAO	Iraq Transition Assistance Office
KDP	Kurdistan Democratic Party
KRG	Kurdistan Regional Government
LSP	Legislative Strengthening Program
MOF	Ministry of Finance
MOP	Ministry of Planning and Development Cooperation
MSI	Management Systems International
NCCMD	National Center for Consultation and Management Development
NSC	National Security Council
NSPD-44	National Security Presidential Directive-44
OAT	Office of Accountability and Transparency
OMB	Office of Management and Budget
ORHA	Office of Reconstruction and Humanitarian Assistance
OTA	Office of Technical Assistance
PAC	Procurement Assistance Center
PDS	Provincial Development Strategy
PFM	Public Financial Management
PFMAG	Public Finance Management Action Group
PMO	Projects Management Office
PRB	Program Review Board
PRDC	Provincial Reconstruction and Development Committee
PRT	Provincial Reconstruction Team
PST	Provincial Support Team
PUK	Patriotic Union of Kurdistan
QDDR	Quadrennial Diplomacy and Development Review
RTI	Research Triangle Institute International
SBA	Stand-By Agreement
S/CRS	State/Coordinator for Reconstruction and Stabilization
SIGIR	Special Inspector General for Iraq Reconstruction
TOTS	Training of Trainers
USAID	United States Agency for International Development
WMD	Weapons of Mass Destruction