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The Bush Administration Record: The Reconstruction of Iraq

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**THE BUSH ADMINISTRATION RECORD:
THE RECONSTRUCTION OF IRAQ**

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EXECUTIVE SUMMARY

Two years ago, the Bush Administration asked Congress to appropriate over \$20 billion for reconstruction efforts in Iraq. At the time, Administration officials promised that the funds would be used to restore oil production to pre-war levels, increase electricity production substantially above pre-war levels, and provide drinking water to 90% of Iraqis. Congress gave President Bush the funds he requested, appropriating \$2.5 billion in April 2003 and \$18.4 billion in November 2003.

At the request of Rep. Henry A. Waxman, this report examines the Administration's record on the reconstruction of Iraq. The report assesses the status of reconstruction efforts in three key sectors of the Iraqi economy: oil, electricity, and water. And it compares the goals set by the Administration two years ago with the reality on the ground in Iraq today.

The report finds that the reconstruction efforts have consistently failed to meet the objectives set by the Administration two years ago. Oil production remains below pre-war levels, electricity production is unreliable and well below the goal of 6,000 megawatts of peak electricity output, and a third of Iraqis still lack access to potable water. Billions of taxpayer dollars have been spent, but there is little to show for the expenditures in Iraq.

In the oil sector, Administration officials promised the restoration of pre-war oil production levels so that Iraq could "finance its own reconstruction, and relatively soon." However, oil production and export levels have actually dropped below pre-war levels. In March 2003, Iraq produced 2.6 million barrels of oil per day and exported 2.1 million barrels per day. By August 1, 2005, production levels remained below 2.4 million barrels per day and export levels remained below 1.7 million barrels per day. From January 1, 2005, through August 1, 2005, Iraq had to spend \$3 billion to import fuels because it still cannot produce enough refined petroleum products, like gasoline, for domestic use.

In the electricity sector, Administration officials promised to increase peak electricity output to at least 6,000 megawatts. But Iraq has never come close to achieving this objective. By August 26, 2005, Iraq's peak output was just 4,635 megawatts, only slightly above the pre-war level of 4,400 megawatts. Actual summer demand was 8,600 megawatts, leading State Department officials to concede that "[w]e'll never meet demand." In August 2005, Iraqis living in Baghdad had just two hours of power followed by four hours without power throughout the day.

In the water sector, Administration officials promised to ensure that 90% of Iraqis had access to drinkable water. Yet today just 66% of Iraqis now have access to drinkable water. Even the Iraqi ministries now say that they are "disappointed with the broken promises and lack of progress on existing projects."

Two major factors have contributed to the Administration's lack of progress. The failure to provide for security inside Iraq has hampered reconstruction efforts in every sector of the economy and has resulted in the cancellation or scaling-down of planned reconstruction projects. With security costs in excess of 25% of billings under several major reconstruction contracts, billions of dollars have been shifted away from rebuilding projects in order to pay private security contractors and to train and equip Iraqi forces more quickly.

These problems have been compounded by a flawed contracting strategy. Instead of maximizing competition and oversight, the Administration opted to award cost-plus, monopoly contracts without price competition and to turn over oversight responsibilities to other contractors with conflicts of interest. These policies have invited overspending and underperformance.

ADMINISTRATION RECONSTRUCTION OBJECTIVES

Since the invasion of Iraq in March 2003, Congress has appropriated over \$20 billion in taxpayer funds for the reconstruction of the country.¹ This sum includes \$2.5 billion in an April 2003 supplemental appropriation² and \$18.4 billion in a second supplemental appropriation in November 2003.³ In addition, prior to the June 28, 2004, transfer of power, the U.S.-controlled Coalition Provisional Authority (CPA) had committed approximately \$19.7 billion in Iraqi funds.⁴

At the outset, senior officials from the Bush Administration promised that the reconstruction effort in Iraq would proceed quickly and at minimal cost to the taxpayer. In March 2003, then-Deputy Secretary of Defense Paul Wolfowitz assured members of Congress that Iraq's oil sector would be rehabilitated quickly and to such an extent that Iraq's oil revenues could fund the reconstruction effort. In congressional testimony, he stated, "We're dealing with a country that can really finance its own reconstruction, and relatively soon."⁵

In April 2003, immediately after the fall of Baghdad, the head of the U.S. Agency for International Development, Andrew Natsios, stated that "the American part" of the cost of rebuilding Iraq "will be just \$1.7 billion. We have no plans for any further-on funding for this."⁶

By the fall of 2003, it became apparent that the Iraq reconstruction would require significant federal funds. In September 2003, President Bush asked Congress to appropriate an additional \$20.3 billion for the reconstruction effort, saying the funds were needed to "help the Iraqi people build a stable and peaceful country."⁷ With minor adjustments, Congress enacted the President's request on November 3, 2003, appropriating an additional \$18.4 billion for the reconstruction.

To build congressional and public support for the supplemental reconstruction funds, the Administration made specific commitments to rebuild key sectors of Iraq's economy, including the oil, electricity, and water sectors. Many of these were detailed in a 53-page blueprint for the reconstruction effort prepared by the CPA in September 2003.⁸ According to the CPA, the reconstruction funds would

¹ Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the United States Congress* (July 30, 2005).

² P.L. 108-11 (Apr. 16, 2003).

³ P.L. 108-106 (Nov. 6, 2003).

⁴ Coalition Provisional Authority, *Development Fund for Iraq: Financial Reporting Matrix* (June 26, 2004).

⁵ House Committee on Appropriations, Subcommittee on Defense, *Hearing on FY2004 Appropriations*, 108th Cong. (Mar. 23, 2003).

⁶ *Nightline*, ABC News (Apr. 23, 2003).

⁷ Coalition Provisional Authority, *Request to Rehabilitate and Reconstruct Iraq* (Sept. 2003).

⁸ *Id.*

be used to create “a secure, economically hopeful future” for Iraq and make the country a “model” for the Mideast.⁹

With regard to Iraq’s oil production, the CPA document asserted that “[t]he funds requested will be used to repair the [oil] infrastructure ... with the ultimate goal of restoring pre-war production levels.”¹⁰ With respect to specific oil projects, the CPA promised “higher production rates,” “maximize[d] production from existing reservoirs,” “optimum production from all petroleum sources,” and an “increase [in] the total available supply of oil.”¹¹

With regard to electricity, the CPA asserted: “We have achieved the initial goal of surpassing pre-war peak output levels of 4,400 MW by Fall 2003. ... The next goal is to build to 6,000 MW by summer 2004.”¹² CPA Administrator Paul Bremer later told the House Appropriations Committee: “We intend to reach 6,500 MW towards the end of the summer of 2004.”¹³

With regard to water projects, the CPA explained that the supplemental funds for the water sector would be used “to provide potable water access to most of Iraq ... up to 75% access, then working further improvements to reach 90% access for cities, towns, rural areas and villages.”¹⁴ According to the CPA, existing rates of access to potable water were 60% in urban areas of the country.¹⁵ The CPA further said that it would reduce the rate of water loss in the water distribution network from 60% to 40%.¹⁶

METHODOLOGY

At the request of Rep. Henry A. Waxman, this report examines the progress of the reconstruction effort in Iraq, focusing on three key sectors: oil, electricity, and water. It compares the specific objectives for the reconstruction enumerated by the CPA with the results on the ground two years later in Iraq.

In order to evaluate the status of reconstruction efforts, this report relies on audit reports from the Government Accountability Office, Special Inspector General for Iraq Reconstruction, and Inspector General for the U.S. Agency for International Development. The analysis is also based on briefings and documents from the State Department’s Iraq Reconstruction Management Office (IRMO) in Baghdad.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² Coalition Provisional Authority, *Strategy for a Secure, Peaceful and Sovereign Iraq* (Oct. 2003).

¹³ Coalition Provisional Authority, *CPA Response to Additional Questions to Amb. Bremer from Sept. 24, 2003 House Appropriations Committee Hearing* (undated).

¹⁴ *Request to Rehabilitate and Reconstruct Iraq*, *supra* note 7.

¹⁵ *Id.*

¹⁶ *Id.*

FINDINGS

The Oil Sector

Over the last two years, the Administration has obligated approximately \$2.2 billion in U.S. and Iraqi funds to restore Iraq's oil infrastructure and boost its crude oil production.¹⁷ Crude oil production is an essential source of export revenue, and refined petroleum products are needed to produce electricity and operate vehicles in Iraq.

Despite this massive investment, oil production and export levels have actually dropped below pre-war levels. In March 2003, Iraq produced 2.6 million barrels of oil per day and exported 2.1 million barrels per day.¹⁸ According to GAO, by May 2005, Iraq was producing just 2.1 million barrels per day and exporting only 1.4 to 1.6 million barrels per day.¹⁹ By August 1, 2005, production levels remained below 2.4 million barrels per day and export levels remained below 1.7 million barrels per day.²⁰ The Iraq Reconstruction Management Office projects that by the end of 2005, production and export will still be below pre-war levels.²¹

Moreover, despite the Administration's spending, Iraq still cannot produce enough refined petroleum products, like gasoline, for domestic consumption. IRMO reports a 50% increase in demand among Iraqis for refined products over the pre-war level. From January 1, 2005, through August 1, 2005, Iraq had to spend \$3 billion to import fuels.²²

Poor performance and overcharging by Halliburton, the lead contractor for the oil reconstruction, have contributed to the lack of progress in the oil sector. Auditors at the Defense Contract Audit Agency (DCAA) have questioned \$219 million in Halliburton charges under the no-bid Restore Iraqi Oil (RIO) contract that Halliburton was awarded in March 2003, finding that the costs are "unreasonable in amount."²³ Of the \$219 million in questioned costs, \$171 million relate to fuel imports from Kuwait and Turkey into Iraq.²⁴ DCAA has also identified \$60 million in "unsupported" charges under the RIO contract.²⁵

¹⁷ Government Accountability Office, *Rebuilding Iraq: Status of Funding and Reconstruction Issues* (July 28, 2005).

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Briefing by Iraq Reconstruction Management Office to Committee on Government Reform Staff (Aug. 1, 2005).

²¹ *Id.* By the end of 2005, IRMO expects Iraq's oil sector to produce 2.5 to 2.6 million barrels per day and export 1.8 to 2.0 million barrels per day.

²² *Id.*

²³ Committee on Government Reform, Minority Staff, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion* (June 27, 2005).

²⁴ *Id.*

²⁵ *Id.*

According to the CEO of Lloyd-Owen International, a U.S. contractor that assessed the status of the infrastructure for Iraq's State Oil Marketing Organization, Halliburton subsidiary KBR has performed no noticeable work on Iraq's fuel distribution and oil infrastructure. In his testimony before the Senate, Lloyd-Owen executive Alan Waller, stated, "We have not, to date, seen a functioning KBR piece of equipment to where we deliver, that is Muftia, Shibar, Nasiriyah, Samawah, Diwaniyah, Amarah, Kut, Najaf, Karbala, and Hillah."²⁶ Mr. Waller explained, "We visit these sites every single day and we have never come across a KBR official."²⁷ A former senior planner at the Iraqi Oil Ministry said of Halliburton's oil infrastructure work: "I think we had the worst quality of U.S. service, staff and companies We had maximum rhetoric and minimum results on the ground."²⁸

The Electricity Sector

The Administration has obligated over \$4.4 billion in U.S. and Iraqi funds to increase Iraq's electricity production.²⁹ Without adequate electricity, households cannot use basic appliances or air conditioning, businesses cannot operate effectively to employ Iraqis, water pumps cannot provide drinkable water, and oil refineries cannot operate at full capacity. As the CPA stated in the September 2003 reconstruction blueprint, "It is hard to overstate the problems caused by the shortfall between generating capacity and demand It is the major cause of discontentment of the Iraqi population and, quite apart from physical discomfort, is preventing industries, factories, and oil refineries from operating."³⁰

The expenditure of over \$4.4 billion has not succeeded in increasing Iraqi electricity production. Two years after the CPA announced the objective of generating 6,000 megawatts of peak electricity output, electricity production in Iraq has never come close to meeting this objective. In fact, Iraq has only recently and inconsistently managed to provide even pre-war levels of electricity.

Before the invasion, Iraq's peak electricity output was 4,400 megawatts and Iraq generated about 100,000 megawatt hours of electricity per day.³¹ By August 26, 2005, about two and a half years after the invasion, Iraq's peak output was just 4,635 megawatts and the country generated only 101,057 megawatt hours of

²⁶ Senate Democratic Policy Committee, *An Oversight Hearing on Waste, Fraud, and Abuse in U.S. Government Contracting in Iraq* (June 27, 2005).

²⁷ *Id.*

²⁸ *Missteps Hamper Iraqi Oil Recovery*, Los Angeles Times (Sept. 26, 2005).

²⁹ *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.

³⁰ *Request to Rehabilitate and Reconstruct Iraq*, *supra* note 7.

³¹ *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17; U.S. Department of State, *The Electricity Story in Iraq* (July 25, 2005).

electricity per day.³² This is far short of both the 6,000 megawatt goal and the actual summer demand of 8,600 megawatts. In fact, on August 1, 2005, IRMO officials conceded, “We’ll never meet demand.”³³

These figures have a real impact on the daily lives of Iraqis. By late August 2005, Iraqis living in Baghdad had just two hours of power followed by four hours without power throughout a day.³⁴ Nationwide, Iraqis had power for just 50% of the day.³⁵ Some days are even worse. On July 31, for example, those living in Baghdad had one hour of power followed by four and a half hours without power.³⁶

This absence of tangible progress has been consistent. Although the pre-war peak output of 4,400 megawatts was briefly reached in October 2003, production quickly fell back below the 4,400 megawatts mark.³⁷ By May 2005, electricity production levels were as low as 51,000 megawatt hours per day and never exceeded 99,800 megawatt hours per day.³⁸

In June 2005, the USAID Inspector General examined 22 electricity projects worth \$1.1 billion performed by Bechtel, one of the largest electricity contractors operating in Iraq. The IG found that 7 of the 22 projects reviewed had not or were not achieving their intended output. The failing projects represented a \$744 million investment.³⁹

The IG discussed several problematic projects in detail:

- A new power generation facility project was cancelled. According to the IG, “The project is still expected to incur \$69.4 million in costs despite the fact that little has actually been achieved.”⁴⁰
- A project to rehabilitate two turbines at the Baiji thermal power plant was cancelled. The IG found that as a result of the cancellation, “no additional power will be realized from this project, which will still incur approximately \$1.9 million in direct costs and an estimated \$5.0 million in total costs, including overhead.”⁴¹

³² E-mail from Iraq Reconstruction Management Office to Minority Staff, Committee on Government Reform (Aug. 26, 2005).

³³ Briefing by Iraq Reconstruction Management Office, *supra* note 20.

³⁴ E-mail from Iraq Reconstruction Management Office, *supra* note 32.

³⁵ *Id.*

³⁶ Briefing by Iraq Reconstruction Management Office, *supra* note 20.

³⁷ Special Inspector General for Iraq Reconstruction, *Quarterly Report*, *supra* note 1.

³⁸ *Rebuilding Iraq: Status of Funding and Reconstruction Issues*, *supra* note 17.

³⁹ U.S. Agency for International Development, Office of Inspector General, *Audit of USAID/Iraq’s Electrical Power Sector Activities* (June 29, 2005).

⁴⁰ *Id.*

⁴¹ *Id.*

- A project to install two new gas turbines in Kirkuk was supposed to be completed by summer 2004, but the project was significantly delayed and the larger of the two turbines was not scheduled to become operational until mid-Sept 2005, two and a half months after the original Bechtel contract expired. One cause of the delay was that the turbine sat in Syria for almost five months and then sat idle in Jordan for another six months.⁴²

The USAID Inspector General and IRMO have both expressed concern that the electricity projects that have been completed may not be sustainable because the Iraqi Ministry of Electricity lacks the resources and capacity to maintain and operate the new equipment and facilities.⁴³

The Water Sector

The Administration has obligated \$1.2 billion for water and sanitation projects in Iraq.⁴⁴ As detailed in the September 2003 reconstruction blueprint, this money was to be used to provide drinkable water to 90% of Iraqis and to decrease water loss from 60% to 40%.

The available information indicates that the Administration has failed to deliver on its promises. According to IRMO, just 66% of Iraqis now have access to potable water.⁴⁵ This is far fewer than the Administration's goal of 90% and little better than the 60% access in urban areas that the CPA estimated two years ago. There also does not appear to be progress in preventing the loss of potable water through leaks in the transport and delivery system. GAO reported that water loss remains at 60% due to "illegal taps, unmetered usage, and leaking water pipes."⁴⁶

As a result, IRMO officials reported that the Iraqi ministries are "disappointed with the broken promises and lack of progress on existing projects."⁴⁷

Even the IRMO estimate that 66% of Iraqis have access to potable water may be inflated. When GAO tried to audit water reconstruction projects, it was unable to determine whether any real progress has been made. Though the State Department claimed that 64 projects were complete, GAO reported that "State was unable to provide a list of those completed projects."⁴⁸ GAO also found that the Administration's methods for tracking progress in this sector "do not show

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Id.

⁴³

Id.; Briefing by Iraq Reconstruction Management Office, *supra* note 20

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Rebuilding Iraq: Status of Funding and Reconstruction Issues, *supra* note 17.

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Briefing by Iraq Reconstruction Management Office, *supra* note 20.

⁴⁶

Rebuilding Iraq: Status of Funding and Reconstruction Issues, *supra* note 17.

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Briefing by Iraq Reconstruction Management Office, *supra* note 20.

⁴⁸

Rebuilding Iraq: Status of Funding and Reconstruction Issues, *supra* note 17.

how the U.S. program is affecting the Iraq people” because they do not “measure increased access to clean water and improved sanitation in Iraq.”⁴⁹

Auditors have found significant problems when they examined specific water and sanitation projects. When the USAID Inspector General evaluated a sample of projects, he found that four large projects worth approximately \$115 million were not achieving their intended outputs.⁵⁰ These failing projects represented 31% of the total budget of the projects examined by the Inspector General.⁵¹

The Special Inspector General for Iraq Reconstruction sent teams to assess four projects and found that three of the four had “significant deficiencies.”⁵² The Inspector General reported that the Al Wahda Water Treatment Plant project “did not and will not increase the quantity of water to the Iraqi people or elevate the quality of the water to potable standards.”⁵³ The team found that the filter system was not functional and the plant’s “customers have sand and sediment in their drinking water.”⁵⁴ The Inspector General also found that a supposedly completed pipeline to connect the village of Al Sumelat to an existing water main “was in three unusable segments and had not been connected to the water main.”⁵⁵

To the extent that any progress has been made in the water sector, these gains may be unsustainable. GAO reported that completed projects “have encountered significant problems in facility operations and maintenance after project handover to Iraqi management. Iraqis lack adequate resources and personnel to operate these facilities in the long term.”⁵⁶ IRMO is concerned that completed projects may not be sustainable because of substandard training for Iraqis, inadequate funding for operations and maintenance, and a “run it into the ground” culture among the Iraqi operators.⁵⁷ In April 2005, Mahmoud Ali Ahmed, the head of Iraq’s water distribution system, said, “The money does not exist for the maintenance and rehabilitation of existing projects.”⁵⁸

Reasons for the Lack of Progress

There are multiple reasons for the failure of the Administration to meet the reconstruction objectives set two years ago. As mentioned above, key private contractors such as Halliburton have overcharged the federal government and

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Id.

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U.S. Agency for International Development, Office of Inspector General, *Audit of USAID/Iraq’s Water and Sanitation Rehabilitation Activities* (June 30, 2005).

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Id.

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Special Inspector General for Iraq Reconstruction, *Quarterly Report*, *supra* note 1.

⁵³

Id.

⁵⁴

Id.

⁵⁵

Id.

⁵⁶

Rebuilding Iraq: Status of Funding and Reconstruction Issues, *supra* note 17.

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Briefing by Iraq Reconstruction Management Office, *supra* note 20.

⁵⁸

Millions Said Going to Waste in Iraq Utilities, Los Angeles Times (Apr. 10, 2005).

failed to perform capably. The failure to train Iraqis to maintain completed projects has also contributed to the failure. Two overarching problems, however, appear to have had the greatest impact on the reconstruction effort: inadequate security and a flawed contracting approach.

Due to the lack of security in Iraq, delays and high security costs have hampered reconstruction efforts in every sector of the reconstruction. Money intended for the rehabilitation and construction of critical infrastructure has been diverted to pay for contractor security or to accelerate the training and equipping of Iraqi forces.

In its July 28, 2005, report, GAO found that security costs represented a significant portion of the total funds spent under major reconstruction contracts. Eight of the 15 reconstruction contracts examined by GAO had security costs in excess of 15% of the total contract billings.⁵⁹ Security costs exceeded 25% under four of these contracts.⁶⁰ These rates do not reflect all of the security costs under these contracts because they largely exclude the security costs of subcontractors. These rates also do not include the significant premium contractors must pay employees to work in a war zone.

The high security costs have also resulted in the cancellation or scaling down of planned reconstruction projects. For example, GAO found that, in March 2005, USAID cancelled two electricity generation projects worth \$15 million to help pay for the increased security costs of another electricity project.⁶¹ According to IRMO, funding for water and public works projects has been reduced from \$4.2 billion to \$2.2 billion in order to shift funds to the training and equipping of Iraqi security forces.⁶² As a result, numerous water projects have been cancelled or scaled back.⁶³

The problems created by poor security in Iraq have been compounded by the Administration's use of fundamentally flawed contracting strategies. Instead of maximizing competition, the Administration initially opted to award no-bid, cost-plus contracts to large private contractors. Halliburton's RIO contract is a prime example. Under this contract, Halliburton was reimbursed for its costs and then received an additional fee, which was a percentage of its costs. This created an incentive for Halliburton to run up its costs in order to increase its potential profit.⁶⁴

⁵⁹ Government Accountability Office, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers* (July 28, 2005).

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² Briefing by Iraq Reconstruction Management Office, *supra* note 20.

⁶³ *Id.*

⁶⁴ *See, e.g.*, Minority Staff, Committee on Government Reform, *Halliburton's Questioned and Unsupported Costs in Iraq Exceed \$1.4 Billion* (June 27, 2005).

After receiving criticism for the initial no-bid contracts, the Administration revised its approach in late 2003 and early 2004. The Administration created a Program Management Office (PMO) to manage the reconstruction and develop a new approach to contracting. Under the new approach, the Administration divided Iraq geographically and by economic sector into 12 “monopoly contracts.” For example, one monopoly contract covered electricity transmission and distribution in northern Iraq, while another contract covered electricity transmission and distribution in southern Iraq. The PMO then chose a few select contractors to compete for each of the monopoly contracts. All of the monopoly contracts were cost-plus contracts.⁶⁵

This new contracting approach suffered from many of the same flaws as the original approach. Although there was nominal competition for the award of the monopoly contracts, contractors were never asked to bid against each other for specific reconstruction projects. At the time of the competition, the PMO had not identified the specific projects to be completed. Instead, the contracting strategy contemplated that all projects of a specific type — such as all oil projects in northern Iraq — would be automatically assigned to the contractor holding the relevant monopoly contract. Without the discipline of price competition for specific projects, the taxpayer was once again left vulnerable to inflated charges and poor performance.

In the absence of price competition, rigorous government oversight becomes essential for accountability. Yet the Administration turned much of the contract oversight work over to private companies with conflicts of interest. Oversight contractors oversaw their business partners and, in some cases, were placed in a position to assist their own construction work under separate monopoly construction contracts.⁶⁶

CONCLUSION

Two years ago, the Bush Administration set lofty objectives for the reconstruction of Iraq. These objectives, however, have never been met. Despite the spending of billions of taxpayer dollars, oil production and exports are below pre-war levels; electricity production is far below promised levels; and about one in every three Iraqis still lacks access to drinkable water.

⁶⁵ Letter from Reps. Henry A. Waxman and John D. Dingell to David J. Nash, Director of the Iraq Program Management Office (Dec. 18, 2003).

⁶⁶ Minority Staff, House Committee on Government Reform, *Contractors Overseeing Contractors: Conflicts of Interest Undermine Accountability in Iraq* (May 18, 2004).