

INFO MEMO

DATE: April 8, 2005

FOR: SECRETARY OF DEFENSE

FROM: Mr. Raymond F. DuBois, Director, Administration and Management

SUBJECT: Reconstruction Funding in Iraq

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Raymond F. DuBois

National Security Presidential Directive 36 (NSPD 36) assigns planning and decision authority for post May 31, 2004, reconstruction programs and projects in Iraq to the Department of State (State) and establishes the Iraq Reconstruction Management Office (IRMO) to implement this authority. Similarly, NSPD 36 establishes the Project and Contracting Office (PCO) under the Department of Defense (DOD) to fund, manage and execute said Iraq programs and projects and DOD has designated Executive Agency for PCO to the Army.

Very significant de-scoping of projects from the original list of projects submitted to Congress in 2004 has already occurred, yet further de-scoping may still prove necessary in the event that the contingency reserves established for further cost overruns -- due primarily to any further security, life support, or direct cost increases -- prove inadequate in the coming months.

In response to this prospect, State, OMB and Army formed an interagency team to assess the overall financial situation of Iraqi reconstruction, with specific emphasis on the electrical power sector. This team, which includes the Director of your Iraq Support Office, Howard Burris, and the Army's Controller representative responsible for Iraq, Wes Miller, were dispatched to Iraq two weeks ago and returned today. I anticipate that their report will be produced and available for your review some time next week.

I have been informed in an interim report that the team has strong concerns that many electricity projects will be significantly reduced in functional capacity immediately after handover, as the Ministry of Electricity (MoE) is essentially unprepared to operate them. The team reports that the MoE's absence of a strategic plan; rational fuel policy; any budgeting or planning; or a culture of responsibility, all suggest that newly commissioned operating assets will be degraded as fast as they are turned over to the Ministry. Moreover, this Ministry may not be an exception.

PCO does not assume any operating responsibility for any projects turned over to Iraqi agencies. It merely commissions projects prior to handover. The development of an O&M capability has been made the responsibility of US AID. The team reports that the resources presently allocated to this O&M program from the IRRF budget may be grossly inadequate, yet there are probably no additional resources in the budget to cover any significant expansion of an O&M program. This situation has serious implications both for USG ability to deliver on the promises we have made to the Iraqi people and for the credibility of the Iraqi ministries as effectively functioning elements of the Iraqi government.

RECOMMENDATION: Review with Charge d'Affaires Jim Jeffery and CENTCOM commanders their concerns about the IRRF delivery of benefits to the Iraqi people, and be prepared to review a draft report of the field team. If anticipated problems are confirmed, we should surface the issue as soon as is feasible for consideration at the Deputies or Principals meetings.



** See attached explanation*

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DE-SCOPING: This term is short hand for "cutting projects to make budget." There have been explicit budget cuts in dollars in the IRRf program, but the reduction in the scope of the deliverables, or de-scoping, is even more meaningful.

As per my comments as we left your office, the original plan in May 2004 for the electricity sector called for spending **\$5.54 Billion ---** and adding **3,920 Megawatts** of new generating capacity.

The current plan calls for spending a total of **\$4.31 Billion** in the electricity sector -- while adding a total of only **1,700 Megawatts of** new generating capacity. Big difference in "the deliverable" as well as a meaningful reduction in how much is being spent in the overall sector.

Said another way, there has been a **22%** budget cut in money to be spent on the electric sector, but there **has** also been a **57%** reduction in what is going to be built for that lesser amount. Everyone may not appreciate how significant the scope reduction has been along with the reductions in the dollars for each sector.

The dollar cuts came about largely to make "financial room" for the new \$5+ Billion Security program that LTG Petraeus justified. The reduction in scope was a necessary reaction to the growth in indirect and direct costs.

Makes sense; just not sure that the facts from 'scope reduction' have really appeared on everyone's screen.

(Prepared by Howard Burris, Director of the Defense Support Office-Iraq, April 9, 2005)

