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SPECIAL REPORT

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The Coalition Provisional Authority's Experience with Economic Reconstruction in Iraq

Lessons Identified

PURDUE UNIVERSITY
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About the Report

This report is a product of the United States Institute of Peace's Iraq Experience Project. It is the second of three reports examining important lessons identified in Iraq prior to the country's transition to sovereignty in June 2004 and is based on extensive interviews with 113 U.S. officials, soldiers, and contractors who served there.

This report is focused specifically on economic reconstruction in Iraq under the Coalition Provisional Authority. The other two reports examine security and governance, respectively. These reports are intended for use as training aids in programs that prepare individuals for service in peace and stability operations, so that lessons identified in Iraq may be translated into lessons learned by those assigned to future missions.

Anne Ellen Henderson, formerly a program officer in the Institute's Professional Training Program and currently assistant vice president for academic affairs at Trinity University, prepared the report. The Association for Diplomatic Studies and Training conducted the interviews under a contract with the Institute.

The views expressed in this report do not necessarily reflect the views of the United States Institute of Peace, which does not advocate specific policy positions.

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Summary

- Iraq's economic reconstruction under coalition occupation was notable for both impressive accomplishments and serious shortcomings. Many successful reconstruction initiatives shared essential elements: they were not affected by security disruptions; they were treated as top priorities; their funding was streamlined and their impact was quick; and they built on existing Iraqi capacity. Unsuccessful reconstruction initiatives had very different elements in common. Policy failure often coincided with security headaches, lack of powerful coalition patrons, funding delays, and weak Iraqi implementation capacity.
- Postconflict reconstruction entails painful trade-offs rather than easy choices. Because it begets losers as well as winners, and requires destruction as well as creation, it runs the risk of deepening political instability and economic disruption. Consequently, reconstruction policy choices are rarely straightforward. Every option entails adverse consequences. Apparent failures may actually represent "least-worst" options, while seeming successes may come at considerable cost to the sustainability of reconstruction.
- Because of the scarcity of reliable data and the complexity of key tasks, planning for postconflict reconstruction should incorporate multiple contingencies. It is crucial to factor eventualities such as economic disruption, persistent violence, and state collapse into calculations of the feasible pace of reconstruction. Promises to deliver immediate and dramatic improvements create unrealistic expectations that jeopardize the legitimacy of reconstruction efforts.

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- Postconflict reconstruction depends upon adequate security; yet security depends upon successful reconstruction. Reconstructing the economy and restoring security are so interconnected that strategies to achieve these two goals must be fully integrated to be successful.
- Because reconstruction tasks are interdependent, effective reconstruction strategies must integrate short-term needs provision with the pursuit of long-term development objectives. In the short term, initiatives to stabilize the economy and respond to basic needs are essential. However, reconstruction momentum dissipates unless short-term measures are supported by long-term programs that establish the foundations for self-sustaining development.
- The transition from a state-controlled system to a market economy involves four broad tasks: stabilization, liberalization, privatization, and legal and regulatory reform. But there is no blueprint for carrying out these tasks. Determining the optimum pace, sequencing, and content of reform measures requires deep understanding of local economic structures and relationships. Transition strategies that succeeded in one context cannot be mechanically replicated elsewhere.
- Reconstruction under occupation will be shaped by the priorities of the occupying power. A short-term occupying power may prefer quick action by decree to lengthy consultation, and may be tempted to put off difficult decisions with potentially destabilizing consequences. From the perspective of the occupier, imposing policies it can quickly enact, while deferring difficult decisions, makes sense. But the perspective of the occupying power may not coincide with the interests of the occupied nation.
- The authority to enact reconstruction policies must be matched by the capacity to carry them out. Adopting a facilitative legal and regulatory framework is the first step toward economic recovery. But this step leads nowhere if it is not followed by robust actions to create the institutions and enforce the regulations that allow economic initiative to flourish.
- Promoting private-sector growth in postconflict environments requires more than removing legal barriers to private economic activity. Private sectors that have been ravaged by war and repressed by state controls cannot recover without aggressive assistance to provide credit, training, and opportunities.
- Reform and reconstruction initiatives imposed from above—whether by an occupying power or a centralized regime—are vulnerable to failure because they create so few empowered owners with the capacity and desire to ensure their implementation. Diffusing authority over reconstruction is cumbersome and time-consuming, but it can strengthen accountability and stimulate recovery in the long term.
- Corruption thrives in environments of postconflict reconstruction, and there are no "quick fixes" for the problem. Enacting anticorruption laws does not automatically engender a culture of responsible stewardship and transparent governance. Fighting corruption in reconstruction requires extensive knowledge of how local corruption networks operate as well as the willingness to confront entrenched interests once corruption is uncovered.

The Challenges of Reconstruction

In April 2003, as U.S.-led forces took control of Iraq, the coalition's occupying authority—later known as the Coalition Provisional Authority, or CPA—assumed the task of reconstructing Iraq's economy. It was a gargantuan undertaking. Iraq's economy was in ruins; its potential crippled by years of war, mismanagement, and

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sanctions. Until the 1980s, Iraq's economy had been regarded as one of the strongest in the Middle East, with burgeoning oil revenues funding the development of impressive health care and education systems and solid infrastructure. But war with Iran (1980–88) interrupted oil production, shut down investment, and left Iraq burdened with enormous debts. The 1990–91 Gulf War dealt a further blow to the economy. International sanctions imposed in 1991 contributed to Iraq's economic decay, a deterioration intensified by corrupt and inefficient state controls over the economy. By 2000, Iraq had become one of the poorest countries in the region. Malnutrition rates were high, child mortality approached levels typical of sub-Saharan Africa, and public sanitation systems were collapsing.

Coalition authorities, assessing what lay before them, were astounded by the magnitude of Iraq's reconstruction needs. But they were not shocked or awed into humility. Instead, the coalition's aspirations were audacious: to assemble a team of several thousand officials from disparate backgrounds, many with no experience in postconflict reconstruction or the Middle East, and transform Iraq's war-scarred, state-controlled economic system into a dynamic market economy—in a matter of months.

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Among the challenges facing the coalition were:

- restoring government economic functions after looting and state collapse;
- preventing currency collapse, hyperinflation, and economic chaos;
- rebuilding infrastructure ravaged by war, sanctions, looting, and neglect;
- rehabilitating a health care system cut off from medical advances for two decades;
- dismantling corrupt, dysfunctional state economic controls;
- stimulating the growth of a private sector that had been stunted by government interference.

Although all of these were huge challenges, the greatest challenge facing the coalition involved not how to provide what Iraq lacked, but how to manage what it possessed. Iraq's oil gave it the potential to rebuild its infrastructure, restore its public services, and revive its economy. The CPA's task was to put Iraq on the path to realizing this potential.

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This required establishing a system to channel Iraq's oil wealth into productive uses. Many countries endowed with rich natural resources have not employed their wealth to generate sustainable growth. Instead, their wealth has created a "resource trap" of mismanagement, graft, and stagnation. Countries caught in the resource trap are ruled by parasitic regimes whose power depends on distributing patronage, whose bureaucracies are corrupt and bloated, and whose economies are dominated by resource extraction. Avoiding the resource trap requires the development of accountable government institutions, transparent regulatory systems, and economic policies favoring diversification and prudent resource management.

Ultimately, the coalition will not be judged on the basis of whether it supplied enough desks to schools or when it restored electricity production to prewar levels. The coalition will be judged on the basis of whether it laid the economic and institutional foundations enabling Iraq to avoid the resource trap and achieve sustainable development.

Reconstruction Successes and Failures

The economic accomplishments of the coalition's fourteen-month occupation are impressive. Coalition authorities averted a humanitarian crisis, stabilized the economy, and enacted sweeping reforms. Most importantly, the CPA:

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- re-established nationwide food ration distribution;
- introduced a new currency and stabilized the exchange rate;
- liberalized most prices without igniting inflation;
- rebuilt the government's economic ministries;
- promulgated market-oriented banking, taxation, foreign trade, investment, and business regulations;
- rehabilitated several thousand schools, health clinics, and hospitals;
- provided public services to populations that had been deprived under Saddam;
- increased electrical generation and oil output;
- funded small projects across Iraq to meet critical community needs.

Yet the coalition's economic accomplishments were overshadowed by its unfulfilled promises. During the occupation, the CPA failed, or was unable, to:

- prevent rampant looting of infrastructure and production facilities;
- attract foreign investment;
- implement its newly enacted economic regulations;
- restructure state-owned industries;
- fulfill promises of substantial job creation;
- meet targets for electricity production (despite increases);
- restore oil output to prewar levels;
- eliminate costly, distorting energy and food subsidies;
- combat corruption in reconstruction projects;
- spend more than a fraction of the $18.4 billion the U.S. Congress allocated for Iraq's reconstruction.

At first glance, a comparison of the coalition's successes and shortcomings seems puzzling. Why was the CPA able to manage a nationwide currency exchange but unable to ensure sufficient electricity production? Why could it renovate thousands of schools but not restructure a few hundred state-owned enterprises? Upon closer inspection, it becomes clear that the coalition's success stories shared some essential elements. Its less successful ventures had their own set of distinctive characteristics.

Successful initiatives imposed no major costs or sacrifices on the people of Iraq.

Successful initiatives imposed no major costs or sacrifices on the people of Iraq. For instance, most Iraqis welcomed the rehabilitation of their schools and hospitals. Also, successful initiatives did not suffer from security disruptions. This was either because the security situation was not a constraining factor—as with the promulgation of new banking regulations—or because effective steps were taken to provide security protection—as with the nationwide distribution of civil-service salaries. High visibility was another condition (albeit not a sufficient one) for success. Projects prioritized by Washington or the coalition leadership, such as the introduction of a new Iraqi currency, were lavished with support. Funding was also key. Projects that could be funded quickly, without going through cumbersome contracting channels, achieved rapid results. For instance, the military's CERP (Commander's Emergency Response Program) funds were used to respond immediately to pressing community needs. Programs that built on existing Iraqi capacity were also more likely to succeed. The child vaccination program, which took advantage of a strong Iraqi outreach capability, is a case in point. Finally, successful policies tended to be finite in scope and limited in duration—involving, for example, the approval of a new law or the one-time distribution of textbooks to schools.

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The coalition's failures were marked by a very different set of conditions. Failure often coincided with high social cost. For instance, the coalition's inability to end fuel price subsidies reflected its fears of sparking mass unrest. Also, most failed initiatives were afflicted by security disruptions, such as looting and sabotage, that precluded sustained progress. Lack of powerful patrons was another handicap typical of unsuccessful projects. For instance, plans for agricultural reconstruction languished without a committed CPA sponsor. Funding problems also characterized failed projects. Many projects ran into disabling delays when they encountered the complex U.S. government procurement process. Another common element of policy failure was lack of existing Iraqi capacity on which to build. Efforts to collect taxes, for example, foundered because Iraq had never possessed a functioning tax collection system. Finally, unsuccessful policies tended to involve extensive structural changes. The coalition's inability to combat endemic corruption highlighted the difficulties of achieving such changes.

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Lessons Identified

What are we to make of this record of successes and failures? The following sections identify lessons that can be identified from what the coalition accomplished in Iraq—and what it did not. Many aspects of Iraq's attempted reconstruction seem unique and thus not amenable to the sort of analysis that yields general insights. Yet, the officials who led Iraq's reconstruction effort drew on lessons learned from other postconflict and transitional settings in developing their own approach. In turn, assessment of the coalition's approach can contribute to a broader understanding of the challenges of economic transition and postconflict reconstruction.

Reconstruction entails painful trade-offs rather than easy choices

The coalition's economic decisions involved choices among options that all entailed negative side effects. Consequently, even the most successful coalition policies brought with them adverse consequences. For example, disbursing some project funds outside of U.S. government contracting channels allowed rapid response to urgent needs. But it came at the price of enabling corruption. The trade-off between speed and accountability in reconstruction funding was one of many difficult choices confronting coalition authorities. The CPA also faced a trade-off between moving quickly and building Iraqi capacity. It felt pressure to meet urgent reconstruction needs, yet at the same time, it needed to train and prepare the Iraqi government to manage reconstruction itself. In the words of a CPA economic official, "The dilemma we were facing perpetually was that we were trying to move functions to the Iraqi ministries while at the same time trying to make sure that things got done."

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Another tough trade-off helps explain the CPA's failure to satisfy Iraqi demand for electricity. Under Saddam's regime, many Shia communities received little electricity, while Sunni areas, along with politically critical Baghdad, received ample power. The CPA redressed these inequities by channeling more electricity to traditionally deprived areas. But this inevitably provoked resentment. According to a CPA official, "We decided in the interests of fairness to share the scarcity, so areas that had been favored by Saddam went way down in their hours of electricity per day. . . . Unfortunately, we heard much more from people in Baghdad about losing electricity than we did from people in Basra about getting electricity."

As these examples demonstrate, the choices confronting the coalition were not simple or straightforward. Every option entailed adverse consequences. It is easy to criticize decisions with adverse consequences and to derive cautionary lessons from

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the unfavorable repercussions of coalition policies, but in fact useful lessons cannot be neatly extracted from a list of CPA failures—or CPA accomplishments. Learning from Iraq's reconstruction is complex. It requires reassessing apparent failures in light of the positive effects they produced, such as the illumination of Basra as Baghdad fell dark. It also requires revisiting apparent successes in light of their negative effects, such as the agricultural distortions caused by the distribution of imported food rations. Looking forward to future reconstruction efforts, Iraq's experience provides a useful reminder that trade-offs are ubiquitous and that reconstruction should not be held up by the search for elusive "ideal" solutions.

High hopes and lofty promises are no substitute for sound planning and prudent expectations

Economic transformation under military occupation seems like the type of endeavor that would benefit from advance planning. Yet many officials involved in Iraq's reconstruction were struck by how little planning went into the effort. The senior officials tasked to head major reconstruction operations were not brought together to develop a strategy until early February 2003, the month before the invasion of Iraq. Their limited pre-occupation planning was shaped more by speculation than by information about the state of Iraq's economy.

The most remarkable aspect of pre-occupation economic planning was its focus on a single contingency: humanitarian disaster.

The most remarkable aspect of pre-occupation economic planning was its focus on a single contingency: humanitarian disaster. Coalition officials devised plans for coping with massive internal displacement as a result of war. This contingency never materialized. In the absence of a humanitarian disaster, the coalition was left without a plan for addressing Iraq's actual economic needs. As a civil affairs officer stated, "They assumed there was going to be a humanitarian disaster and they planned for it. But nobody asked the question of what if there isn't one, then what's our plan?"

Some coalition officials cited the lack of reliable data as one reason for the paucity of advance planning. Others asserted that advance planning for a task as complex as managing Iraq's economic reconstruction was impossible. However, the best response to uncertainty and inadequate data is not to eschew planning. Rather, it is to develop a plan to address a range of eventualities. Reconstruction planning should identify plausible contingencies and establish corresponding response options.

For example, it would have been reasonable to plan for the contingency that Iraq's infrastructure would require emergency repairs. Coalition authorities knew that infrastructure had been degraded by years of war, sanctions, and neglect. But they did not plan to rehabilitate existing facilities. Instead, they intended to build new infrastructure from the ground up. This would clearly be a more time-consuming approach, and yet contracts for major infrastructure projects were not finalized before the occupation. The failure to contract in advance for large-scale infrastructural projects delayed the start of reconstruction work by many months. The delay was disastrous. By the time contracts were signed and resources were mobilized, rising violence severely hampered progress.

This rise in insurgency was another contingency that should have been incorporated into planning. Instead, without a plan for coping with inevitable resistance to its policies, the CPA reacted to growing violence by abandoning major economic initiatives for fear of catalyzing even greater unrest.

A final contingency that the coalition failed to anticipate was the chaos that follows the collapse of a state.

A final contingency that the coalition failed to anticipate was the chaos that follows the collapse of a state. Its assumptions about Iraq, often based on the expectations of U.S. officials with no experience in postconflict economies, were exceedingly optimistic. It was only after officials arrived in Iraq to find no working telephones, government records, or functioning ministries that they began to question the realism of the coalition's timetable for accomplishing key tasks. Since the coalition

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intended not only to reconstruct Iraq's economy but also to oversee its transition to capitalism, the CPA should have been doubly cautious about expecting rapid progress. Virtually every country that has gone through economic transition experiences an initial period of economic disruption. Yet coalition authorities failed to incorporate the unavoidable disruptions that accompany transition into their planning.

Instead, coalition authorities based their approach to reconstruction on a fateful assumption. They assumed their success depended on persuading Iraqis that they would experience quick and dramatic improvements in their lives. From this assumption flowed many consequences. One was that the coalition proclaimed a series of promises to the Iraqi people: more jobs, improved services, and growing prosperity. Not surprisingly, Iraqis judged the coalition's performance on the basis of its promises. And inevitably, Iraqis became resentful when promises were not fulfilled. Instead of tying its legitimacy so closely to immediate material improvements, the coalition could have chosen different indicators of success and made other promises to the Iraqi people. For example, the coalition could have defined success in terms of empowering Iraqis to run their own economy and promised the Iraqis a maximum say in the determination of reconstruction priorities.

The coalition's initial ambitious forecast of quick results became the benchmark for judging its success, and repeated comparisons between what the coalition had promised and what it was delivering obscured the genuine progress being made on reconstruction. For example, the CPA overcame huge obstacles due to sabotage and antiquated equipment to restore electrical production to prewar levels by October 2003. Yet since the CPA had promised to quickly exceed, rather than simply restore, prewar production, its accomplishment was seen as a failure. When the June 2004 transition took place, Iraqi households could expect power for only one-third of the day. Electricity shortages had ramifications far beyond the simple question of whether the lights were on. Iraqis equated the coalition's failure to meet electricity demand with a more general failure to reconstruct the economy. Anger over inadequate power became a flash point, fueling Iraqi suspicions of coalition intentions. According to one civil affairs officer, "The Iraqis would ask why the Americans could hit a tank hiding between two buildings from 3,000 feet away, but they couldn't turn on the electricity. And they assumed the reason had to be something sinister. . . . The rumor mill would be that the Americans are punishing us."

Repeated comparisons between what the coalition had promised and what it was delivering obscured the genuine progress being made on reconstruction.

The coalition's inability to deliver promised improvements in other areas deepened Iraqi frustration. For example, Iraq's water treatment facilities never recovered their prewar capacity during the occupation, and most sewage was still dumped into rivers. Problems caused by contaminated water accounted for almost half of hospital visits by children, inflaming Iraqi anger at the coalition's perceived failure to fulfill its promise of safe water. Meanwhile, Iraq's oil production was only a fraction of coalition projections. Iraq continued to import oil and experience domestic supply shortages throughout the occupation. The shortages were largely artificial, reflecting the fact that oil was being diverted into the black market. But Iraqis waiting in two-mile lines to purchase gasoline blamed the coalition for failing to provide the one resource their nation possessed in abundance.

If the coalition had undertaken more serious contingency planning prior to the occupation, it could have developed a more realistic plan for the reconstruction of Iraq. This plan would have included responses to the foreseeable contingencies of infrastructural degradation, persistent violence, and state collapse. Had the coalition anticipated these contingencies, it could have set more attainable reconstruction goals. And had it set more attainable goals, it might have reconsidered linking the legitimacy of the occupation to promises of immediate improvements in living conditions. Basing reconstruction plans upon expectations of instant progress and grateful support from the occupied populace turned out to be a miscalculation.

If the coalition had undertaken more serious contingency planning prior to the occupation, it could have developed a more realistic plan for the reconstruction of Iraq.

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Economic reconstruction depends upon adequate security; yet security depends upon successful reconstruction

It is a truism that reconstruction requires security. It is less widely acknowledged that security requires reconstruction.

It is a truism that reconstruction requires security. It is less widely acknowledged that security requires reconstruction. A government that cannot achieve economic progress will be unable to overcome the forces of desperation and chaos that operate in every postconflict environment. Reconstructing the economy and restoring security are so inextricably interconnected that strategies to achieve these two goals must be fully integrated to be successful. Every economic policy choice must be evaluated in light of its security implications. Additionally, every security decision must be weighed in terms of its impact on economic reconstruction.

The CPA explicitly based economic decisions on security considerations. It abandoned several economic initiatives, such as raising fuel prices, because it feared the unrest and instability that could result. By contrast, the coalition did not typically see economic consequences as major considerations when making security decisions. Consequently, some of the coalition's security priorities negatively affected economic reconstruction.

For example, the coalition's failure to prevent rampant post-invasion looting had a lasting adverse impact upon reconstruction. The protection of key economic and governmental assets should have been an integral part of the coalition's security strategy. Prior to the invasion, civilian coalition officials submitted a list of crucial sites to the military: "The preserve-and-protect list was designed to protect assets of the Iraqi government so they could be utilized in the reconstruction effort. Nothing on that list was protected." As a result, every economic ministry—except for the oil ministry, which was secured by coalition troops—was gutted by looters. Records were burned, furniture was stolen, and electrical sockets were ripped from walls.

Iraq's infrastructure was also crippled by looting. For example, Baghdad's three sewage treatment plants, accounting for two-thirds of Iraq's sewage treatment capacity, were looted and had to be rebuilt from scratch. Coalition officials responsible for infrastructure begged the military to protect the electrical grid's control centers, but nothing was done. As a result, the control centers were stripped bare of computers and communications equipment, making it much more difficult to restore power generation.

Failure to prevent postconflict looting, in the estimation of one senior coalition official, "tripled the cost of reconstruction."

Failure to prevent postconflict looting, in the estimation of one senior coalition official, "tripled the cost of reconstruction." According to another, "The looting set us back so that the first two to three months was spent just getting to the point where we would have been on day one had those assets been protected."

Even after looting subsided and reconstruction work was finally able to begin, the coalition did not integrate economic needs into its security planning. Decisions on the number and types of forces deployed did not take into account the security requirements of reconstruction. More military police and troops trained for urban patrols, civil reconstruction, and peace enforcement would have been key to establishing a stable environment within which reconstruction could take place.

Instead, reconstruction was jeopardized by crime, sabotage, and insurgency, which increased relentlessly in the months leading up to the June 2004 transition. Insecurity crippled progress on reconstruction projects in numerous ways. Contractors delayed assessment visits to proposed project sites. Supply deliveries were disrupted. Progress made during the day was destroyed by sabotage at night. Foreign employees were abducted and killed, leading most major contractors to withdraw their non-Iraqi staff from reconstruction projects.

Major infrastructure projects were particularly hard hit by the violence. Hundreds of attacks on Iraq's oil infrastructure and power installations took place during the occupation. By June 2004, all power projects operated by non-Iraqis were halted due

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to the security situation. Violence and sabotage also derailed local reconstruction projects. As a Baghdad civil affairs officer related, "We would go in and fix the water pump in a neighborhood and the looters would come by and steal the pump and the whole neighborhood would be without water again. . . . As a civil affairs unit, the security of infrastructure was not our business. Our business was getting infrastructure up and running." It is unfortunate that the coalition did not make it someone's business to protect the infrastructure it was spending so massively to rebuild.

As violence worsened, the response of coalition officials in charge of reconstruction was not to find a way to fight it more effectively. Instead, their response was to withdraw into the heavily protected world of the Green Zone. In the early months of the occupation, CPA economic officials traveled outside the Green Zone to work with government ministries and visit reconstruction projects. This hands-on contact was essential: "We had to be out of the Green Zone to be effective. It would not have been possible to accomplish what we did if we just hunkered down in the Green Zone and sent out an occasional edict or called a few officials and gave them tasks." But as the security situation deteriorated, CPA officials ventured outside the Green Zone less and less frequently. Their growing isolation crippled their ability to gather information, monitor reconstruction, and consult with Iraqis.

Inability to provide security had a profound impact on Iraq's economic recovery. In turn, inability to provide recovery had a profound impact on Iraq's security. Reconstruction delays fed into Iraqi feelings of resentment and despair, which fueled insurgency and crime, thereby worsening the security climate. Making Iraq's reconstruction more secure would not have been impossible, but it would have required the coalition to place a higher priority on meeting the security needs of the reconstruction effort. Prioritizing security worked. Projects that received military protection or that devoted a third of their budget to security got completed. Of course, the cost of enhancing the security of Iraq's reconstruction would have been very high. But the cost of failing to secure reconstruction was astronomical.

Inability to provide security had a profound impact on Iraq's economic recovery.

Reconstruction requires coordination of short-term initiatives and long-term structural reforms

Evidence from many transitional and postconflict environments reveals that piecemeal reforms tend to fail. Reconstruction involves interdependent tasks, so reconstruction strategies must be coherent and integrated. But what does a coherent, integrated reconstruction strategy look like? It is difficult to find clear answers to this question in the commentary of former coalition officials. Some feel the CPA concentrated excessively on long-term infrastructure projects that produced few immediate payoffs. But others criticize the CPA for focusing on short-term projects with no developmental component (such as paying people to pick up litter). In fact, a coherent, integrated reconstruction strategy focuses simultaneously on addressing short-term needs and pursuing long-term development objectives.

Evidence from many transitional and postconflict environments reveals that piecemeal reforms tend to fail.

In the short term, two types of reconstruction action are essential. One involves initiatives to stabilize the economy, the other rapid responses to basic needs. The coalition was very successful in achieving stabilization: within a few months, it unified the currency, stabilized the exchange rate, and liberalized most prices without igniting inflation. The coalition was also effective in meeting immediate needs. Within a month of arriving in Baghdad, coalition officials were able to distribute food rations and civil servant salary payments nationwide despite the lack of computerized records, functioning communication systems, and intact government ministries. As a coalition official pointed out, "The fact that we were able to pay civil servants very quickly averted the potential for an uprising in the streets. It also had a positive effect on invigorating the economy."

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Meanwhile, coalition military officers launched small-scale reconstruction projects that targeted urgent community needs. These projects, which used local workers to undertake tasks such as minor repairs to sewage systems and garbage collection, were among the most successful of the coalition's reconstruction initiatives. They epitomized rapid response because they could be funded as soon as a need was identified, using CERP or DFI (Development Fund for Iraq) monies that were exempt from U.S. government civilian contracting regulations. CERP funds were dispensed through a U.S. military program, while DFI funds came from Iraqi oil revenues and seized assets. According to one Civil Affairs officer, the DFI "made the reconstruction process ten times faster. . . . You could walk in immediately with cash and refurbish something."

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Many CPA officials felt, in retrospect, that more resources should have been devoted to small-scale reconstruction projects. Yet even if Iraq's communities had been blanketed with these projects, they could have met only one aspect of Iraq's overall reconstruction needs. Many small-scale projects were stopgap measures that were no substitute for major initiatives. For example, patching local sewage pipes stopped sewage from running in the street, but only large infrastructural repair projects could rebuild sewage treatment facilities and provide clean water. Similarly, "dollar-a-day" employment projects provided quick cash but did not generate permanent jobs.

The coalition's short-term successes in economic stabilization and small-scale reconstruction generated positive momentum for economic recovery. Yet momentum dissipates unless short-term measures are supported by long-term development programs. The coalition might have sustained its momentum had it immediately begun work on long-term projects to rebuild major infrastructure, restructure state-owned enterprises, create sustainable jobs, and promote private sector growth. But long-term development projects were not an initial coalition priority. Top coalition officials placed great faith in market solutions. Besides, the coalition's weak implementation capacity made it difficult to carry out ambitious structural reforms and development programs.

On November 15, 2003, CPA administrator L. Paul Bremer III announced that the CPA would be dissolved by June 30, 2004, accelerating the transfer of sovereignty to Iraqi hands. The accelerated timetable meant that long-term reconstruction and development projects could not be completed before the transition. Coalition officials reacted by focusing on high-visibility projects that could be finished quickly. For example, the CPA constructed showpiece business centers in a process Iraqis referred to dismissively as "building monuments." Meanwhile, work on longer-term projects was abandoned or downgraded. According to a senior CPA official, "Once this transfer of sovereignty was looming, the feeling was that it was not our place to take big steps. And I think we lost a number of months where some real progress could have been made." An occupation that had begun so promisingly, with extraordinary achievements in economic stabilization and short-term needs provision, ended without laying a firm foundation for long-term recovery.

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There is no blueprint for economic transition

As coalition officials contemplated the daunting task of transforming Iraq from a state-controlled system to a market economy, they hoped to expedite and simplify the task by adopting approaches from previous economic transitions. Many surmised that a blueprint for creating efficient institutions and optimal reforms could be assembled by collecting policies that had worked elsewhere. The study of prior economic transitions does yield valuable lessons. Unfortunately, these lessons were not the sort to bring much comfort to the CPA in its search for quick, clear-cut solutions. First, there is no single model of the correct set of laws and institutions for a market economy. Countries in transition have adopted a wide range of legal and institutional arrangements in response to their differing histories and needs. Second, finding and

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developing the right set of institutions takes time. This was not a lesson that the CPA, determined to establish the foundations for a market economy in a matter of months, was willing to accept.

Coalition officials relied heavily on the experiences of Eastern Europe and the former Soviet Union in assembling their transition blueprint for Iraq. Based on their review of reforms in these societies, coalition officials concluded that the blueprint contained four components: stabilization, liberalization, privatization, and legal and regulatory reform. Since all four components were considered essential, the CPA saw no need to consult with locals as to their applicability in Iraq. In one sense, the CPA was right. Iraq did need stability and market-oriented reforms. But by presenting the reforms to Iraqis as a fait accompli, the CPA engendered suspicion and resentment. Iraqi government officials disparaged the CPA approach as "market fundamentalism."

Coalition officials relied heavily on the experiences of Eastern Europe and the former Soviet Union in assembling their transition blueprint for Iraq.

Coalition authorities' perceptions of what had worked in Eastern Europe, along with their deeply held faith in the power of markets, led them to adopt several policies of questionable effectiveness. For example, coalition officials saw immediate liberalization of foreign investment as a top priority. They believed that foreign investment would provide the infusion of funds, technology, and know-how to jump-start Iraq's economic recovery. CPA Order 39 of September 2003 reversed long-standing Iraqi law by permitting full foreign ownership in most sectors of the Iraqi economy (with the exception of oil).

The policy generated intense controversy. Many Iraqis saw it as evidence of an arrogant occupier overstepping its legal rights (international law bars occupying powers from enacting major changes in occupied nations' laws). Others condemned it as a ploy to permit foreign domination of the economy. Whatever the validity of these criticisms, their impact upon Iraqi perceptions of the occupation was substantial. The CPA's conviction that foreign investment liberalization was so crucial that it had to be enacted immediately turned out to be a miscalculation. It engendered ill will and fed Iraqi suspicions needlessly, as foreign investor interest in Iraq was minimal. Foreign investors are not typically drawn to environments of ongoing violence that lack enforceable property and contract rights. Furthermore, few companies were willing to risk investing under an occupation authority whose laws might be rescinded by the Iraqi successor regime.

The botched effort to privatize the Iraqi state sector was another example of the CPA's efforts to impose a transition blueprint upon Iraq. Coalition economic officials believed that experiences in other transitional economies demonstrated the necessity of rapid privatization; besides, they had a strong philosophical commitment to private enterprise. The CPA announced a privatization plan in September 2003. The plan was developed without consulting Iraqi officials, and its announcement shocked Iraq's Interim Governing Council, which issued a statement opposing the plan.

The botched effort to privatize the Iraqi state sector was another example of the CPA's efforts to impose a transition blueprint upon Iraq.

The CPA's faith in rapid privatization quickly foundered upon Iraqi reality. It turned out that almost none of Iraq's roughly two hundred state-owned enterprises were viable. Some were insolvent, some were looted, and some were operating with desperately antiquated equipment. Before they could be privatized, they needed to be restructured. Besides, immediate privatization was unrealistic due to the lack of interested buyers and the social disruption of laying off half a million workers. By November 2003, the CPA abandoned its plans to privatize Iraq's state enterprises.

Yet rather than developing an alternative plan for state enterprises, the CPA simply ignored them. It did nothing to rehabilitate state firms, utilize their assets, or productively employ their workers. In the words of one coalition official, the coalition leadership "made an arbitrary decision that state-owned enterprises are bad, so we'll cut them loose and they're on their own. And if that doesn't work then they don't deserve to exist, and the market will cure everything." This rigid attitude hampered reconstruction efforts. For instance, the CPA insisted that state-owned railways

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be self-supporting and refused to provide a budget for them, even though Iraq's industrial sector was dependent on the railways for transportation. Similarly, state industries with large domestic markets—such as cement and fertilizers—were denied resources to restructure and resume production. Iraq ended up importing its cement and fertilizers instead of reviving its indigenous capacity.

Short-term occupation is not the optimal basis for long-term development

An occupying power on a tight schedule will have a unique perspective on reconstruction. The occupier will tend to prefer quick action by decree to lengthy consultation and consensus-building. In addition, it will be tempted to put off difficult decisions with potentially destabilizing consequences. From the perspective of a short-term occupying power, imposing the policies it can quickly enact, while deferring the decisions it dreads, makes sense. But the perspective of the occupying power may not coincide with the long-term economic interests of the occupied nation.

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Many transitional tasks are economically disruptive and politically risky. When confronting the inevitable disruptions and risks, the CPA had several choices. It could impose what it saw as necessary, regardless of potential repercussions. Or it could restrict itself to "safe" initiatives—policies whose impact was bound to be positive. Or it could confront tough policy decisions, but do so in consultation with Iraqi authorities. From the CPA's perspective, two of these choices had serious drawbacks. Imposing disruptive policies could lead to mass unrest. Meanwhile, consulting with Iraqi authorities would slow the process of adopting reforms. Sticking to "safe" policies seemed more appealing. Of course, problems left unaddressed could worsen, raising the eventual costs and risks of addressing them. But that would be a problem for the Iraqi successor regime, not the coalition.

As we have seen, the coalition did try to impose some unpopular policies, such as privatization, but it backed away when it realized that privatization would entail massive layoffs and possibly spark unrest. Moreover, the coalition put off economic reforms that were crucial to the success of reconstruction. The CPA felt that as an occupying power, it lacked the popular support to enact these reforms without risking the eruption of violent protests.

For example, the CPA failed to eliminate subsidies on fuel, food, and energy prices. Iraq's fuel prices were one-tenth the level of other Gulf countries, and electricity was free, since the CPA did not collect usage fees. The coalition also distributed free food to every Iraqi family. The coalition's fear that raising prices would lead to mass protests was understandable, but the adverse economic consequences of the subsidies were immense. For example, free electricity encouraged excess demand and contributed to Iraq's crippling electricity shortages. Subsidized fuel spawned smuggling operations that illegally exported much of Iraq's domestic oil and created shortages for Iraqi consumers. The cost of the food, fuel, and energy subsidies amounted to $8 billion a year, one-third of Iraq's estimated GDP. When the coalition handed over power in June 2004, it bequeathed to the Iraqi government a massive expense that would consume half of its budget. Coalition officials admitted that the subsidy burden left Iraq's budget "terribly vulnerable" in the event of a disruption in oil revenues. A senior CPA economic official described the decision not to remove price controls on fuel and energy as one of the worst mistakes of the occupation.

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The power to enact policies must be accompanied by the capacity to implement them

The CPA devoted great attention to writing laws and regulations. It generated an enormous volume of banking, insurance, business, trade, property, and investment law. But the new legal framework remained mostly on paper. The CPA suffered a seri-

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ous mismatch between enacting authority and implementing capacity. It adopted many laws and policies but could not put them into effect.

For example, the CPA enacted a new tax regime with a top individual tax rate and a uniform business tax rate of 15 percent. However, the CPA was unable to establish a system for collecting the new taxes. As a bemused coalition official asked, "How do you develop income tax forms and train collection agents and ensure verification, and do it all in a cash-based economy?" The CPA did not find an answer to this question; consequently, the government of Iraq was unable to generate tax revenues.

The CPA's weak capacity to implement its own policies reflected several factors. One was the inability of coalition officials to leave the Green Zone. Isolated inside their fortified enclave, CPA staff had almost no contact with the workings of the Iraqi economy. Coalition staff were able to sit in their offices and write regulations, and they did so prolifically. But a nationwide banking or tax system could not be put in place from an office in the Green Zone. Meanwhile, Iraq's fledgling government ministries lacked the expertise to interpret the new regulations or the power to enforce them. According to a CPA official responsible for drafting Iraq's commercial law code, "We covered too much rather than too little. We gave them a lot of laws, but it would have been smarter to do fewer laws and work more on implementation. Our office was writing away, but in the end we didn't ensure that the Iraqi government and people understood the new laws or how to implement them."

In another sign of inadequate implementing capacity, the CPA was unable to spend most of the funds that were allocated for Iraq's economic reconstruction. Congress approved $18.4 billion for reconstruction in October 2003. By June 2004, the CPA had spent only $400 million of this. There were several reasons for the slow pace of reconstruction spending, including the Iraqi economy's limited absorptive capacity and the deteriorating security environment. But an equally serious problem was the CPA's cumbersome system for approving projects and disbursing funds. According to one coalition official, "People say that security is the number one inhibitor of progress. I would say it's the funding and contracting regulations."

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The Pentagon established the Program Management Office (PMO) in late 2003 to supervise contracting for the $18.4 billion. The PMO turned out to be a major bottleneck. With a handful of people processing every contract that went through the CPA, it was understaffed and overwhelmed with work. The number of acquisition officers overseeing Iraq reconstruction contracts was remarkably small compared to other countries with internationally funded postconflict reconstruction programs. Project proposals often took months to review.

Proposals submitted to the PMO had to conform to its complex contracting regulations. These regulations, according to one CPA official, "would take a lifetime to master." Yet few CPA officials had experience in contracting, so they had no idea how to get their projects approved. As one senior economic official admitted, "I didn't understand, and no one in my office understood, government procurement and contracting . . . so I was making mistakes. I was not getting stuff done that needed to be done. I had the wrong expertise in the wrong place to accomplish the mission."

Delays in processing contracts may seem like a minor bureaucratic problem, but the impact on Iraq's reconstruction was dramatic, slowing reconstruction on major projects and holding up execution of crucial contracts. Coalition officials expressed intense frustration over the CPA's inability to develop an effective system for disbursing funds. The CPA could have addressed the funding nightmare by hiring more contracting officers, or it could have streamlined contracting mechanisms to accommodate the CPA staff's lack of procurement expertise and the need for rapid response to reconstruction needs. In any event, successful postconflict reconstruction requires that the authority to adopt policies be matched by the capacity to carry them out.

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Promoting private-sector growth requires more than removing barriers

During occasional forays outside the Green Zone, CPA officials would be driven past Baghdad marketplaces filled with imported consumer goods. As one official rhapsodized, "Everywhere you looked there were these little flowers of capitalism springing up creating jobs and wealth." Many in the coalition equated the availability of imports with the rise of a vibrant private sector: "I saw this thriving entrepreneurial energy . . . over a period of months, I saw the range of goods broadening. It wasn't just TVs and radios and satellite dishes. It was microwaves and conventional ovens and kitchen sinks." But an inflow of foreign consumer goods, financed by money pumped into the economy by coalition occupiers, was not a sufficient basis for diverse and self-sustaining private-sector development.

The CPA's approach to promoting private enterprise was shaped by its Office of Private Sector Development (PSD). Most PSD officials were U.S. business executives who knew a great deal about encouraging entrepreneurship in established market economies but had no experience in transitional economies. PSD saw promoting the private sector mainly in terms of creating the right laws and "removing barriers" rather than providing active assistance. As the director of PSD stated, "Our goal was to help Iraqis understand that government shouldn't squelch growth, and that there wasn't much it had to do to stimulate growth."

Iraq's private sector needed more than the right laws.

But Iraq's private sector needed more than the right laws. Under Saddam, it had been stunted, consisting mainly of tiny, family-owned firms with no access to credit and no knowledge of modern business practices. Promoting the growth of Iraq's private sector would require substantial infusions of credit, extensive training programs, and aggressive coalition efforts to include Iraqi firms in reconstruction projects.

The PSD initiated several small-scale programs to meet these needs. It distributed small loans and provided a few training sessions for business owners. But the focus of its attention and resources was regulatory reform. Unfortunately, the coalition had little capacity to translate its reforms from paper to practice. For example, its banking regulations created the legal framework for a private credit market, but legal frameworks are not particularly useful without functioning banks or credit flows. The coalition did not undertake the work of actually establishing a credit market, so aspiring Iraqi entrepreneurs found it difficult to obtain start-up or expansion capital.

One sector of the Iraqi economy with considerable potential to contribute to economic recovery was agriculture.

One sector of the Iraqi economy with considerable potential to contribute to economic recovery was agriculture. Yet the coalition devoted surprisingly little attention to helping Iraq's struggling farmers. As the director of the PSD admitted, "We didn't spend a lot of time on the agriculture sector." Although hundreds of millions of dollars in U.S. reconstruction funds were earmarked for irrigation projects and dam repair, PSD spent none of the money. Instead of investing in agriculture, the coalition cut off its subsidized inputs, leaving many farmers unable to afford fertilizers and pesticides. Evidence from other transitional economies reveals that gradually reducing input subsidies is more conductive to agricultural restructuring than abrupt elimination of support to farmers. In Iraq, the CPA's policies failed to stimulate the recovery of agricultural production and employment. Instead, they encouraged farmers to leave their fields in search of jobs in the city, where they often joined the ranks of the unemployed.

Another promising avenue for promoting Iraqi firms was through reconstruction contracting. With the authority to disburse billions of dollars in contracts, the CPA possessed a powerful tool to stimulate the development of Iraq's private sector. But although some coalition officials wished to prioritize the use of Iraqi firms, the top CPA leadership decided that foreign contractors would make quicker progress on reconstruction than Iraqi businesses. The majority of reconstruction contracts, therefore, went to U.S. firms. The CPA did encourage (though it did not require) prime

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contractors to subcontract to local companies and put 2,000 local businesses into a database so that prime contractors could identify Iraqi subcontractors.

The assumption that foreign contractors were the key to speedy reconstruction turned out to be incorrect. As Iraq's security situation deteriorated, foreign companies that had not hired local subcontractors pulled out, and their projects ground to a halt. Bechtel was one of the few major foreign contractors that kept its projects going, largely because it had identified 1,800 local firms to serve as subcontractors. Many of Bechtel's Iraqi subcontractors stayed on the job despite the threat of violence. In retrospect, it seems clear that the reconstruction effort would have been strengthened by greater Iraqi participation. Had the CPA done more to promote and prioritize the use of Iraqi firms, reconstruction projects might have maintained greater momentum. In addition, the coalition would have made a valuable contribution to the long-term development of Iraq's private sector.

The assumption that foreign contractors were the key to speedy reconstruction turned out to be incorrect.

The CPA's experiences demonstrate that measures used to promote entrepreneurship in developed market economies (such as small business loans) are also effective in transitional and postconflict settings. But private sectors struggling to expand in the aftermath of war and repression need more active assistance as well. By removing barriers to private-sector activity, the coalition opened the door for Iraqi businesses. It could have done more to help Iraqi firms cross the threshold.

Effective reforms require empowered owners

The coalition's reconstruction mission included two broad tasks. One involved planning and carrying out reconstruction initiatives. The other entailed preparing the Iraqi government to take over reconstruction after the occupation. Coalition officials realized the importance of building the capacity of Iraq's governing institutions and officials. Yet working with Iraqis was time-consuming, labor-intensive, and often frustrating. CPA officials referred disparagingly to Iraqis' passivity and inertia: "Iraqis were very reluctant to take initiative. They always wanted someone else to order them." Under Saddam, unquestioning submission was a key survival skill, so it is not surprising that Iraqi officials needed practice in risk-taking and decisive action. But it is unfortunate that many coalition officials lacked the patience and foresight to encourage Iraqi learning, and instead resorted to imposing decisions on officials they assumed to be incompetent.

Most Iraqi officials whom the CPA placed in top economic positions did lack leadership experience. This inexperience was, in part, the consequence of the coalition's de-Baathification policy, which barred high-ranking Baath party members from government posts. Some coalition officials felt that de-Baathification stripped government ministries of some of their most experienced leaders. Others felt that de-Baathification did not deprive the CPA of any useful talent, because the Baathist leadership had no idea of how to govern a market economy: "Their 'expertise' was in control and corruption."

Ultimately, purging the old Baathist leadership was less damaging to the economic reform effort than the coalition's reluctance to empower the new Iraqi leadership. As one coalition official stated, "A lot of people didn't want to put Iraqis in charge of the ministries too quickly, because they felt they would fail. In my view, they needed to fail. They needed to fail because they would learn from those failures. If that meant slowing down the pace a little, it would pay off over time." But top CPA leaders did not feel they had the luxury of sitting back and watching Iraqis learn from their failures.

Purging the old Baathist leadership was less damaging to the economic reform effort than the coalition's reluctance to empower the new Iraqi leadership.

It remains to be seen whether Iraq's new government will be willing or able to continue the economic reforms initiated during the occupation. As a coalition lawyer tasked with writing Iraq's commercial law admitted, "The Iraqis could erase every

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If Iraqis had been brought into the reform process more fully, they would have become more invested in the decisions that were made.

single law we wrote." If Iraqis had been brought into the reform process more fully, they would have become more invested in the decisions that were made. The resulting sense of ownership could have helped ensure continuity in reform implementation after the transition. Giving Iraqis responsibility would have also helped them develop more realistic expectations about reconstruction. As long as coalition officials controlled decision making, it was easy for Iraqis to criticize the lack of progress and blame the coalition for failures.

Creating Iraqi ownership of reconstruction also required decentralization of governing authority, which has been shown to strengthen accountability and stimulate economic recovery in other postconflict and transitional settings. In Iraq, decentralization was essential to counteract the stifling centralization of the Saddam era and to give communities the ability to undertake needed reconstruction projects. Realizing that decentralization could support reconstruction, the CPA established a local governance project to empower governorates and municipalities. Meanwhile, in every Iraqi governorate, and in most cities, coalition military commanders and civilian contractors helped set up governing councils.

Decentralization was essential to counteract the stifling centralization of the Saddam era and to give communities the ability to undertake needed reconstruction projects.

These were important initiatives but their success depended on giving local authorities the resources to meet their reconstruction responsibilities. The CPA originally intended to devolve substantial budgetary authority to governorates and municipalities. But its plans encountered opposition from central government ministries accustomed to wielding total control over local spending. After the November 2003 decision to truncate the occupation, the CPA abandoned efforts to decentralize Iraq's budget. Its Order 71 of April 2004 strengthened the powers of local governments on paper. But the order did not provide governorates and local councils with their own budgets for reconstruction and public services. By failing to give these councils resources and the capacity to undertake projects, the CPA missed a key opportunity to promote reconstruction, institutionalize local governance, increase governmental accountability to citizens, and generate a sense of progress toward economic recovery.

Enabling corruption disables reconstruction

Corruption thrives in the environment of postconflict reconstruction. The combination of large public procurement projects, major funding infusions, and inadequate government regulatory mechanisms creates fertile ground for corrupt practices. Adding to the CPA's difficulties in Iraq, the coalition confronted a legacy of entrenched corruption in government economic management. Replacing the culture of corruption with a culture of responsible stewardship was a daunting task. As one coalition official noted, "Iraqis consider what we call corruption to be either the cost of doing business, or the way you do business."

The CPA's efforts to combat corruption in Iraq were dominated by a search for "quick fixes." Ample international experience documents that there are no quick fixes for corruption. Nonetheless, the CPA placed its faith in the easy solution of creating anticorruption agencies, such as the Office of General Inspectors. This step may have been necessary, but it was not sufficient. Inventing bodies whose mandate is to promote transparency does not automatically engender transparent governance in an environment where it has never existed. The coalition did not provide its new anticorruption agencies with the policy tools, the training, or the political authority they needed to do their work. Furthermore, anticorruption safeguards work best if they are "mainstreamed" into all functions of government. But the CPA was not interested in mainstreaming anticorruption. This would have required confrontations with corrupt officials throughout the Iraqi government, disturbing relationships with coalition allies.

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Besides, the CPA could not fight what it did not see. Coalition officials working in the Green Zone often failed to perceive corruption since they did not understand the environment in which it operated. Their comprehension was hobbled by language barriers, unfamiliarity with Iraqi culture, and limited access to where corruption was taking place—in ministries, at project sites, and in enterprises around Iraq.

Meanwhile, out in the field, military and civilian officials realized that corruption was widespread in local reconstruction work. But they felt under enormous pressure to fund projects. They also feared that turning down inferior bids submitted by close associates of local authority figures would lead to sabotage or other forms of retaliation. By approving questionable contracts, officials were able to get projects moving quickly and maintain local peace. But they also undermined the coalition's goal of establishing a market economy based on performance rather than connections.

CPA officials spoke of fighting corruption by "setting an example" of transparent governance. Yet the organizations established to monitor reconstruction spending found themselves investigating numerous allegations of CPA misuse of funds. The International Advisory and Monitoring Board for Iraq and the CPA Inspector General found endemic weaknesses in fund management: accounting for cash assets was inadequate, contract documentation was often incomplete or missing, official contracting procedures were inconsistently applied, and contract acquisition officials were not appropriately trained or supervised. Rumors of CPA corruption ran rampant in Iraqi society. Regardless of the truth of the rumors, their widespread circulation indicates that the CPA's management of reconstruction was not sufficiently transparent or accountable. Fighting corruption and ensuring transparency must be treated as priorities rather than burdensome distractions from the "real" job of reconstruction.

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Fighting corruption and ensuring transparency must be treated as priorities rather than burdensome distractions from the "real" job of reconstruction.

Conclusion

Reconstruction involves painful trade-offs rather than easy choices. Could the coalition have been more successful had it made different choices? One coalition official concluded bleakly, "Being an occupying power was a no-win situation. It put the onus on us to accomplish the impossible." In fact, it was the coalition that put the onus on itself to accomplish the impossible, by defining its mission as the reconstruction of Iraq's economy. The coalition could have defined its mission differently. It could have focused not on what it could do for Iraq, but rather on what it could do with Iraqis. In other words, the coalition could have made Iraqi ownership of reconstruction a top priority.

Further, the coalition could have begun by defining success in terms of empowering Iraqis to run their own economy and by promising maximum input into reconstruction rather than instant improvements in material circumstances. Then, the CPA could have concentrated on building the capacity of Iraqi decision makers, rather than on single-handedly creating a new legal and regulatory framework for Iraq's economy. In collaboration with Iraqi authorities, the coalition could have also designed economic reforms more closely aligned with Iraqi needs and could have introduced some of the painful but necessary reform measures it hesitated to impose on its own. Strengthening Iraqi ownership would also have alleviated the security problems that hindered reconstruction efforts. For example, giving local councils authority over local reconstruction projects would have increased their incentives and capacity to protect those projects more effectively. Meanwhile, prioritizing the inclusion of Iraqi firms in large-scale reconstruction projects would have enabled local contractors to maintain progress on major projects even when security constraints led foreign contractors to suspend operations.

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Prioritizing Iraqi ownership would have slowed the pace of reform and lessened coalition control over reconstruction priorities and spending.

Prioritizing Iraqi ownership would have been costly. It would have slowed the pace of reform and lessened coalition control over reconstruction priorities and spending. But by accepting these costs, the coalition would have strengthened the sustainability of initiatives undertaken during the occupation. And it would have encouraged Iraqis to focus on contributing to the success of reconstruction rather than on blaming the coalition for its failures. Prioritizing Iraqi ownership would have enabled Iraqis to grasp the full extent of reconstruction challenges and empowered them to grapple with those challenges themselves.

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SPECIAL REPORT

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Anne Ellen Henderson

The Coalition Provisional Authority's Experience with Economic Reconstruction in Iraq

Lessons Identified

PURDUE UNIVERSITY
MAY 10 2005

About the Report

This report is a product of the United States Institute of Peace's Iraq Experience Project. It is the second of three reports examining important lessons identified in Iraq prior to the country's transition to sovereignty in June 2004 and is based on extensive interviews with 113 U.S. officials, soldiers, and contractors who served there.

This report is focused specifically on economic reconstruction in Iraq under the Coalition Provisional Authority. The other two reports examine security and governance, respectively. These reports are intended for use as training aids in programs that prepare individuals for service in peace and stability operations, so that lessons identified in Iraq may be translated into lessons learned by those assigned to future missions.

Anne Ellen Henderson, formerly a program officer in the Institute's Professional Training Program and currently assistant vice president for academic affairs at Trinity University, prepared the report. The Association for Diplomatic Studies and Training conducted the interviews under a contract with the Institute.

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Special Report 138 April 2005

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