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“ASSESSING THE STATE OF IRAQI CORRUPTION”

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Introduction

Chairman Waxman, Ranking Member Davis, and Members of the House Committee on Oversight and Government Reform, thank you for this opportunity to testify before you today on the subject of this hearing: “Assessing the State of Iraqi Corruption.”

This past August, I visited Iraq for the 17th time since my appointment three and a half years ago as the Special Inspector General for Iraq Reconstruction. While in Baghdad, I met with key Coalition and Iraqi officials on the subject of corruption within the Government of Iraq. SIGIR has regularly reported on Iraqi corruption in our past 14 quarterly reports, and we have conducted two audits of U.S. support to Iraq’s anti-corruption institutions.

The Second Insurgency

Since mid-2003, Iraq has struggled against a violent insurgency. Corruption has concomitantly afflicted the Iraqi government, exerting a corrosive force upon Iraq’s fledgling democracy. SIGIR has described that force as the “second insurgency.” Prime Minister Maliki recently echoed this sentiment, referring to his country’s struggle against corruption as “the second war in Iraq.”

Corruption in Iraq is similar to insurgent attacks on infrastructure because it directly harms the country’s economic viability. In very real terms, corruption stymies the construction and maintenance of Iraq’s infrastructure, deprives people of goods and services, reduces confidence in public institutions, and potentially aids insurgent groups reportedly funded by graft derived from oil smuggling or embezzlement. Corruption’s deleterious effects discourage hope, limit appreciation for America’s contributions to Iraq, and strengthen the Jihadists’ appeal.

A World Bank expert recently described corruption in Iraq as a “pathology that is far beyond the normal situation in a peaceful state—whether democratic or authoritarian. There is a general failure of law enforcement, and those involved in corruption profit from the emergency situation and the armed conflict. As a consequence, the use of conventional tools to fight corruption—accounting and audit procedures, budget controls,

public procurement transparency, monitoring of financial activity—are relatively useless.”¹

Iraq’s Anti-corruption Entities

The three key anti-corruption institutions in Iraq are the Board of Supreme Audit (BSA), the Commission on Public Integrity (CPI), and the Iraqi inspectors general (IGs). Together, they comprise approximately 4,000 officials assigned to fight corruption in Iraq. Despite security threats, training shortfalls, and severe organizational problems, the existence of these offices doubtlessly has deterred some criminal activity in Iraq over course of the past four years. Indeed, their work has produced a number of corruption cases that have resulted in arrests and convictions.

The Coalition Provisional Authority (CPA) created the CPI as the primary agency in charge of investigating accusations of official corruption and bringing alleged offenders to court. The CPI, which is Iraq’s analogue to the FBI, has had a burgeoning caseload since its inception. For example, in 2005, the CPI reported 2627 total cases, including 255 for bribery, 138 for forgery, and 385 for embezzlement.

The CPA also created Iraq’s system of inspectors general, a completely new array of institutions in Iraq intended to work in parallel with the CPI to combat corruption within each Iraqi ministry. The Iraqi IGs, like their American counterparts, are charged with auditing and investigating the work of their respective ministries. The IGs refer potential criminal abuses to CPI’s investigative judges. In 2005, Iraq’s inspectors general conducted nearly 3,000 audits and 2,200 investigations at the ministerial level; 922 of these cases were referred to the CPI.²

The Board of Supreme Audit (BSA), the analogue to the U.S. Government Accountability Office, is the oldest and most highly regarded anti-corruption entity in Iraq. As the government-wide auditing agency in Iraq, the BSA has jurisdiction to oversee all public contracts. The President of the BSA, Dr. Abd el-Basit, reported in 2006 that his office had forwarded 83 cases of suspected corruption to the CPI and had notified the inspectors general of an additional 2,400 cases requiring further review. The BSA’s rate of referral this year has more than doubled, with 119 cases sent to the CPI as of September 20.³

The existence of these three institutions has promoted public discussion about the need to fight corruption in Iraq. But the CPI, the BSA, and the network of IGs continue to fight an uphill battle.

¹ “Corruption in Iraq” - Carlos Castresana – paper presented at World Bank Conference, July 2006, Dubai

² IG Campaign Plan – March 2006

³ Emailed response to data call from SIGIR by BSA September 2007

The Status of Iraqi Corruption

Corruption within Iraq's government is a significant and serious problem. Surveys of Iraq's citizens reveal a common belief that corruption is pervasive within their national government.⁴ A recent report submitted by Iraq, pursuant to the requirements of the recently enacted International Compact for Iraq, identified "high levels of corruption and an immature accountability framework" within the government. This report noted that "the Government of Iraq views that incidents of corruption could potentially be endemic."

The strong relationships SIGIR has developed with Iraqi anti-corruption officials over the past three and a half years have amplified our understanding of the corruption problem. SIGIR investigators have formed working relationships with CPI investigators, and they regularly meet with one another to exchange information. Much of SIGIR's detailed understanding of Iraqi corruption comes from our work with CPI as well as my very productive quarterly visits with the CPI's Commissioner. Similarly, my meetings with the President of the Board of Supreme Audit and the Iraqi Inspectors General have proved most useful.

Over the past year, the number of corruption cases under investigation by the CPI increased by almost 70 percent, from 1861 cases in 2006 to 3158 cases thus far in 2007. Similarly, individual Iraqi ministries have reported dramatic increases in the number of corruption cases initiated. Thus far in 2007, the Ministry of Defense has seen a 57% increase in reported cases, the Ministry of Health a 400% increase, and the Ministry of Trade a 728% increase.⁵

These figures point to a rising tide of corruption in Iraq, and its anticorruption institutions are not well poised to stem it. More specifically, these institutions lack the training, tools, and security necessary to execute a successful anti-corruption program. The UN International Advisory and Monitoring Board (IAMB), which the United Nations established as an external auditing agency in 2003, recently concluded that basic administrative procedures in Iraq's ministries are outdated and ineffective (and thus in need of more oversight). The IAMB also concluded that the controls governing public finances require strengthening.

As a side note, I previously have testified that the corruption SIGIR has uncovered to date within the US reconstruction program, while egregious in nature, amounts to a relatively small proportion of the overall U.S. investment in Iraq. I believe that this lower level of corruption within the U.S. program stems, in part, from SIGIR's substantial and aggressive deterrent presence on the ground in Iraq, which has been active for over three years. SIGIR's investigative efforts have produced—and continue to produce—significant cases, resulting in indictments, convictions, imprisonments, and seizures.

⁴ Transparency International's 2006 Annual Report ranks Iraq among the bottom five in terms of public perceptions of corruption within its government.

⁵ Data provided by the U.S. Senior Advisor to the CPI.

Similarly, SIGIR's 200-plus audits and inspections have helped American program managers identify and reduce vulnerabilities to potentially corrupt behavior.

Challenges Facing Iraqi Anti-corruption Entities

Security

Security concerns throughout Iraq severely limit the transparency of government activities. Widespread violence or threats of violence directed at anti-corruption officials as well as untoward political influence over many of Iraq's public institutions have created an inordinately dangerous environment for Iraq's anti-corruption officials. CPI's investigators, for example, usually are forced to reveal the details of their cases (including sources) to the ministries and officials they are investigating. These legal requirements place witnesses and anti-corruption officials in danger. Many have been murdered, including the previous President of the BSA, several Iraqi Inspectors General, and at least 39 employees of the CPI. Dozens of others have been intimidated or forced to flee Iraq. Judges and judicial investigators have also been intimidated or killed.

Political Leadership

Some Iraqi officials have alleged that Iraq's anti-corruption agencies are politicized and corrupt. But some of those airing these allegations are also the subject of current investigations. In addition, although certain senior Iraqi officials have made strong statements about Iraq's commitment to fight corruption, the BSA, the CPI, and the IGs continue to suffer from a lack of support and funding from Iraq's government.

Political influence recently reached into CPI's operations, as evidenced by the presence at this hearing today of Judge Radhi al-Radhi, the recently departed Commissioner of the CPI. I have worked with Judge Radhi throughout my tenure at SIGIR and consistently observed his courage and commitment to accomplish what is perhaps the most dangerous law enforcement job in the world.

Rule of Law

An Iraqi council chairman from Baghdad told SIGIR last month that Iraq "had corruption under the regime of Saddam Hussein, but we also had law."⁶ This statement is emblematic of the lack of faith that Iraq's citizens have in their anti-corruption institutions' capacity to prosecute cases effectively and fairly. This weakness is due, in part, to the shortage of reliable judges, courtrooms, and detention facilities. It is also due to political interference and the resulting culture of impunity.

⁶ SIGIR interview with Baghdad District Council official (anonymous).

Article 136(b) of Iraq's Criminal Code is a notorious structural obstacle impeding Iraq's anti-corruption efforts. This provision allows any Iraqi minister to grant by fiat complete immunity from prosecution to any ministry employee accused of wrongdoing. In addition, an order issued by the Prime Minister this past spring requires Iraqi law-enforcement authorities to obtain permission from the Prime Minister's Office before investigating current or former ministers. These actions are incompatible with a functional democracy.

Iraq's anti-corruption institutions lack a clear definition of their roles and responsibilities. Laws necessary to clarify these matters have yet to be passed by Iraq's Council of Representatives. Of note, the International Compact for Iraq says that progress on this front is essential for Iraq's democracy to succeed.

Capacity

Iraq's anti-corruption agencies face significant capacity and resource shortfalls. Enormous training shortfalls exist in the important fields of investigations, audit, and management. The Government of Iraq must remedy the problems of insufficient staffing and inadequate budgets if these institutions are to succeed.

Signs of Progress

Despite these grim challenges, there are some limited signs of progress in Iraq on the anti-corruption front. Investigators and auditors have begun to receive more training. The BSA just completed a World Bank training program in Jordan; and the BSA has organized 57 training programs for more than 800 employees over the past two years. The inspectors general have formed the Iraq IG Organization, and its chairman is conducting assessments of each IG. Of recent note, a Joint Anti-Corruption Council was established this summer within the Office of the Prime Minister, an apparent positive move forward, but one that still requires clearer direction and more robust support from the Prime Minister.

U.S. Assistance for Iraq's Anti-corruption Efforts

SIGIR has conducted two reviews on the United States' programs aimed at assisting Iraq's anti-corruption institutions; the reviews found these programs inadequate, both in funding and execution. SIGIR reported last year that, as of June 2006, only \$65 million had been allocated to anti-corruption activities, amounting to three-tenths of one percent of the Iraq Relief and Reconstruction Fund.

Since 2003, the U.S. has worked to establish law-enforcement institutions, management systems, training programs, transparency initiatives, and campaigns to increase citizens' confidence in their own government. These efforts, however, have suffered from poor coordination and focus. The U.S. provided neither adequate leadership nor sufficient resources to meet the challenge. SIGIR found, for example, that there was no single coordinative point for U.S. support to Iraqi anti-corruption efforts.

Managing the anti-corruption support activities of the various U.S. agencies is complex and requires a clear strategic plan. SIGIR found, however, that no strategic plan for this mission was ever developed. Moreover, there was no program of planned activities, no framework for outlining the roles and responsibilities of participating agencies, and no integrated budget identifying the resources needed for implementation. There exists a recurrent problem with “stove-piping” among the federal agencies working on anti-corruption efforts in Iraq; and coordination among military advisors, embassy personnel, and PRT representatives is hampered by staff shortages and organizational disconnects.

Despite these largely negative findings, SIGIR did find that the anti-corruption efforts within the Ministries of Defense and Interior are more robust than those within other ministries because of resources provided by the Department of Defense through the Multi-National Security Transition Command (MNSTC-I). The other ministerial IGs share a single U.S. advisor.

Leadership and Organizational Challenges with U.S. Efforts

Since SIGIR first identified the support shortfall for anti-corruption efforts in mid-2006, the Embassy has been unable to secure enduring and effective leadership for its anti-corruption program. Thus, the effort has languished, excepting a few points of progress. Significantly, the Embassy has yet to complete its promised assessment of U.S. government anti-corruption efforts nor has it drafted an integrated, strategic plan.

SIGIR made 12 recommendations in last year’s audit. Ten remain open, including:

- Provide the necessary resources to have sufficient direction and oversight of the Embassy’s anti-corruption program, including a senior leader from the Department of State and a senior officer from the Multi-National Force. Both of these positions should be filled with staff that has the background to bring value to the positions.

Update: While a staff member in the Embassy Economics section has been designated to preside over meetings of the U.S. Anti-Corruption Working Group, the operational arm of U.S. anti-corruption efforts, the Office of Accountability and Transparency (OAT), still lacks a director (DOJ is providing an acting director). Additionally, the recent reorganization of OAT under the Rule of Law Coordinator has produced an unclear reporting relationship with the Economic Section of the Embassy. Adding to the coordination challenge, Multi-National Forces - Iraq (MNF-I) continues to operate its own Rule of Law (ROL) program that is separate from OAT and the Embassy’s other ROL efforts.

- Continue the ongoing efforts to recruit an Iraqi local national staff member to provide support to the full-time Anti-corruption Program Manager. This individual should have the necessary skill level to be instrumental in forging joint U.S./Iraqi anti-corruption initiatives.

Update: A Bilingual/Bicultural Advisor was recently identified to assist as the IG advisor. Progress toward hiring a lead Iraqi national staff member for overall anti-corruption efforts is limited.

- Establish a joint executive steering group, with the Anti-corruption Program Manager as the chairperson, that would have oversight on all U.S. government anti-corruption programs to ensure that all initiatives are working toward a common goal in the most efficient and effective manner.

Update: The Joint Anti Corruption Council was established this year as an Iraqi program. It lacks US advisory representation and was designed that way by the Government of Iraq (GOI). Without a joint coordinating body and without an identified leader of OAT, there is not a single coordination point between the U.S. government and the GOI on anti-corruption efforts.

- Direct the joint executive steering group to provide periodic reports, minimally quarterly, to report on progress, barriers, funding needs, etc.

Update: No reports provided.

- Establish a policy that will require all participating organizations to vet new anti-corruption initiatives through the new joint executive steering group.

Update: Not established.

- Direct the joint executive steering group to conduct a complete review of each U.S.-funded anti-corruption program, and assess how that program helps achieve the U.S. government's strategic goals for anti-corruption.

Update: No assessment conducted.

- Direct the members of the Anti-Corruption Working Group (ACWG) to develop action plans for each activity's program in concert with the overall strategic goals.

Update: No overall strategic plan governs anti-corruption efforts on the USG side.

- Establish a baseline for each anti-corruption program to document a starting point for the program in order to measure progress.

Update: No baseline established.

- Establish interim and long term objective(s) for each anti-corruption program consistent with the overall anti-corruption program strategy.

Update: Not accomplished (see SIGIR audit 07-007).

- Engage the new Iraqi anti-corruption counterparts within the new government and establish the U.S. – Iraqi Anti-corruption Task Force working group.

Update: No effective high-level coordination exists between U.S. government efforts and the GOI. The GOI, in creating the JACC, directed that U.S. and UK participation occur by invitation only.

- Encourage the new Iraqi government to establish its own working groups with regional and international partners.

Update: Some progress toward this reported as part of International Compact efforts.

- Develop and implement an action plan to:

- Identify the training requirements of the Commission on Public Integrity, Board of Supreme Audit, Central Criminal Court of Iraq, and inspectors general with special emphasis on requirements that apply to all four institutions;

Update: Work is underway for training requirements within the three anti-corruption entities.

- Prioritize the identified training requirements;

Update: Work is underway to prioritize training requirements.

- Identify training solutions for those requirements that can cut across multiple institutions to avoid duplication and maximize resources.

Update: Work is underway to identify training solutions.

In our recent review, which updates last year's audit, SIGIR found a continued lack of high-level support for Iraq's anti-corruption efforts and urged that the Embassy address the outstanding 2006 recommendations. SIGIR suggested the Embassy to include in its plans an estimated completion date for corrective actions. We also asked that it define a schedule of anti-corruption programs, activities, and initiatives. Once identified, the Embassy should complete a rigorous assessment of its major anti-corruption initiatives.

The Challenges Ahead

Continuing to improve support for Iraq's three anti-corruption entities is critical. Although imperfect and under various forms of siege, they are the only extant bulwark against corruption in the GOI.

Incipient training programs for anti-corruption officials are underway, but they require improved coordination and additional resources. For the past three years, officials have discussed the development of a joint training facility in Iraq to assist all three entities. Developing a new training facility would be an important step toward building permanent capacity within Iraq's most important law-enforcement institutions. In the interim, the World Bank is working to strengthen Iraq's anti-corruption programs, albeit in venues outside of Iraq. A World Bank presence inside Iraq would have a much more positive effect on these support efforts.

U.S. government assistance faces an important test in the coming months. The mission requires a more coordinated approach to anti-corruption efforts, including a better-defined strategic plan that is tied to sufficient financial and human resources. This newly-defined effort must link directly with the most critical institutions and officials in the Iraqi government to have any hope of achieving progress in the fight against Iraq's "second insurgency."

Closing

Mr. Chairman, members of the Committee, thank you for your time and attention to these important matters, and I look forward to answering your questions.