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BOOK REVIEW

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Book Review

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Reconstructing Iraq's Budgetary Institutions: Coalition State Building after Saddam. By James D. Savage. New York: Cambridge University Press, 2013.

James Savage's book contributes to the literature on post-conflict state building, economic reconstruction, and foreign assistance in a variety of ways. The book is much more than an excellent case study of the fiscal issues and budgetary process reform—formulation, approval, and execution—in Iraq. It clearly identifies a set of US interagency problems that has affected the impact of US operations and performance in Iraq, as they have in other war-torn countries, particularly Afghanistan.

The most flagrant of these problems included major turf battles and the absence of effective cooperation and coordination among different US government agencies, overlapping mandates, and the lack of in-house expertise particularly at the US Agency for International Development (USAID). They also included the use of unruly, expensive, and often-incompetent private contractors; the inability of USAID and other agencies to exercise proper oversight functions over their contractors and projects, and agencies' willingness to continue to entrust Bearing Point and other private contractors with such projects despite their significant mismanagement and accounting problems; and incredibly wasteful expenditures on the use of private contractors in general. All of these problems have not only affected US and Iraqi costs, in terms of blood and treasure, but they have been major factors impeding Iraq's stabilization, reconstruction, and prosperity.

The book draws a number of lessons that the United States and other foreign interveners—including the UN and the Bretton Woods institutions—should keep in mind in future operations in war-torn countries, even if they are not as comprehensive as they have been in Iraq and Afghanistan. Perhaps the most important is the danger of imposing unrealistic “benchmarks” that can have unexpected consequences. For example, the 17th Benchmark, which raised the Iraqi budget

execution as the main measure of Coalition's success, resulted in massive waste, corruption, and ineffective policy outcomes. Efforts to focus on the proportion of the capital budget spent to comply with benchmarks have overwhelmed transparency and accountability efforts.

Although Savage does not explicitly discuss it as a lesson, the evidence he presents is illustrative also of the fact that best budgetary practices in industrialized countries may be neither effective nor desirable when applied to post-conflict countries. This discrepancy stems from post-conflict countries' need to deal simultaneously with major security, political, social, and economic constraints, together with weak legal frameworks and a lack of skills and administrative capacity.

The emphasis on budgetary reform in Iraq is not surprising given that countries need a budget to function. At no time do they need it more than after the chaos of war, when planning, prioritizing, allocating scarce domestic and foreign resources, and managing fiscal systems and weak civil services are critical to ensure the reactivation of economic activity in general, and the financing of key peace-related projects in particular. Governments will find it difficult to build the legitimacy they need in the post-conflict context without providing basic services and infrastructure so that the vast majority of citizens can enjoy a peace dividend in terms of better lives and livelihoods. Effective public budgeting is indeed a necessary, although not sufficient, condition for successful state building and good governance.

Despite the technicalities of the budgetary process, Savage makes it clear that the budget is a political process, and much will depend on what is politically feasible in the country. US budgetary experts making decisions rightly rejected imposing an American model of budget formulation on the Iraqis, relying on the basic elements of the existing system on the basis that successful institutional change is highly contingent on aid beneficiary ownership and buy-in. In its absence, the ability of Iraqis to subvert, sabotage, and minimize the effectiveness of foreign-generated rules would have been significant. Iraqis took ownership of some institutional changes (including bud-

getary rules) but not others. There was strong resistance from Iraqis at all levels to the FMIS (financial management integration system), despite the fact that it was a benchmark under the International Monetary Fund (IMF) 2008 Stand-By Agreement and a commitment under the International Compact agreement with donors. Iraqis were only interested in the FMIS to the extent that it would qualify for debt relief, and the system languished thereafter. Iraqis relied on a paper and pencil system, and they could not see any immediate benefit in learning a new and complex system. Iraqis eventually complied with the adoption of the IMF's chart of accounts, only years after they had agreed to do so.

The Iraqi experience also shows that donor agencies that have political clout can be more effective in supporting war-torn countries. Thus, the US Treasury, which was privy to political and security decisions, was clearly more effective than USAID in supporting Iraq. This is consistent with the peace-building literature that argues that because the process is basically political, peace (or political) objectives should always prevail over any other development (or economic) ones given that it is not possible to have economic development without peace.

This book analyzes the Coalition's attempt to rebuild Iraq's budgetary system by using theories of historical institutional change. Savage describes how Iraqi institutions and budgetary rules were layered on top of Ottoman, English colonial budgeting, and the institutions of Saddam Hussein's Ba'athist regime, with new rules incorporated into existing ones that changed their influence. He examines the role of the Ministry of Finance (created by the British) and the Ministry of Planning (created by Saddam Hussein), which respectively prepared the operational and capital budgets in a largely independent manner, and contributed an element of control over Iraqi institutions and to maintaining the budget as a state secret. The book thoroughly analyzes budgetary reform starting

with prewar planning (mostly focusing on currency exchange and the payment to civil servants and pensioners), through the interim and elected Iraqi governments, to the drawdown of US forces in 2011.

Budget execution became the mantra and metric of the CPA's (Coalition Provisional Authority) various capacity building programs in Iraq—both at the ministerial level as well as the provincial one. The goal was to spend money quickly, whether American or Iraqi, since the fiscal stimulus was believed to support security and stability efforts. These efforts to spend rapidly, however, trumped over any concern about how money was spent and overwhelmed the CPA and Iraqi government's limited capacity for accountability. Although it was true that the urgency of paying salaries and pensions, and other emergency measures rightly outweighed concerns over accountability initially, the fact that the CPA could not account for \$9 billion in Iraq funds, as assessed by the Special Inspector General for Iraq Reconstruction, was just amazing. This was particularly so since US interveners often accuse the Iraqi, Afghans, and others of corruption.

Indeed, the author reports distressing and wide-ranging evidence of how training and advice, provided mostly by US contractors, lacked clear goals, standards, coordination, and sensitivity to the needs and wishes of the Iraqis. A major lesson from this book is that throwing money at a problem, as the United States has done in Iraq and Afghanistan, seldom results in effective governance.

In addition to those interested in Iraq or in the budgetary process of developing countries, *Reconstructing Iraq's Budgetary Institutions* is also a must read for anyone interested in economic and political reconstruction, state building, and foreign intervention in war-torn countries. Savage clearly analyzes the challenges and the constraints and extracts a number of lessons that are imperative to keep in mind in future operations if the record is to improve.