



THE CHANGING FACE OF IRAQ RECONSTRUCTION

Ambassador Christopher Hill has been confirmed as the new U.S. Ambassador to Iraq, assuming leadership of diplomacy, development, and continuing reconstruction efforts. He arrives in Baghdad to take on a variety of significant challenges, including:

- Reconciling Kurdish-Arab divisions, which are worsening, particularly with regard to Kirkuk
- helping Iraq fight the problem of corruption in national and local governments, which Prime Minister al-Maliki has acknowledged as serious and significant
- adapting the reconstruction mission to a changing U.S. security posture, which will affect the U.S. civilian presence, particularly the Provincial Reconstruction Teams
- assisting Iraq in responding to its faltering GDP, which has been constricted by the collapse in world oil prices

Notwithstanding these daunting challenges, Ambassador Hill inherits an Iraq more stable and prosperous than the country his three preceding Chiefs of Mission encountered. The security environment is generally safer now than at any time since the 2003 invasion, the GOI recently approved its largest budget in six years, and the January 31 provincial elections were a success.

Security Issues

The new Security Agreement shifted responsibility for Iraq's national security to the GOI and the Ministries of Defense and Interior. U.S. forces continue to operate in a strategic over-watch role, and significant U.S. aid continues to support Iraqi army and police operations. Although average attack levels are at post-invasion lows, recent upticks in violence in Baghdad, Diyala, and Ninewa provinces exemplify the fragility of the current security situation. Notably, bombs in Baghdad and Diyala reportedly killed more than 75 people on April 23, 2009, marking the highest one-day civilian casualty total in more than a year. Some of the recent attacks arose from arrests by Iraqi (Shia) police of (Sunni) Sons of Iraq leadership. These violent eruptions underscore the need to ensure that SOI personnel are re-integrated into new positions within the Iraqi system, pursuant to the GOI's agreement to do so.

Reconstruction Efforts

Many U.S.-funded reconstruction projects continue across Iraq, with an emphasis on governance and capacity building.



Iraqi voters wait in line to cast their vote at one of the polling sites in Baghdad, Iraq. (DoD photo)

More than \$4 billion supports U.S. projects in Iraqi provinces that are now standing up new Provincial Councils following January's peaceful elections. These elections occurred in 14 of 18 provinces, significantly remedying the representational imbalances caused by the Sunni boycott of the 2005 elections. Section 1 of the Quarterly Report provides an overview of these developments.

As the Congress considers the Administration's recent request for nearly \$1 billion in new funding for Iraq reconstruction, the GOI will rely on its recently approved \$58.6 billion budget to provide services and invest in critical infrastructure. This quarter, the Ministry of Electricity set new post-invasion power production records, but ever-increasing demand means that outputs still are not sufficient to meet needs. The Ministry of Oil continues to operate in the absence of hydrocarbon legislation, which has dampened its capacity to attract international investment.

Continuing U.S. financial support is concentrated in three funds: the Iraq Security Forces Fund (ISFF), the Commander's Emergency Response Program (CERP), and the Economic Support Fund (ESF). The Department of Defense (DoD) did not request any new funding for the ISFF this year, of which \$3 billion remains to be obligated, including \$1 billion in bridge funding that DoD has requested be extended until the end of FY 2010. More money will be appropriated by the new budget for the CERP and ESF.

Roughly \$420 million in ESF remains to be obligated. In addition to emphasizing quick-response programs at the provincial level, the ESF finances several significant projects, including a power project in Basrah, the completion of the oil Pipeline Exclusion Zone from Baiji to Baghdad, and hospitals in Erbil, Diyala, and Missan. Less than \$150 million remains available in the CERP. Of the more than 1,400 CERP-funded projects ongoing, at least half are valued at less than \$2,500, and most are aimed at economic development in Iraq's neighborhoods and villages.

SIGIR Oversight

As of April 2009, SIGIR investigations have produced 20 arrests, 24 indictments, and 18 convictions; 80 cases are open.

In February 2009, a SIGIR investigation yielded the recovery of more than \$13 million in Iraqi funds. Tipped off by a hotline complaint, SIGIR agents determined that the funds were being improperly held in various accounts belonging to the U.S. government and some U.S. contractors. This money was recovered and returned to the Government of Iraq in March. An audit is now underway to review U.S. government agency accounts that held Iraqi funds to determine whether additional money can be recovered and returned to the GOI. SIGIR investigators also worked this quarter with colleagues from an allied country to convict three Coalition partner military officers and enlisted personnel, recovering more than \$1.1 million in CERP funds.

SIGIR issued seven new audit and six new inspection reports this quarter, bringing to 289 the total number of reports issued to date. One of the audits examined the process of transferring U.S.-funded assets to the GOI, finding that most asset transfers have taken place at the local level, preventing the central government and its ministries from receiving complete data about what the United States has provided. This data gap adversely affects the GOI's ability to manage, sustain, and integrate these projects, thus placing the U.S. investment at risk.

SIGIR also reviewed the status of congressionally mandated cost-sharing policies regarding funds provided to Iraq, reviewing compliance with the requirement that the GOI match U.S. funding for certain projects. SIGIR found that more needs to be done to meet the congressional requirement. In another report, SIGIR concluded that U.S. agencies could not determine the true operating costs of a Provincial Reconstruction Team.

Private security contractors (PSCs) remain a significant subject for SIGIR oversight work: SIGIR produced two audit reports

this quarter on PSCs. The first determined that the cost of the DoD's primary contract for private security was high and likely to increase during the course of the U.S. military's drawdown as PSCs continue to assume duties previously performed by U.S. troops. In the second, SIGIR found that the system for reporting serious security incidents involving PSCs was providing decision makers with useful information.

SIGIR's Inspections directorate assessed three schools, two Primary Healthcare Centers, and a courthouse this quarter. Although one CERP-funded school's statement of work was simply a handwritten note below the signature line on a \$400,000 contract, the project nevertheless resulted in a well-functioning facility. Another school inspection identified missing equipment but also found a well-functioning facility.

Reform of Overseas Contingency Operations

This quarter's audits and inspections provided tangible evidence of the need to improve integration of U.S. reconstruction and stabilization operations in current and future overseas contingency operations (OCO). SIGIR's recent publication *Hard Lessons: The Iraq Reconstruction Experience* identified and documented the flaws inherent in the ad hoc approach that characterized the U.S. reconstruction effort in Iraq. Six years of U.S. involvement in Iraq reveal the urgent need for a new, more unified management structure to coordinate the U.S. government's response to OCOs.

Integration of the civilian-military response is the core issue. Both DoD and DoS recognize that reform is needed and are developing their capacities to respond to OCOs. However, no unified command structure has been developed to integrate the U.S. response to OCOs. As the United States gradually steps back from Iraq and engages ever more deeply in the other theaters of operations, the need for an integrated approach to OCOs will only grow more urgent.

Regarding U.S. relief and reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- prevention, detection, and deterrence of fraud, waste, and abuse
- information and analysis to the Congress, the Secretary of State, the Secretary of Defense, and the American people

Stuart W. Bowen, Jr., was appointed Inspector General in January 2004. In March, the IG completed his 22nd trip to Iraq to review progress on the reconstruction effort.

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