

SIGIR OBSERVATIONS

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SECTION

1

IRAQ RECONSTRUCTION IN 2009

This quarter marked the sixth anniversary of the U.S. entry into Iraq. Since the March 20, 2003, invasion, the Congress has appropriated \$51 billion in foreign aid for relief and reconstruction efforts that have touched every aspect of Iraqi society, from training and equipping its security forces to improving the delivery of essential services.

These tens of billions in taxpayer dollars were provided chiefly to four major funds: the Iraq Relief and Reconstruction Fund (\$20.86 billion), the Iraq Security Forces Fund (\$18.04 billion), the Economic Support Fund (\$3.74 billion), and the Commander's Emergency Response Program (\$3.5 billion). As of March 31, 2009, the United States had obligated \$42.16 billion and expended \$37.89 billion for Iraq reconstruction.¹

Several landmark events shaped continuing relief and reconstruction efforts this quarter:

- **Governance.** On January 31, 2009, the Government of Iraq (GOI) conducted long-awaited provincial elections in 14 of Iraq's 18 provinces, choosing new Provincial Councils that will play increasingly important roles in Iraq's reconstruction. In several ethnically and denominationally mixed provinces, election results corrected representational imbalances caused by the Sunni boycott of the 2005 provincial elections. Moreover, the provincial elections inaugurated a "year of elections" in Iraq, which will culminate in December with parliamentary elections, the first plebiscite on Prime Minister Nouri al-Maliki's governing coalition.
- **Security.** Pursuant to the January 1, 2009, Security Agreement (SA), the GOI now has responsibility for security across the entire country. The GOI also has assumed management control of the U.S.-sponsored Sons of Iraq (SOI), which had comprised almost 100,000 Sunni men, many of whom previously participated in or were subject to insurgent activity. The new U.S. Administration also announced its strategy to draw down U.S. forces in Iraq over the next several years.
- **Economy.** On April 2, 2009, Iraq's Presidency Council ratified a \$58.6 billion budget for 2009. Oil price fluctuations forced the GOI to downwardly revise its budget three times before finally passing it (the initial proposal was about \$80 billion). The GOI is pursuing new means for revenue generation, including increasing efforts to attract more foreign investment. ♦

PROVINCIAL ELECTIONS

The results of the recent provincial elections revealed that Iraqis largely decided to vote out incumbents, many of whom belonged to the various Shia religious parties that dominated Iraq's political scene over the past four years. The voters instead selected candidates advocating more security, less secularism, and better services. No significant acts of violence marred the elections, representing a major victory for the Iraqi Security Forces (ISF), which took the lead in ensuring the safety of more than 7,000 polling stations.

Once fully operational, the new Provincial Councils will have the power to elect provincial governors, appoint security officials, enact provincial laws, and manage reconstruction funds from provincial budgets. The three Kurdish provinces and Tameem—which is disputed among Arabs, Kurds, and Turkomen—will conduct elections later in 2009.

Low Turnout

On January 31, 14,431 candidates vied for 440 seats in 14 provinces; only 51% of the eligible voters in those provinces went to the polls.² But in the heavily Sunni Anbar province, turnout was up significantly from 2005 levels (from 5% to 40%). Turnout also increased in the religiously and ethnically diverse provinces of Diyala (up 11%) and Ninewa (up 38%). Most of the Shia provinces saw lower turnouts: Babylon, Baghdad, Basrah, Kerbala, Missan, Qadissiya, Thi-Qar, and Wassit all were down more than 10% from 2005.³

Winners and Losers

Prime Minister al-Maliki's State of Law Coalition won 121 seats, the Islamic Supreme Council of Iraq (ISCI) won 58, and supporters of Moqtada

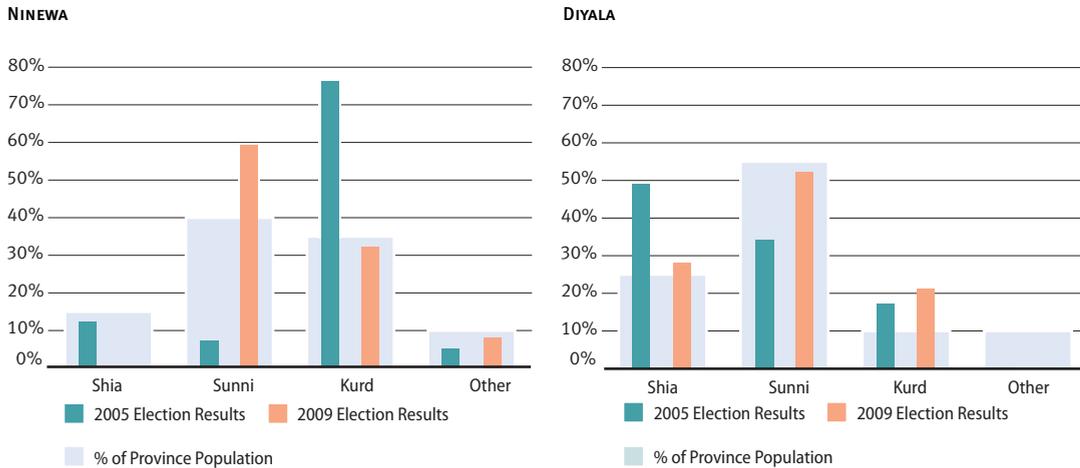
al-Sadr won 41. Former Prime Minister Ayad Allawi's Iraqi National List won 26 seats. Sunni Vice President Tariq al-Hashemi's Iraqi Islamic Party (IIP) won 32 seats, and the Sunni-led Iraqi National Project List of Saleh al-Mutlaq and the al-Hadbaa National List each won 19. Kurdish parties won 12 seats, but most Iraqi Kurds reside in the 4 provinces voting later this year. A wide spectrum of smaller parties captured the remaining seats, representing a diverse array of political, ethnic, and religious constituencies. Figure 1.1 displays an overview of the results by party in all 14 provinces.⁴

A Shia Perspective—Baghdad and Basrah Provinces

Prime Minister al-Maliki supported the State of Law Coalition, which advocated a strong and secular central government capable of delivering more services and better security to the Iraqi people. The State of Law Coalition won solid pluralities or majorities on six councils (Babylon, Baghdad, Basrah, Thi-Qar, Qadissiya, and Wassit) and finished tied with ISCI in three others (Missan, Muthanna, and Najaf). ISCI (formerly known as the Supreme Council for Islamic Revolution in Iraq, or SCIRI) previously controlled eight councils; it now controls none.⁵

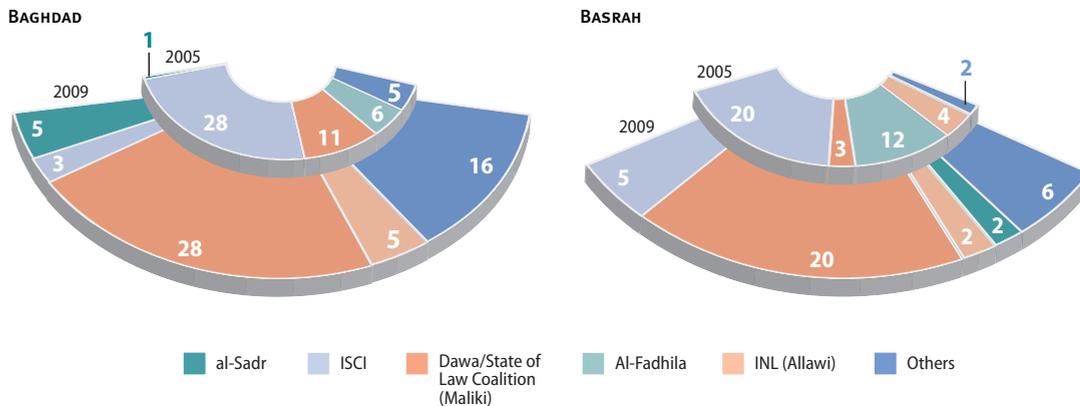
State of Law's victories in Baghdad and Basrah province were particularly noteworthy. After the 2005 provincial elections, ISCI held 28 of 51 seats on the council of Iraq's most populous province—Baghdad. Now, the State of Law bloc holds 28 of the 57 positions on the Baghdad Council, while ISCI controls only 3 seats. (The total number of seats on many councils changed under the terms of the Provincial

FIGURE 1.1
COUNCIL SEATS WON IN NINEWA AND DIYALA, 2005 VS. 2009



Sources: UNAMI, Elections Results, issue no. 30, 2/2009; GOI, Independent High Electoral Commission, www.ihec.iq/arabic, SIGIR translation, accessed 2/22/2009, U.S. Embassy-Baghdad, response to SIGIR data call, 4/2/2009.

ELECTION RESULTS, BY PARTY, 2005 AND 2009 PROVINCIAL ELECTIONS IN BAGHDAD AND BASRAH



Sources: UNAMI, Elections Results, issue no. 30, 2/2009; GOI, Independent High Electoral Commission, www.ihec.iq/arabic, SIGIR translation, accessed 2/22/2009.

Elections Law of 2008.) In Basrah, the heavily Shia province where Prime Minister al-Maliki is personally identified with the ISF’s victorious spring 2008 military campaign, the storyline was much the same: the State of Law Coalition won 20 seats to ISCI’s 5.⁶

A Sunni Perspective—Anbar, Ninewa, and Diyala Provinces

In 2009, new tribally based Sunni political movements emerged from the Anbar Awakening of 2006–2008 that helped restore relative security to areas previously devastated by the insurgency. In



Iraqi citizens wait in line to vote at a polling site in Jabella, Iraq, during the provincial elections in Babylon province on January 31, 2009. (MNF-I photo)

Anbar province, one such coalition led by Sheikh Abu Risha, a prominent Awakening leader, garnered 8 of the 29 seats on the council.

Greater Sunni participation in the recent elections also contributed to ousting the Kurds from their controlling position on Ninewa's Provincial Council. In 2005, the Kurdish parties captured a majority of seats on Ninewa's council, although Kurds comprise only about 35% of the province's population. But in 2009, the Sunnis won 22 of the 37 seats on the Ninewa council, while the Kurdish Ninewa Brotherhood secured only 12.⁷

A similar outcome occurred in Diyala, where Sunni Arabs comprise approximately 65% of the population. Sunnis previously held just a third of the seats on the Provincial Council, but this year they won 15 of 29 seats.⁸

Emerging Electoral Trends

Iraq will conduct several more elections this year, including district and sub-district contests, a referendum on the SA (which must be held before July 31, 2009), and December's national parliamentary elections, when Iraqis will elect a new Council of Representatives.

Several trends will likely shape these elections:

- The Iraqi electorate, historically secular and moderate, will probably continue to turn from overtly religious parties. Thus, ISCI could lose more ground as Iraqis embrace secular-minded politicians who emphasize security and development.
- Tensions continue to rise between Arabs and Kurds in north-central Iraq regarding the demarcation of federal Kurdistan's southern border and the rights to Kirkuk's oil. October's scheduled national census, the first since the U.S. invasion, will likely heighten these disputes. The number of Arabs and Kurds residing in the border regions remains a controversial matter. As Secretary of Defense Robert Gates recently noted, there is much need for reconciliation between the Arabs and the Kurds.⁹
- The Sunni Arabs split their support in the provincial elections between parties that have been active since 2004 and new political movements that have emerged since the Anbar Awakening. Whether the newfound electoral strength of the Sunni tribal sheikhs is sustainable will be tested in the upcoming elections. ♦

THE FUTURE OF THE U.S. PRESENCE IN IRAQ

Under the terms of the new Security Agreement, all U.S. military forces must withdraw from Iraq by December 31, 2011. This quarter, the Administration presented its plan for meeting this requirement.

The Withdrawal Plan

On February 27, 2009, the President stated that he will reduce the U.S. military presence in Iraq to just over 120,000 personnel by September 2009. During the first half of 2010, U.S. brigade combat teams will continue to depart Iraq, and the withdrawal of all U.S. combat forces will be completed no later than August 31, 2010. U.S. troops remaining thereafter will be organized into Advisory Assistance Brigades to assist in training and mentoring ISF units through December 31, 2011. These remaining forces will leave Iraq by the end of 2011 unless the United States and the GOI mutually agree on another course of action.

Provincial Reconstruction Teams in Transition

In concert with this withdrawal plan, the Provincial Reconstruction Team (PRT) program will also wind down. Over time, PRT functions will be incorporated into the operational structure of the Department of State (DoS). In the near term, the smaller embedded PRTs will either be disbanded or be subsumed into regular PRTs. By the end of 2011, the PRT program will conclude, with the Embassy in Baghdad and the Regional Embassy Offices taking over remaining reconstruction work.

New U.S. Ambassador to Iraq

On April 21, 2009, the U.S. Senate confirmed Christopher Hill as the next U.S. Ambassador to

Iraq. He will replace Ambassador Ryan Crocker, who departed in early February 2009 after two years in Baghdad. Ambassador Hill will be the fourth U.S. Ambassador to Iraq since 2003, following Ambassadors Negroponte, Khalilzad, and Crocker.

Strategic Framework Agreement

The new U.S. Ambassador will also be responsible for steering implementation of the Strategic Framework Agreement (SFA), which became effective on January 1, 2009. The SFA outlines the new bilateral relationship between the United States and the GOI. Central to the effectiveness of the SFA are a series of joint committees through which U.S. and Iraqi officials will attempt to coordinate efforts in the political, security, economic, and cultural spheres. This quarter, the first joint committee meetings were held in Baghdad. ♦



Sailors from USS Rushmore observe Iraqi oil operations in the Persian Gulf. (ARCENT photo)

IRAQ'S SECURITY IN 2009

The number of violent incidents in Iraq remained at relatively low levels over the past three months, but several recent mass-casualty attacks illustrate the fragile nature of Iraq's security situation.

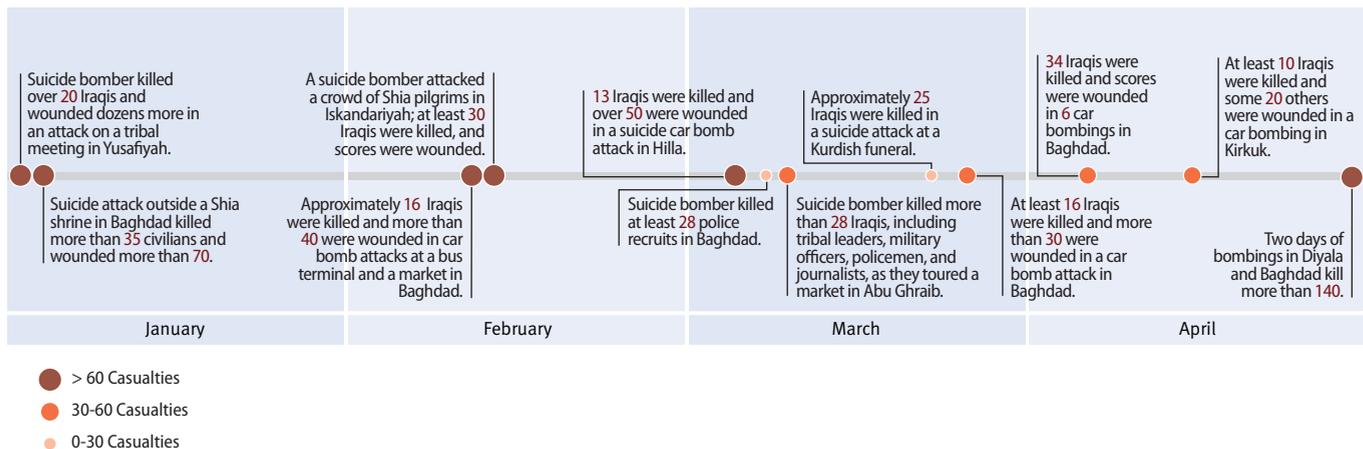
On April 23, bombs in Baghdad and Diyala reportedly killed more than 80 people, marking the highest one-day human toll in more than a year. The next day, 60 more were killed in Baghdad. Two weeks earlier, on April 10, a bombing in Mosul took the lives of five U.S. soldiers, the largest single loss of U.S. soldiers in over a year. Figure 1.2 displays information about some of this quarter's major security incidents.

End of Provincial Iraqi Control Process

For the past three years, the Multi-National Security Transition Command-Iraq

(MNSTC-I) has managed a process called Provincial Iraqi Control (PIC), which gradually gave the GOI control over security in most Iraqi provinces. By December 2008, five provinces had yet to attain the requisite level of security that would have allowed their transfer to Iraqi control—Baghdad, Ninewa, Tameem, Diyala, and Salah Al-Din. The PIC process was superseded by the SA, which transferred full security responsibility for all 18 provinces to the GOI on January 1, 2009.¹⁰ The ISF is now formally in control of the entire country's security, with the Multi-National Force-Iraq (MNF-I) remaining in a strategic overwatch posture and continuing to provide substantial logistical and training support to the Iraqi Army and Police.

FIGURE 1.2
SIGNIFICANT SECURITY INCIDENTS, JANUARY 1, 2009–MID-APRIL 2009



Sources: Information presented herein is based on SIGIR's analysis of open source and official English and Arabic documents, studies, and analyses. All figures based on best available casualty information and represent the sum of killed and wounded for each incident.

Transfer of Sons of Iraq to GOI Control

The Sons of Iraq (SOI) is a U.S. program created during the Surge to bring Sunnis into the security apparatus. On April 2, 2009, MNF-I transferred the last SOI contingent to Iraqi government control. In all, more than 94,000 SOI across 9 provinces are now under the GOI's control.¹¹

The GOI is working to find public sector jobs for most SOI members, including folding some of them into the ISF while placing others in government offices, such as the Ministry

of Education (which appears willing to accept about 10,000 SOI). As of April 1, 2009, only about 5,000 SOIs had been inducted into the ISF out of a planned 20,000.¹²

Trouble arose in late March when a spate of firefights between ISF units and Baghdad-based SOI erupted in the Fadil District of the Iraqi capital. Aggravating matters, the GOI has detained several senior SOI members; and on April 11, 2009, at least 13 SOI were killed by a suicide bomber when they gathered south of Baghdad to collect their pay. ♦

FINANCING RECONSTRUCTION, SECURITY, AND DEVELOPMENT

Since 2003, the United States and the GOI have committed \$122.01 billion for the reconstruction of Iraq.¹³ But global fluctuations in the price of oil forced the GOI to cut planned reconstruction investment.

U.S. Funding

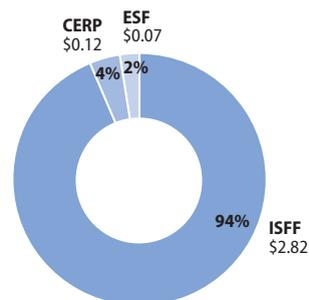
Of the \$3.01 billion in remaining unobligated U.S. funds, the largest portion—\$2.82 billion—is in the Iraq Security Forces Fund (ISFF). For an overview of balances in the ISFF, the Economic Support Fund (ESF), and the Commander's Emergency Response Program (CERP), see Figure 1.3.¹⁴

On April 9, 2009, the President submitted to the Congress an FY 2009 supplemental appropriations request totaling \$83.4 billion

to fund ongoing operations in Iraq and the Afghanistan-Pakistan theaters of operations. About \$700 million in new funds for Iraq relief and reconstruction were requested: \$449 million for the ESF, \$108 million for programs assisting displaced persons, and \$150 million for diplomatic and consular security programs.

The President did not request any new funds for the ISFF; instead, he proposed to extend for another year the \$1 billion “bridge fund” already appropriated to the ISFF in the Supplemental Appropriations Act of 2008. This would extend the period of availability for these funds until September 30, 2010. The FY 2009 supplemental also requests \$500 million in new CERP funding for Iraq and Afghanistan combined.¹⁵

FIGURE 1.3
UNOBLIGATED MAJOR U.S. FUNDS
\$ Billions, Total Unobligated \$3.01 Billion



Sources: ISFF: OSD, response to SIGIR data call, 4/14/2009; ESF: DoS, response to SIGIR data call, 10/14/2007; GRD, responses to SIGIR data call, 4/2/2009 and 4/3/2009; ITAO, *Essential Indicators Report*, 4/3/2009; ITAO, responses to SIGIR data call, 10/2/2008 and 3/29/2009; USAID, responses to SIGIR data call, 4/7/2009, 4/13/2009, and 4/16/2009; Embassy, response to SIGIR data call, 4/15/2009. CERP: OSD, response to SIGIR data call, 4/10/2009.

The Government of Iraq's 2009 Budget

Iraq's estimated gross domestic product (GDP) for 2008 was \$84.7 billion—a 7.8% rate of annual growth from 2007's estimated GDP. However, Iraq's GDP is projected to grow by only 5.7% in 2009.¹⁶

After three downward revisions—driven by the collapse in oil prices from their July 2008 highs—the CoR passed a \$58.6 billion budget on March 5, 2009, and the Presidency Council ratified it on April 2, 2009. This represents a 17% increase from the GOI's 2008 base budget of \$49.9 billion.

Iraq's 2009 budget includes:

- **A projected deficit of \$15.9 billion.** The deficit will be covered by unspent revenues from previous years.
- **\$45.9 billion in operating costs.** The five ministries receiving most of the operating funds in 2009 are Finance, Interior, Education, Defense, and Trade. The Ministry of Defense's operating budget is down 21%, declining from \$4.92 billion in 2008 to \$3.85 billion in 2009. The Ministry of Interior's operating budget, however, is up 2% from \$5.16 billion in 2008 to \$5.27 billion this year.
- **\$12.7 billion in capital expenditures.** The ministries of Oil, Electricity, Finance, Water Resources, and Industry and Minerals received the largest allocations from the GOI's capital budget.¹⁷



Flag display for the return of the former Forward Operating Base Callahan to Iraqi control. (MNF-I photo)

For 2009, the GOI estimates \$36.5 billion in oil revenues, which will provide about 85% of the GOI's revenue. The combined total of government revenue from all other sources (customs levies, taxes, and other fees) is projected to total only \$6.22 billion.¹⁸ Absent the development of other sources of revenue, the GOI's budgetary planning—and Iraq's security—will continue to be tied to fluctuations in the world oil market. ♦

IRAQ'S ECONOMY IN 2009

Under Saddam Hussein, Iraq had a centrally planned economy. Notwithstanding the 2003–2004 attempts by the U.S.-led Coalition Provisional Authority (CPA) to impose a new array of free market reforms, Saddam's legacy of centralization lives on. Five years after the CPA transferred sovereignty to the Interim Iraqi Government, the Iraqi state still fully controls the oil industry—the only significant revenue-producing sector in the economy.

Key Sectors: Oil and Electricity

Iraq's average quarterly crude oil production fell slightly to 2.28 million barrels per day (MBPD) from the 2.37 MBPD average achieved during the last quarter of 2008, while Iraq's average oil exports increased to 1.81 MBPD from the previous quarter's 1.79 MBPD.¹⁹ In an effort to entice more international investors, the GOI

recently announced plans to allow foreign energy companies to hold as much as a 75% stake in new oil drilling projects.²⁰

Iraq's daily electricity production reached new post-war highs for the third straight quarter, averaging 118,485 megawatt-hours (MWh) per day, for a total average daily supply (including imports) of 131,506 MWh.²¹ This output exceeds pre-invasion levels, as Figure 1.4 shows, but a notable gap continues exist between estimated demand and available supply.

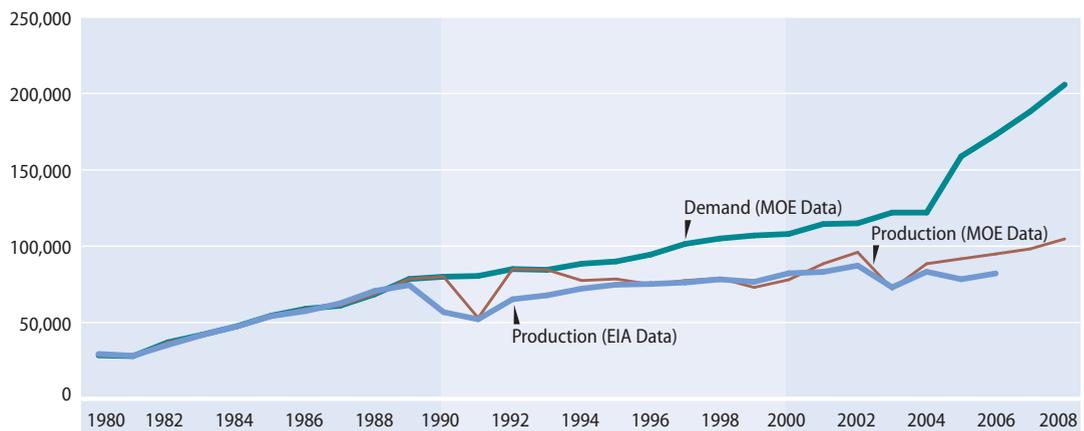
Non-oil Sectors

Implementing Iraq's national development strategy will cost approximately \$187 billion over the next three years, according to estimates by Iraq's National Investment Council.²² Oil revenue alone cannot fund the plan. In a February 2009 conference on developing new

FIGURE 1.4

ELECTRICITY DEMAND VS. PRODUCTION, 1980–2008

MWh per Day



Sources: Energy Information Administration (EIA), *International Energy Annual 2006*; GOI Ministry of Electricity (MOE).

revenue sources, Prime Minister al-Maliki acknowledged that the “Iraqi economy has been dependent on a single source of income for too long.”²³ The conference, which was sponsored by the Ministry of Planning, addressed Iraq’s need to develop new revenue sources and explored ways to improve Iraq’s industrial, agricultural, and tourism capacity.

The GOI manages state-owned industrial enterprises that comprise most of Iraq’s manufacturing capacity. U.S. efforts to revitalize Iraq’s state-owned industrial sector continue under the auspices of the Task Force to Improve Business and Stability Operations (TF-BSO), an initiative of the Department of Defense.

As of March 25, 2009, TF-BSO is assisting with the revitalization of 30 state-owned factories,²⁴ but none of them yet produces a profit. Reforming Iraq’s industrial sector lies in the hands of the Iraqi government officials who manage these industrial facilities. Their willingness to modernize management practices will determine whether current U.S. assistance yields long-term benefits.

Investing in Iraq

Asian, European, and regional interests continued to expand efforts to invest in Iraq this quarter while U.S. private businesses have taken a less prominent role.²⁵

- In January 2009, the China National Petroleum Corporation agreed to start field work in Wasset under a contract with the Ministry of Oil.²⁶ The GOI also began a joint venture with a British company to drill 60 new wells a year in the south of Iraq.²⁷
- The province of Thi-Qar signed a memorandum of understanding with Turkish firms to construct a large industrial complex near Nassriya in the south.
- Iraq and Iran agreed to establish a joint committee that will focus on deepening the economic ties between the two countries. The GOI’s Minister of Commerce will co-chair this body with his Iranian counterpart.
- German-based Daimler AG opened a corporate representative office for Iraq in Baghdad and is working with a state-owned enterprise in Iskandaria on potential opportunities to build trucks and buses. ♦

PERSISTENT OBSTACLES TO SUSTAINABLE DEVELOPMENT

In the six years since the 2003 invasion, U.S. and GOI efforts to establish the rule of law have yielded modest results. Corruption still plagues key government ministries, and a lack of transparency precludes governmental accountability. In addition, the complex Iraqi legal regime discourages investment.

Corruption

This quarter, the United States continued efforts to help the GOI's anticorruption institutions fight what Prime Minister al-Maliki has called the "white terrorism" of corruption.²⁸

The DoS Anticorruption Coordination Office (ACCO) engaged with its Iraqi interlocutors to urge the repeal or reform of Article 136(b) of the Iraqi Criminal Procedure Code of 1971, which allows GOI ministers to grant immunity to subordinates accused of corruption.²⁹ ACCO also continued to work with the GOI's three primary anticorruption institutions—the Commission on Integrity (CoI), the inspectors general, and the Board of Supreme Audit (BSA)—to bring Iraq into compliance with all 166 provisions of the UN Convention Against Corruption (UNCAC).

Under the UNCAC, the GOI is obligated to establish a strong anticorruption regime. Examples of matters addressed by the UNCAC include:

- legal mechanisms for confiscating the proceeds of a crime
- legislative reforms
- extradition
- economic reforms
- the protection of witnesses and whistle-blowers
- law enforcement

U.S. engagement with the GOI on anticorruption matters focused on two

important initiatives—a gap analysis aimed at identifying the UNCAC provisions with which Iraq is not in compliance and a GOI-led assessment of Iraq's extant legal and institutional anticorruption framework.

In March 2009, the UN Office on Drugs and Crime (UNODC) issued its assessment of Iraq's anticorruption laws and institutions. The UNODC report recommended that the GOI receive assistance from the international community to create and adopt a national anticorruption strategy, reform its laws, build the institutional capacity of its anticorruption institutions, and strengthen its ties to international law enforcement and anticorruption organizations.³⁰

Iraq's Anticorruption Institutions

In early March 2009, the Inspector General had a series of meetings with high-level GOI officials, including Prime Minister al-Maliki, Vice President Tariq al-Hashemi, Deputy Prime Minister Rafie al-Eissawi, and BSA President Dr. Abdul Basit Turki Sa'eed.³¹ Each of the meetings confirmed that the menace of corruption remains one of the most pressing problems confronting Iraq today.

Five years after its founding, the CoI continues to struggle. In August 2007, it had more than 2,500 open corruption investigations against GOI officials; as of March 31, 2009, it had fewer than 250.³² The rest were either dismissed under Iraq's year-old Amnesty Law or simply closed.

Over the past two quarters, the GOI appointed new inspectors general in several ministries, including Culture, Trade, Youth and Sports, Foreign Affairs, Water Resources, and



A GOI official holds a stack of Iraqi dinars during a Sons of Iraq payment event on January 18, 2009, at the Joint Security Station Beladiyat in the New Baghdad District. (MNF-I photo)

Education.³³ But the overall performance of the IG community remains very mixed.

All three anticorruption institutions have authorization statutes pending before the CoR. If passed in its current form, BSA's revised law would fundamentally readjust the balance of power among the anticorruption institutions by restoring to BSA the extensive investigative powers it previously possessed. These powers are currently divided between CoI and the inspectors general. On March 5, 2009, the BSA's president informed SIGIR that the CoR may pass BSA's revised law later this spring.

Legislative Logjams

Legal and legislative shortfalls within the Iraqi system continue to limit progress and adversely affect transparency and accountability:

- **Hydrocarbons.** For nearly three years, the CoR has been unable to pass the important hydrocarbons legislation. The resulting lack of a clear regulatory framework for the hydrocarbons sector has deterred multinational oil companies from entering the Iraqi oil market. Without substantial international investment in oil infrastructure, Iraq will not likely meet its production goals for the next decade. In late February 2009, Deputy Prime Minister Rafie al-Eissawi informed the Inspector General that he does not believe the Hydrocarbons Law will pass this year.³⁴
- **Investment laws.** In 2008, Iraq established national and provincial investment commissions to assist in the registration and support of foreign and domestic investors. Kurdistan, however, maintains its own separate investment law, which has provisions that conflict with the National Investment Law.
- **Land titles.** The GOI currently lacks a transparent mechanism for resolving contested land claims, which is particularly applicable to the myriad land disputes in and around the northern cities of Mosul and Kirkuk.
- **Implementing regulations.** All laws passed by the GOI must be published in the *Gazette* (Iraq's equivalent of the U.S. *Federal Register*). But ministerial regulations—the operational law in Iraq—can remain secret.³⁵

The CoR has yet to take action on a number of economic agreements between the U.S. and Iraq, including the Trade and Investment Framework Agreement, Investment Incentive Agreement, Bilateral Agreement for Economic and Technical Cooperation, and memorandum of understanding on agricultural reform.³⁶ The



An Iraqi soldier provides security at the Opportunity Fair in Kut, Iraq, on February 27, 2009. (MNF-I photo)

absence of these pacts introduces an additional element of uncertainty that strictly regulated U.S. firms must consider when deciding whether to do business in Iraq.

Council of Representatives Elects New Speaker

After months of intense debate, the CoR elected Ayad al-Samarraie, an influential Sunni parliamentarian, as the new speaker. He replaces Mahmmoud al-Mashhadani, who resigned in December 2008. The election of a new speaker may presage an end to the legislative paralysis that characterized this quarter's CoR sessions.

Iraq's Public Sector

The public sector now provides about 39.8% of all jobs in Iraq.³⁷ Although some of the public sector's recent growth is attributable to the

expansion of the ISF, this imbalance forces significant salary and pension pressures on the GOI's annual budget. It also crowds out private-sector investment and removes skilled human capital from the employment pool. Any effort to make significant cuts in the public-sector workforce, however, risks creating short-term political dislocations that could endanger Iraq's fragile stability.

Unemployment

The UN estimates Iraq's unemployment rate at 18%, although other estimates range up to 50%.³⁸ On January 31, 2009, MNF-I directed that, wherever possible, the U.S. military use Iraqi contractors, as opposed to third-country-national contractors.³⁹ Security concerns will make it difficult to shift a high number of jobs to Iraqis in a relatively short period of time. ♦

SIGNIFICANT LEGAL ACTIONS

Protection of Iraqi Assets

Iraqi oil proceeds deposited in U.S. banks will remain immune to garnishment or attachment until December 31, 2009.⁴⁰ The GOI is currently negotiating with the United States to ensure that these funds continue to be protected after year's end.

Custer-Battles Decision

On April 10, 2009, the U.S. Court of Appeals for the Fourth Circuit ruled that a contractor found to have committed fraud in Iraq could not avoid paying damages by claiming on jurisdictional grounds, that the False Claims Act did not apply to its dealings with the CPA. The Fourth Circuit ruling reversed a district court decision that set aside a jury's verdict in 2006 finding that the contractor must pay about \$10 million in damages and penalties to the U.S. government and two whistle-blowers.⁴¹ The decision removes a potential obstacle to ongoing and future SIGIR investigations. ♦

SIGIR OVERSIGHT

SIGIR continued active oversight of Iraq reconstruction this quarter, which included expanding efforts this quarter on forensic data-mining and investigations. SIGIR also issued 13 new audits and inspections, which are summarized in Section 4.

Investigations

As of April 17, 2009, SIGIR has 80 open investigations into alleged criminal acts committed by U.S. citizens and others involved in the reconstruction effort. To address this substantial caseload, SIGIR maintains a robust, fulltime investigative presence in Iraq. Of note, over the past year, SIGIR has doubled its investigative staff in Iraq. To date, SIGIR investigations have resulted in 20 arrests, 24 indictments, and 18 convictions.

In March 2009, a joint SIGIR-DoD investigation led to the return of more than \$13 million in Iraqi funds to the Central Bank of Iraq (CBI). These funds were part of the Development Fund for Iraq, which comprised Iraqi oil proceeds managed by the CPA and used for development projects in 2003-2004. The unused funds were supposed to have been returned to the GOI by the end of 2006. Tipped off by a complaint to the SIGIR Hotline, investigators determined that the funds were being improperly held in various accounts belonging to the U.S. government and U.S. contracting companies. SIGIR and its law enforcement partners arranged for the return of the unused funds to the CBI. On March 4, 2009, Prime Minister al-Maliki personally commended SIGIR for this unprecedented result and promised that a portion of the returned funds would be used to finance humanitarian projects throughout Iraq.

This quarter, SIGIR investigators worked with colleagues from an allied nation to obtain convictions of three Coalition partner military officers and recover more than \$1.1 million in CERP funds. This investigation looked into extortion and bribery involving the contract award process, contract execution, and overall construction management activities associated with CERP-funded projects administered by a Coalition partner. The Coalition partner military personnel pled guilty to bribery charges and were sentenced to jail time as a result of this SIGIR investigation. The loss to the U.S. government is estimated to have been more than \$4 million. Six other Coalition partner officers will be disciplined by their government in this matter.

In a separate investigation, a Marine Master Sergeant was charged with bribery under the Uniform Code of Military Justice. He was the first individual charged in an ongoing, large-scale investigation of bribery involving Marines and private contractors in Iraq.

As a result of other successful SIGIR investigations, four defendants currently await trial, while nine others are awaiting sentencing.

Forensic Audit Cell

SIGIR is required by law to prepare a final forensic audit report on all U.S. funds made available for Iraq reconstruction. Currently, SIGIR is engaged in three separate forensic audit initiatives, involving a thorough analysis of all reconstruction-related transactions occurring from FY 2003 through FY 2008.

SIGIR is concentrating on anomalies, including double billing, inflated costs, abrupt changes in pricing, and costs charged to the wrong

project. In addition to these three data-mining projects, SIGIR's forensic audit cell continued its close collaboration with SIGIR Investigations on four projects aimed at identifying questionable activities on the part of individuals and entities associated with the Iraq reconstruction effort and to develop the necessary evidentiary information to make determinations regarding the feasibility for civil or criminal prosecutions.

Audits

SIGIR issued seven audit reports this quarter. Several produced recommendations that could also be applied to U.S. reconstruction efforts in Afghanistan. Since 2004, SIGIR has issued 142 audit reports containing more than 350 recommendations. SIGIR audits this quarter reviewed:

- **Asset transfer.** SIGIR found that most asset transfers have taken place at the local level. Thus, the GOI ministries that are responsible for planning the sustainment and integration of these assets usually have incomplete information about the nature of what the United States has provided.
- **Primary Healthcare Centers (PHCs).** SIGIR auditors found that of the originally planned 150 PHCs, approximately 133 will ultimately be completed and turned over to the Iraqis. However, the program has cost about \$345 million—or about \$102 million more than the \$243 million estimate when the original contract with Parsons Delaware, Inc., was terminated—and the PHCs have been transferred to the Ministry of Health years later than planned. Moreover, the status of the transfer and sustainability of the facilities remains unclear because the Gulf Region Division of the U.S. Army Corps of Engineers does not have accurate data on the number of PHCs currently open and operating.
- **Cost-sharing agreements between the United States and the GOI.** The Congress has directed U.S. agencies to obtain increased contributions from the GOI for specific U.S.-funded programs, such as the Sons of Iraq and the CERP. SIGIR found that U.S. agencies do not have policies or procedures governing cost-sharing in Iraq. USAID informed SIGIR that, in conjunction with DoS, it has drafted a plan to implement various congressional cost-sharing mandates and intend to include this document with future budget submissions.
- **PRT costs.** SIGIR found that U.S. financial systems are not designed to capture the true cost of PRTs; therefore, the total actual cost of the PRT program remains unknown. Improving cost information is essential to informing the Congress as it decides how and where to use PRTs in other theaters, such as Afghanistan.
- **The Theater-Wide Internal Security Services contract.** SIGIR determined that the cost of the main DoD private security contract was high and likely to increase. Private security contractors (PSCs) have been used to free up military personnel for other duties. The audit found that competition has driven down costs, but oversight of PSCs by contracting officer representatives (CORs) is weak, leaving the contract vulnerable to undetected fraud, waste, and abuse. SIGIR auditors ascribed the weak oversight to the inadequate training of CORs, other duties they must perform, and their frequent rotation home after short tours of duty.
- **PSC serious incident reporting system.** SIGIR auditors found that DoS and DoD are providing useful information on security incidents involving PSCs. SIGIR recommended that the processes for data reporting and analysis be improved.



A UH-60 Black Hawk helicopter flies over a mosque during a routine flight in Baghdad. (MNF-I photo)

- **The Iraq Security Forces National Maintenance Contract.** SIGIR concluded that important maintenance services were being provided to the Iraqi Army, but a key contract requirement—to develop the maintenance and supply system capabilities of the Iraqi Army—is still largely unmet. This has forced MNSTC-I to extend the contract several times.

In March 2009, Iraq's Board of Supreme Audit and SIGIR agreed to conduct a landmark joint audit of the Iraq-Commander's Emergency Response Program (I-CERP), through which the United States assists the GOI in spending Iraqi funds on small-scale reconstruction projects. For more information about SIGIR's recent audit activities, see Section 4, SIGIR Audits.

Inspections

This quarter, SIGIR's Inspections Directorate completed seven project assessments, which were documented in six reports, including reviews of three schools, two PHCs, a courthouse, and a witness-protection facility. To date, SIGIR has produced 147 project assessment reports covering 136 project sites. This quarter's reports assessed:

- **Basrah Courthouse and Witness Protection Facility.** This \$10.9 million Iraq Relief and Reconstruction Fund (IRRF) project will provide the Iraqi Ministry of Justice with a two-story courthouse building and single-story witness protection facility. Aside from minor construction issues, SIGIR concluded that the construction of the two facilities was adequate.

- **Shiqaq Hai Musalla and Hai Tiseen PHCs.**

The objective of these two IRRF-funded projects was to complete partially constructed PHCs in Kirkuk and Tameem. The process of transferring PHCs to the GOI was haphazard, and many deficiencies were left unresolved. SIGIR found that these facilities still cannot offer x-ray services and recommended that GRD direct the installation of—and training of local staff on—the medical equipment that currently sits idle inside the two PHCs.

- **Khandek Intermediate School.** The purpose of this ESF-funded project was to repair and expand the school so that it could serve 300 students. SIGIR inspectors determined that the school was operating at full capacity and providing educational services to the requisite number of students. SIGIR also determined that the renovation and construction work was

satisfactory except for some minor plumbing deficiencies and a significant crack in a reinforced concrete beam.

- **Suroor Elementary School.** The objective of this ESF-funded project was to rehabilitate a school in Husseinia. SIGIR found that the evaporative coolers for the school were transferred by the GOI to other schools, but that the overall construction appeared to be satisfactory.

- **Sagrah School.** This school reconstruction project was financed with CERP funds. Although the contract did not require detailed design information, SIGIR inspectors noted that the construction was sound, and the classrooms were well maintained.

For executive summaries of these inspections, see Section 4. ♦

LESSONS LEARNED: REFORMING OVERSEAS CONTINGENCY OPERATIONS

The core message of SIGIR's four-year Lessons Learned Initiative is that there is a pressing need for more closely integrated efforts by the U.S. agencies participating in overseas contingency operations (OCOs).

Hard Lessons: The Iraq Reconstruction Experience

On February 2, 2009, SIGIR presented the final report of its Lessons Learned Initiative to the Commission on Wartime Contracting in Iraq and Afghanistan. *Hard Lessons: The Iraq Reconstruction Experience* provides an extensive body of evidence identifying the shortcomings of the ad hoc approach that characterized the Iraq reconstruction experience and emphasizing that the United States does not have a coherent institutional framework for managing OCOs.

In testimony before the House Armed Services Committee on March 25, 2009, the Inspector

General discussed the relevance of *Hard Lessons* to OCOs. In particular, he stressed the need for:

- unity of command among all agencies involved in the management and implementation of contingency relief, reconstruction, and stabilization operations
- improved “soft power” capabilities that are integrated into the overall reconstruction program
- development of efficient wartime contracting rules to avoid wasting U.S. resources
- properly scaling projects to indigenous capacities

Unity of Command Necessary for Effective Reform

Iraq revealed the need for a new management structure to coordinate the U.S. response to OCOs. The lack of unity of command meant, for example, that DoD (through CERP) and DoS (through ESF-funded programs) frequently pursued similar, and sometimes overlapping, relief and reconstruction agendas without adequate integration. Temporary reconstruction agencies, such as the CPA, came and went, operating in the absence of clearly defined zones of command. Effective integration of relief and reconstruction operations was thus impossible.

Currently, both DoD and DoS are independently creating capacities to respond to OCOs. For several years, DoD has been implementing DoD Directive 3000.05, which has led to the development of a robust, in-house stability operations capacity. Meanwhile, in October 2008, the Congress passed the Reconstruction and Stabilization Civilian Management Act of 2008, which made the State Coordinator for Reconstruction and Stabilization a statutory entity within DoS. Furthermore, this quarter the



U.S. Institute of Peace's Iraq Office Director working with the local PRT and military counterparts.

Congress appropriated another \$75 million for the Civilian Stabilization Initiative in the Omnibus Appropriations Act, 2009, after previously appropriating \$65 million for it in “bridge funds” for FY 2009 as part of the FY 2008 Supplemental Appropriations Act.⁴²

To date, no uniform command structure has been developed to integrate these and other

agencies’ responses to OCOs. If the lessons learned in Iraq are to be implemented effectively, a comprehensive review must be undertaken of current agency efforts aimed at reforming how the U.S. government resources, staffs, oversees, and manages its response to OCOs. This should include considering whether to form a new U.S. Office for Overseas Contingency Operations. ♦

THE HUMAN TOLL

This quarter, no significant security incidents were reported in the International Zone (IZ). U.S. forces continued to lower their security profile around the access points to the IZ, allowing the ISF to take the lead in inspecting entrants to the former Green Zone.

U.S. Civilians

DoS reported that six U.S. civilians died in Iraq from January 1 to March 20, 2009—including one DynCorp employee who was shot and killed by insurgents while working on a personal security detail. Over the past 6 years, at least 284 U.S. civilians have died in Iraq.

Contractors

In the first three months of 2009, the Department of Labor (DoL) reported 57 new death claims for civilian contractors working on U.S.-funded reconstruction projects in Iraq. DoL also reported that 697 contractors sustained injuries that required them to miss at least 4 days of work. As of April 2, 2009, 1,360 death claims have been filed with DoL, since March 2003.

Journalists

On March 10, 2009, two journalists from the Cairo-based Al-Baghdadia television network were among the more than 30 people killed in a suicide bombing in the town of Abu Ghraib. The journalists were part of a delegation that accompanied the head of MOI's Tribal Affairs division to a tribal reconciliation conference. The bomber entered the meeting wearing a military uniform and detonated the device. At least four other journalists were injured in this attack.⁴³

Internally Displaced Persons and Refugees

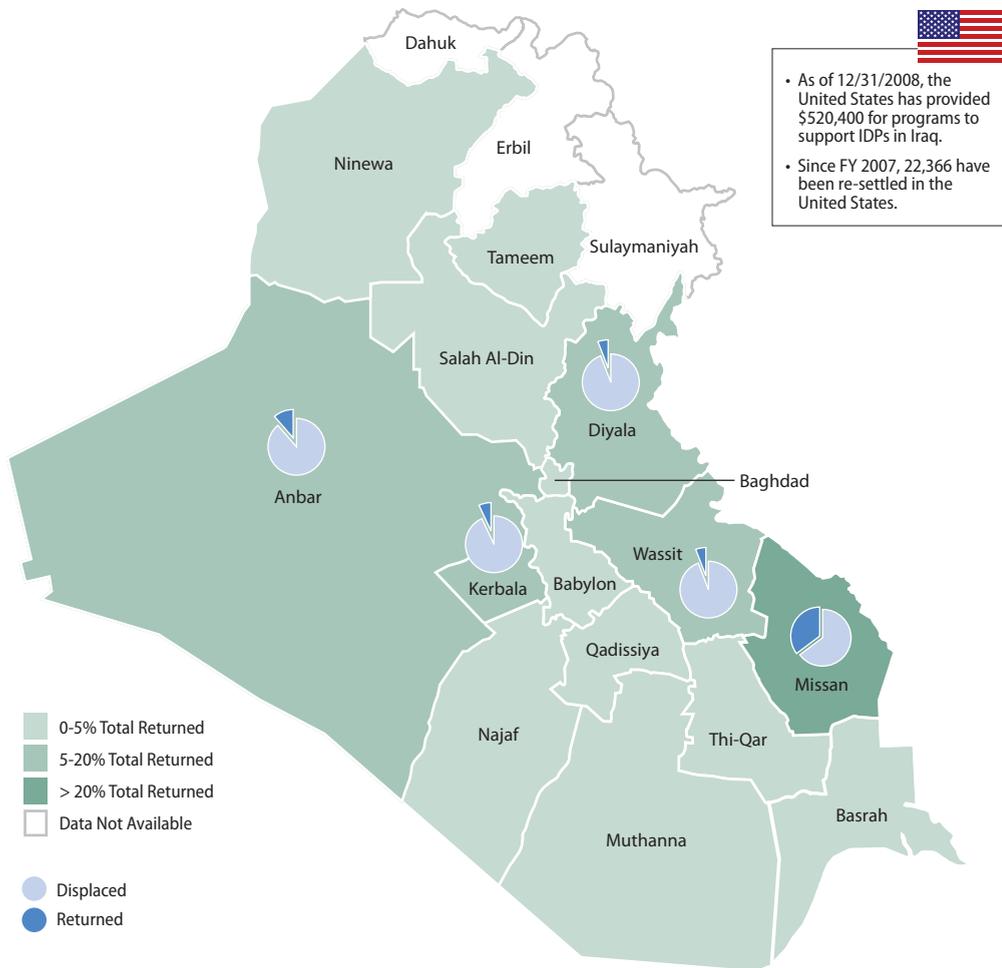
The DoS Office of Foreign Disaster Assistance estimated that only 4.5% of the more than 5 million Iraqis displaced by the violent insurgency and its consequences have returned to their homes as of December 2008.⁴⁴ This estimate of displaced persons includes refugees (2.19 million) and internally displaced persons (IDPs) (2.84 million). Figure 1.5 displays the five Iraqi provinces with the most displaced persons and how many are estimated to have returned home.⁴⁵

This quarter, the United States and the international community made progress in their efforts to assist displaced Iraqis. In the Administration's FY 2009 supplemental, the President requested \$108 million to assist the millions of Iraqi refugees, IDPs, and conflict victims.⁴⁶ This would bring total refugee funding for FY 2009 to \$249 million, a 10% reduction over FY 2008 funding. Total appropriated U.S. funding to date for refugees is \$520.4 million.

The Psychological Costs of War

In March 2009, the GOI and the World Health Organization released a study evaluating the mental toll that six years of war has taken on the Iraqi populace.⁴⁷ The survey estimated that 17% of Iraqis over 18 years old suffer from depression, anxiety, and other mental disorders; almost 70% of these respondents stated that they had contemplated suicide. There are no current reliable statistics for the total number of suicides in Iraq over the past six years. ♦

FIGURE 1.5
RATE OF IDP AND REFUGEE RETURN



Note: As of December 2008, 4.4% of displaced persons have returned out of the total of 5,268,894.

Sources: UNHCR, 9/2008; IOM, September and 12/2008.