

# RECONSTRUCTION FUNDING SOURCES AND USES

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## FUNDING

As of March 31, 2010, \$162.83 billion had been made available for the relief and reconstruction of Iraq through three main sources:<sup>46</sup>

- Iraqi funds overseen by the Coalition Provisional Authority (CPA) and Iraqi capital budgets—\$91.43 billion
- international pledges of assistance and loans from non-U.S. sources—\$18.10 billion
- U.S. appropriations—\$53.31 billion

See Figure 2.1 for an overview of these funding sources.

### Iraqi Funding

As of March 31, 2010, Iraq had provided \$91.43 billion for relief and reconstruction through Iraqi funding from the CPA era and its annual capital budgets.<sup>47</sup>

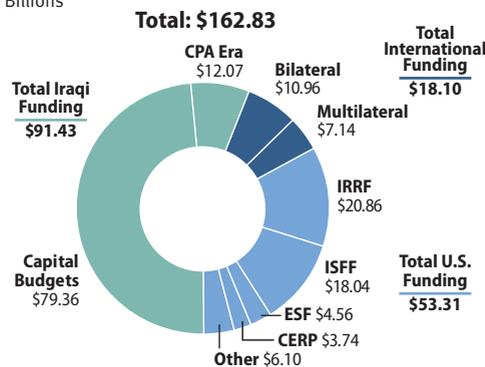
On January 26, 2010, Iraq's Council of Representatives (CoR) passed the 2010 budget, which President Talabani signed into law two weeks later.<sup>48</sup> The budget totals \$72.36 billion: \$52.12 billion (72%) for operational expenditures and \$20.24 billion (28%) for capital projects.<sup>49</sup> For an overview of the 2010 budget allocations, see Table 2.1.

### 2010 Iraqi Budget Allocations

The 2010 budget provided the largest gross increase to the Ministry of Electricity. The Ministry of Youth and Sports received the largest capital budget increase in percentage terms, followed closely by the Ministry of Health.<sup>50</sup>

Article 32 of the 2010 budget rolls over unspent capital allocations from 2009 ministry budgets, as long as projects were approved by the end of the year. If funding was not committed to a particular project, the Minister of Finance must reallocate it for expenditure during 2010. Article 32 also transfers to the provinces more than \$500 million

FIGURE 2.1  
FUNDING SOURCES, 2003–2010  
\$ Billions



Note: Data not audited. Numbers affected by rounding. CPA-era Iraqi funds include \$1.72 billion in vested funds, \$0.93 billion in seized funds, \$9.33 billion in DFI, and \$0.09 billion in CERP funds provided by the Central Bank of Iraq.

Sources: DFAS, response to SIGIR data call, 4/10/2009; GOI, "Budget Revenues and Expenses 2003, July-December," 2003; GOI, Presidency of the Iraqi Interim National Assembly, "The State General Budget for 2005, 2005; GOI, Presidential Council, "Federal Public Budget Law for the Fiscal Year 2010," 2/10/2010; SIGIR, *Quarterly Report to the United States Congress*, 4/2009; U.S. Treasury, responses to SIGIR data calls, 1/4/2008 and 4/9/2009; NEA-I, responses to SIGIR data call, 4/2/2010 and 4/12/2010; P.L. 108-7; P.L. 108-11; P.L. 108-106; P.L. 108-287; P.L. 109-13; P.L. 109-102; P.L. 109-148; P.L. 109-234; P.L. 109-289; P.L. 110-28; P.L. 110-92; P.L. 110-116; P.L. 110-137; P.L. 110-149; P.L. 110-161; P.L. 110-252; P.L. 111-32; P.L. 111-117; P.L. 111-118; OSD, responses to SIGIR data calls, 10/13/2009, 4/13/2010, 4/14/2010, and 4/15/2010; USACE, response to SIGIR data call, 10/6/2008; USAID, responses to SIGIR data calls, 1/12/2009, 4/8/2009 and 4/14/2010; U.S. Embassy-Baghdad, INL, response to SIGIR data call, 4/14/2010; U.S. Embassy-Baghdad, DRL, response to SIGIR data call, 4/2/2010; USAID, "U.S. Overseas Loans and Grants [Greenbook]," 2008, [gbk.eads.usaidalinet.gov/query/do?\\_program=eads/gbk/countryReport&unit=N](http://gbk.eads.usaidalinet.gov/query/do?_program=eads/gbk/countryReport&unit=N), accessed 4/15/2010; BBG, response to SIGIR data call, 3/31/2010; DoS, ECA, response to SIGIR data call, 4/14/2010; DoS, response to SIGIR data call, 3/17/2010; DoJ, Justice Management Division, response to SIGIR data call, 4/1/2010.

in unspent allocations.<sup>51</sup> Article 27 rolls over all unspent allocations since 2006 that were designated for weapons and military equipment for the Ministries of Interior and Defense.<sup>52</sup>

### Expected Revenues and Deficit Financing

The 2010 Iraqi budget projects \$52.77 billion in revenues for 2010—more than 90% from oil sales—leaving a projected deficit of \$19.59 billion.<sup>53</sup> As of March 31, 2010, the Government of Iraq (GOI) had received \$12.32 billion in total oil receipts since the

TABLE 2.1  
IRAQI BUDGET ALLOCATIONS, 2009–2010

\$ Millions

CATEGORY	MINISTRY/OFFICE	2009 BUDGET ALLOCATIONS			2010 BUDGET ALLOCATIONS (% CHANGE FROM 2009)		
		OPERATING	CAPITAL	TOTAL	OPERATING	CAPITAL	TOTAL
Republic Presidency	<b>Subtotal</b>	<b>80.5</b>	<b>3.8</b>	<b>84.3</b>	<b>90.1 (+12%)</b>	<b>12.0 (+219%)</b>	<b>102.0 (+21%)</b>
Council of Representatives	<b>Subtotal</b>	<b>431.9</b>	<b>15.7</b>	<b>447.6</b>	<b>433.3 (+0%)</b>	<b>5.6 (-65%)</b>	<b>438.8 (-2%)</b>
Council of Ministers	Office of the Prime Minister				306.5	164.4	471.0
	Bureau of Shia Endowment				250.3	21.4	271.7
	Iraqi National Intelligence Service				123.3	38.0	161.3
	Bureau of Sunni Endowment				116.4	42.7	159.1
	Council of Ministers Secretariat				74.2	12.0	86.1
	Other Offices				134.4	24.0	158.5
	<b>Subtotal</b>	<b>944.9</b>	<b>1,184.2</b>	<b>2,129.1</b>	<b>1,005.1 (+6%)</b>	<b>302.5 (-74%)</b>	<b>1,307.6 (-39%)</b>
Ministries	Finance	9,698.6	544.8	10,243.4	10,546.6 (+9%)	1,397.7 (+157%)	11,944.4 (+17%)
	Interior	4,963.9	933.5	5,897.4	5,887.5 (+19%)	256.4 (-73%)	6,143.9 (+4%)
	Electricity	2,308.7	2,319.0	4,627.7	2,399.1 (+4%)	3,490.1 (+51%)	5,889.1 (+27%)
	Health	3,059.4	175.6	3,235.0	3,959.3 (+29%)	963.2 (+449%)	4,922.6 (+52%)
	Defense	3,388.0	1,801.4	5,189.5	4,519.9 (+33%)	380.8 (-79%)	4,900.7 (-6%)
	Education	3,891.8	265.8	4,157.6	4,311.5 (+11%)	427.4 (+61%)	4,738.8 (+14%)
	Trade	3,622.6	44.1	3,666.6	4,032.8 (+11%)	58.1 (+32%)	4,091.0 (+12%)
	Oil	953.0	2,262.9	3,216.0	1,411.8 (+48%)	2,652.6 (+17%)	4,064.4 (+26%)
	Higher Education and Scientific Research	1,532.7	200.1	1,732.8	1,879.1 (+23%)	299.1 (+50%)	2,178.3 (+26%)
	Municipalities and Public Works	477.9	626.2	1,104.1	722.4 (+51%)	1,278.6 (+104%)	2,001.0 (+81%)
	Water Resources	168.5	615.8	784.3	196.6 (+17%)	906.0 (+47%)	1,102.6 (+41%)
	Housing and Construction	208.9	317.6	526.6	222.1 (+6%)	598.3 (+88%)	820.4 (+56%)
	Agriculture	412.4	65.6	477.9	476.4 (+16%)	174.4 (+166%)	650.8 (+36%)
	Industry and Minerals	792.3	526.7	1,318.9	140.2 (-82%)	427.4 (-19%)	567.5 (-57%)
	Youth and Sports	60.3	84.2	144.5	82.0 (+36%)	470.1 (+459%)	552.1 (+282%)
	Transportation	208.2	253.4	461.6	151.4 (-27%)	384.6 (+52%)	536.0 (+16%)
	Justice	251.0	21.7	272.7	450.6 (+80%)	13.1 (-40%)	463.7 (+70%)
	Foreign	241.2	54.1	295.3	298.7 (+24%)	78.4 (+45%)	377.1 (+28%)
	Communications	88.1	250.4	338.4	13.3 (-85%)	256.4 (+2%)	269.7 (-20%)
	Planning and Development Coordination	101.4	94.0	195.4	202.1 (+99%)	49.6 (-47%)	251.6 (+29%)
	Labor	817.5	25.5	843.0	209.1 (-74%)	20.5 (-20%)	229.6 (-73%)
	Immigration and Displacement	49.0	2.5	51.5	182.3 (+272%)	12.8 (+413%)	195.2 (+279%)
	Culture	103.6	20.9	124.4	148.8 (+44%)	23.9 (+15%)	172.8 (+39%)
	Science and Technology	83.8	29.1	112.9	95.9 (+14%)	26.0 (-11%)	121.9 (+8%)
	Environment	30.3	9.7	40.0	59.9 (+98%)	21.4 (+120%)	81.3 (+103%)
	Human Rights	11.9	3.8	15.7	16.8 (+42%)	8.5 (+123%)	25.4 (+62%)
	<b>Subtotal</b>	<b>37,525.0</b>	<b>11,548.3</b>	<b>49,073.2</b>	<b>42,616.5 (+14%)</b>	<b>14,675.4 (+27%)</b>	<b>57,291.9 (+17%)</b>
Independent Offices	Local Councils in the Provinces				175.0		175.0
	Local and General Management in the Provinces				1,101.7	2,178.6	3,280.4
	Investment Commissions in the Provinces				24.8		24.8
	Independent High Electoral Commission				374.5	5.8	380.3
	Iraqi Criminal Court				20.5		20.5
	<b>Subtotal</b>	<b>56.9</b>	<b>10.5</b>	<b>67.4</b>	<b>1,696.6 (+2,883%)</b>	<b>2,184.4 (+20,704%)</b>	<b>3,881.0 (+5,660%)</b>
Higher Judicial Council	<b>Subtotal</b>	<b>390.1</b>	<b>22.4</b>	<b>412.6</b>	<b>249.6 (-36%)</b>	<b>18.4 (-18%)</b>	<b>268.0 (-35%)</b>
Region of Kurdistan	<b>Subtotal</b>	<b>4,929.8</b>	<b>3,560.4</b>	<b>8,490.3</b>	<b>6,029.1 (+22%)</b>	<b>3,038.3 (-15%)</b>	<b>9,067.4 (+7%)</b>
<b>Total</b>		<b>44,359.1</b>	<b>16,345.3</b>	<b>60,704.4</b>	<b>52,120.3 (+17%)</b>	<b>20,236.6 (+24%)</b>	<b>72,356.8 (+19%)</b>

Sources: GOI, "Federal Public Budget Law for the Fiscal Year 2010," 1/27/2010, Annex Schedule B; U.S. Embassy-Baghdad, Treasury Attaché, response to SIGIR data call, 1/11/2010.

beginning of the calendar year. If this rate holds constant, the Iraqi government will receive \$49.28 billion in total annual oil receipts for 2010, about \$2 billion short of the CoR's projection of \$51.11 billion, but well over the \$37.02 billion in oil receipts in 2009.<sup>54</sup>

The first quarter receipts of \$12.32 billion are strong compared with the first quarter of 2009, when the Iraqi government received only \$5.54 billion in oil receipts. Some of the difference is attributable to oil export volume, which increased from 160.1 million barrels during the first quarter of 2009 to 176.5 million barrels for the first quarter of 2010. The biggest difference, however, is in the price of oil, which more than doubled from an average of \$36.44 during the first quarter of 2009 to \$73.49 per barrel during the first quarter of 2010.<sup>55</sup>

The 2010 budget law authorized the Minister of Finance to borrow up to \$4.5 billion from the International Monetary Fund (IMF) and \$2.0 billion from the World Bank during 2010 to cover any deficits.<sup>56</sup> For details on IMF and World Bank financing, see the Economy subsection of this Report. The budget law also authorized the Minister of Finance to use \$1.8 billion of the IMF's Special Drawing Right (SDR) and issue Iraqi treasury bills to cover deficits.<sup>57</sup>

Iraqi government revenue is held in the Development Fund for Iraq (DFI), comprising 95% of proceeds from the export of Iraqi oil. The other 5% of Iraqi oil export proceeds are paid as war reparations to Kuwait.<sup>58</sup> On December 21, 2009, the United Nations (UN) Security Council passed Resolution 1905, which extended the DFI—and its associated special immunities and international oversight mechanisms—through December 31, 2010.<sup>59</sup> According to the Department of State (DoS) Bureau of Near Eastern Affairs-Iraq (NEA-I), the resolution differs from earlier rollover resolutions in that it calls for Iraq to present an action plan and timetable for establishing a replacement for the DFI, addressing liabilities, and providing transparent and accountable governance.<sup>60</sup>

## Decentralization

Article 23 of the 2010 budget provides that (outside of the Kurdistan Region) all ongoing capital projects in the Ministries of Electricity, Health, Education, Municipalities and Public Works, and Housing and Construction be transferred to the provinces for implementation. Plans call for the other federal ministries to continue implementing ongoing projects, but under the supervision of provincial councils. All new capital projects, under any federal ministry, are to be implemented by the provinces.<sup>61</sup>

According to Budget Articles 42 and 43, the Minister of Finance will transfer to respective provinces a portion of the revenues received for the following activities within those provinces:

- 5% of tariffs collected at ports of entry
- \$1 for each barrel of crude oil extracted
- \$1 for each barrel of crude oil refined
- \$1 for each 150 cubic meters of natural gas produced
- \$20 from each entry visa for foreign visitors to religious sites

The Board of Supreme Audit (BSA) is responsible for verifying revenues, and transfers are to be made monthly. The Minister of Finance must approve spend plans that use these additional resources.<sup>62</sup>

The Kurdistan Region's budget is determined by the Kurdistan Regional Government (KRG), which receives a lump-sum revenue transfer from the national government. For 2010, the KRG is to receive 17% of Iraq's total operating and capital budgets, after deducting Iraq's central government expenses (President's Office, CoR, Council of Ministers, Ministries of Foreign Affairs and Defense, and other expenses), paying debts and war reparations, and adjusting for allocations rolled over from prior years.<sup>63</sup>

Japan is the largest non-U.S. contributor to Iraq reconstruction, in terms of committed assistance and loans.

## International Support

As of March 31, 2010, international donors had pledged \$18.10 billion: \$5.26 billion in assistance and \$12.84 billion in loans. This quarter, the IMF established new Stand-By Arrangement (SBA) loan facilities totaling \$3.64 billion.<sup>64</sup>

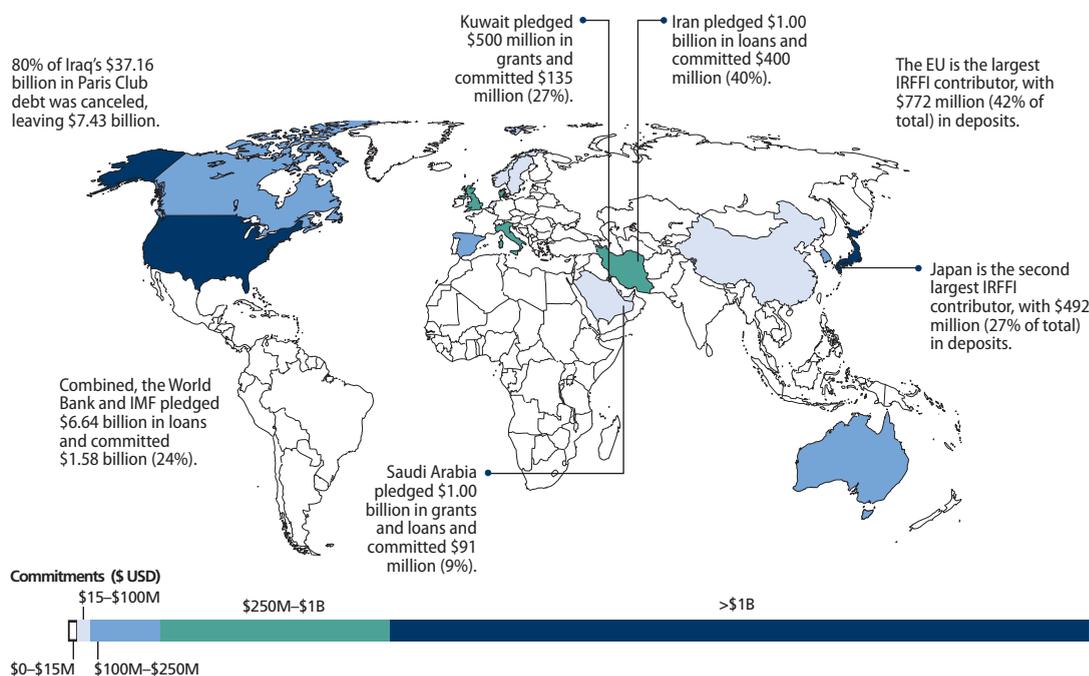
As of March 31, 2010, international donors had committed an estimated \$11.45 billion—\$6.04 billion in assistance and \$5.41 billion in loans—an increase of \$715 million from the previous quarter. The increase resulted primarily from a \$455 million disbursement from the IMF under its new SBA with Iraq and a \$250 million development policy loan disbursement from the World Bank.<sup>65</sup>

In February, Iraq and China signed a memorandum of agreement reducing Iraq’s debt to Chinese companies by \$8.47 billion (approximately 80%).<sup>66</sup> According to the Iraqi Ministry of Foreign Affairs, the

memorandum obligates Iraq to “facilitate the entry of Chinese companies” into the Iraq reconstruction effort.<sup>67</sup>

For an overview of international support for Iraq reconstruction, see Figure 2.2. Countries on the map are coded according to how much they have committed to Iraq reconstruction. Although the figure includes details about pledges, it is important to note that there is not a consistent relationship between pledges and commitments across countries. For example, some countries, like Denmark and Japan, have committed more money than they pledged. Other countries, notably in the Middle East, have committed far less than they pledged. Japan is the largest non-U.S. contributor to Iraq reconstruction, in terms of committed assistance and loans. The European Union and the United Kingdom have also made large commitments of assistance, while the IMF and World Bank have made large commitments of loans.<sup>68</sup>

FIGURE 2.2  
INTERNATIONAL COMMITMENTS FOR IRAQ



**Note:** Commitments from the EU total \$1.49 billion. Other bilateral commitments total \$106 million. Multilateral commitments also came from the World Bank, International Monetary Fund, and Islamic Development Bank.

**Sources:** Paris Club, “Iraq Debt Treatment—November 21, 2004,” [www.clubdeparis.org/sections/traitements/irak20041121/viewLanguage/en](http://www.clubdeparis.org/sections/traitements/irak20041121/viewLanguage/en), accessed 4/7/2010; NEA-I, responses to SIGIR data call, 4/8/2010 and 4/14/2010.

## U.S. Funding

Since 2003, the U.S. Congress has appropriated or otherwise made available \$53.31 billion for reconstruction efforts in Iraq, including the building of physical infrastructure, establishment of political and societal institutions, reconstitution of security forces, and the purchase of products and services for the benefit of the people of Iraq.<sup>69</sup>

As of March 31, 2010, \$47.21 billion had been made available through four major funds:<sup>70</sup>

- Iraq Relief and Reconstruction Fund (IRRF)—\$20.86 billion
- Iraq Security Forces Fund (ISFF)—\$18.04 billion
- Economic Support Fund (ESF)—\$4.56 billion
- Commander’s Emergency Response Program (CERP)—\$3.74 billion

Among the major funds, \$2.66 billion of obligated funds had not been expended as of March 31, 2010. An additional \$2.48 billion remained unobligated, but \$1.47 billion of these unobligated funds had expired. Only funds that have not yet expired—\$1.01 billion as of March 31, 2010—may be obligated to new projects.<sup>71</sup>

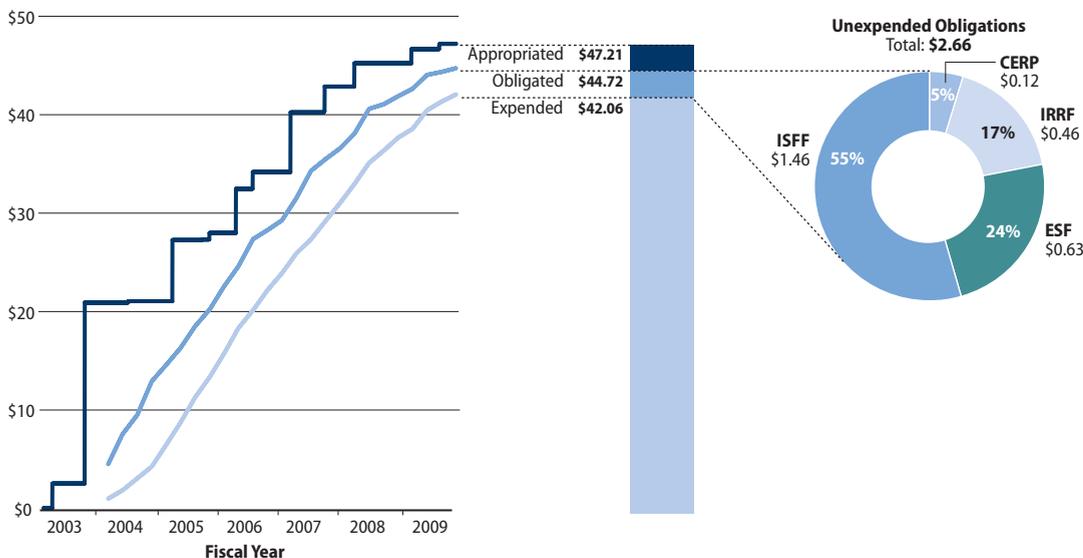
The Congress also made \$6.10 billion available through several smaller funding streams.<sup>72</sup>

For an overview of U.S. appropriations, obligations, and expenditures from the four major funds, as of March 31, 2010, see Figure 2.3. For details on appropriations to the major funds and smaller funds, and the status of funds as of March 31, 2010, see Table 2.3.

FIGURE 2.3

### STATUS OF MAJOR U.S. FUNDS

\$ Billions



**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; NEA-I, responses to SIGIR data call, 4/2/2010, 4/12/2010, and 4/14/2010; OSD, responses to SIGIR data calls, 4/10/2009, 10/13/2009, 4/12/2010, and 4/13/2010; U.S. Embassy-Baghdad, responses to SIGIR data calls, 7/16/2009 and 4/8/2010; U.S. Treasury, response to SIGIR data call, 4/2/2009; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009; USTDA, response to SIGIR data call, 4/2/2009.

TABLE 2.2  
**ENACTED AND REQUESTED APPROPRIATIONS, FY 2009–FY 2011**  
 \$ Millions

FUND	FY 2009		FY 2010		FY 2011	TOTAL NEW REQUEST
	ENACTED APPROPRIATION	ENACTED REGULAR APPROPRIATION	SUPPLEMENTAL REQUEST	REGULAR REQUEST	REGULAR REQUEST	
<b>Foreign Assistance</b>						
Defense	ISFF	1,000.0	0.0	1,000.0	2,000.0	3,000.0
	CERP	336.1	160.0	0.0	200.0	200.0
	<b>Subtotal</b>	<b>1,336.1</b>	<b>160.0</b>	<b>1,000.0</b>	<b>2,200.0</b>	<b>3,200.0</b>
Foreign Operations	ESF	439.0	382.5	0.0	383.0	383.0
	INCLE	20.0	52.0	517.4	314.6	832.0
	NADR	20.0	30.3	0.0	29.8	29.8
	IMET	2.0	2.0	0.0	2.0	2.0
	<b>Subtotal</b>	<b>481.0</b>	<b>466.8</b>	<b>517.4</b>	<b>729.3</b>	<b>1,246.8</b>
<b>Total Assistance</b>	<b>1,817.1</b>	<b>626.8</b>	<b>1,517.4</b>	<b>2,929.3</b>	<b>4,446.8</b>	
<b>Reconstruction-Related Operating Expenses</b>						
State	0.0	0.0	1,570.0	0.0	1,570.0	
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>1,570.0</b>	<b>0.0</b>	<b>1,570.0</b>	

**Note:** Data not audited. Numbers affected by rounding. The 2010 appropriation provided no specific allocations for the Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) fund or the International Military Education and Training (IMET) fund, but the difference between the budget authority provided under P.L. 111-117 and the allocations provided for the ESF and INCLE is equal to the requested amounts for the NADR and IMET, suggesting that among foreign operations accounts, only the ESF received a smaller appropriation than the Administration requested. The Congress earmarked \$200 million in FY 2010 appropriations for the CERP in Iraq, but OSD allocated only \$160 million.

**Sources:** DoD, "Fiscal Year 2011 Budget Request: Overview," 2/2010, Chapter 6, pp. 5, 9; DoS, "FY 2010 Supplemental Budget Justification," 2/1/2010, p. 31; DoS, "FY 2011 Foreign Assistance Congressional Budget Justification: Summary Tables," 3/8/2010, p. 23; OSD, response to SIGIR data call, 4/13/2010; SIGIR, *Quarterly and Semiannual Report to the United States Congress*, 1/2010.

The Administration predicated its appropriations requests for DoD operations on a major drawdown in the U.S. military presence.

### FY 2010 Supplemental and FY 2011 Regular Appropriations Requests

This quarter, the Administration requested \$4.45 billion in new appropriations for Iraq reconstruction: \$1.52 billion in FY 2010 supplemental appropriations and \$2.93 billion in FY 2011 regular appropriations.<sup>73</sup> The Administration also requested \$1.57 billion in reconstruction-related operating expenses for DoS.<sup>74</sup>

For an overview of FY 2009–FY 2011 enacted and requested appropriations, by reconstruction fund, see Table 2.2.

#### Department of Defense

Department of Defense (DoD)-administered reconstruction funding for Iraq is provided primarily through the ISFF and CERP, though a significant amount has also been provided through smaller

funds.<sup>75</sup> This quarter, the Administration requested \$3.00 billion for the ISFF and \$200 million for the CERP in FY 2010 supplemental and FY 2011 regular appropriations.<sup>76</sup> For details, see the ISFF and CERP subsections below.

The Administration predicated its FY 2010 supplemental and FY 2011 regular appropriations requests for DoD operations on a major drawdown in the U.S. military presence. As of March 31, 2010, there were 98,000 U.S. troops in Iraq.<sup>77</sup> By August 31, 2010, the Administration expects to decrease U.S. force levels to six Advisory and Assistance Brigades (AABs) (approximately 50,000 troops) and sustain them through the beginning of FY 2011, after which force levels are expected to decline to four AABs (approximately 35,000 troops).<sup>78</sup> The Administration plans to withdraw all U.S. forces from Iraq by December 31, 2011.<sup>79</sup>

# RECONSTRUCTION FUNDING SOURCES AND USES

**TABLE 2.3**  
**U.S. APPROPRIATED FUNDS**  
\$ Millions

	APPROPRIATIONS BY FISCAL YEAR, FY 2003–FY 2008					
	P.L. 108-7, P.L. 108-11	P.L. 108-106, P.L. 108-287	P.L. 109-13	P.L. 109-102, P.L. 109-148, P.L. 109-234	P.L. 109-289, P.L. 110-28	P.L. 110-92, P.L. 110-116, P.L. 110-137, P.L. 110-149, P.L. 110-161, P.L. 110-252
	2003	2004	2005	2006	2007	2008
<b>MAJOR FUNDS</b>						
Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2) <sup>a</sup>	2,475	18,389				
Iraq Security Forces Fund (ISFF)			5,490	3,007	5,542	3,000
Economic Support Fund (ESF) <sup>b</sup>	50			1,545	1,478	664
Commander's Emergency Response Program (CERP) <sup>c</sup>		140	718	659	743	986
<b>Subtotal</b>	<b>2,525</b>	<b>18,529</b>	<b>6,208</b>	<b>5,211</b>	<b>7,764</b>	<b>4,650</b>
<b>OTHER ASSISTANCE PROGRAMS</b>						
Natural Resources Risk Remediation Fund (NRRRF) <sup>d</sup>	801					
Iraq Freedom Fund (Other Reconstruction Activities) <sup>e</sup>	700					
Migration and Refugee Assistance (MRA) and Emergency Refugee & Migration Assistance (ERMA)	1				66	278
P.L. 480 Food Aid (Title II and Non-Title II)	368		3			24
International Narcotics Control and Law Enforcement (INCLE)	20			91	170	85
Democracy Fund (Democracy)					190	75
International Disaster Assistance (IDA) and International Disaster and Famine Assistance (IDFA)	24		7		45	85
Iraq Freedom Fund (TFBSO)					50	50
Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) <sup>f</sup>					7	33
Child Survival and Health Programs Fund (CSH)	90					
Department of Justice (DoJ)	37			5	6	10
International Affairs Technical Assistance				13	3	
Overseas Humanitarian, Disaster and Civic Aid (OHDACA)	9	3	3			
U.S. Marshals Service			1	3	2	2
International Military Education and Training (IMET)		2			1	
Alhurra-Iraq Broadcasting		5				
Education and Cultural Exchange Programs (ECA) <sup>g</sup>					5	
<b>Subtotal</b>	<b>2,049</b>	<b>11</b>	<b>14</b>	<b>113</b>	<b>545</b>	<b>641</b>
<b>RECONSTRUCTION-RELATED OPERATING EXPENSES</b>						
Coalition Provisional Authority (CPA) <sup>h</sup>		833				
Project and Contracting Office (PCO) <sup>i</sup>				200	630	
USAID Operating Expenses (USAID OE)	21		24	79		98
Iraq Freedom Fund (PRT Administrative Costs)					100	
U.S. Contributions to International Organizations (IO Contributions)						68
<b>Subtotal</b>	<b>21</b>	<b>833</b>	<b>24</b>	<b>279</b>	<b>730</b>	<b>166</b>
<b>RECONSTRUCTION OVERSIGHT</b>						
Special Inspector General for Iraq Reconstruction (SIGIR)		75		24	35	39
DoD Office of Inspector General (DoD OIG)				5		21
USAID Office of Inspector General (USAID OIG)	4	2	3		1	10
Defense Contract Audit Agency (DCAA)					16	
DoS Office of Inspector General (DoS OIG)				1	2	10
<b>Subtotal</b>	<b>4</b>	<b>77</b>	<b>3</b>	<b>30</b>	<b>53</b>	<b>80</b>
<b>Total</b>	<b>4,599</b>	<b>19,450</b>	<b>6,249</b>	<b>5,633</b>	<b>9,092</b>	<b>5,537</b>

<sup>a</sup> The Congress initially appropriated \$18,649 million to IRRF 2, but earmarked \$210 million to be transferred to other accounts for programs in Jordan, Liberia, and Sudan. The Administration transferred another \$562 million for Iraq-related programs that could be implemented only in other accounts (such as bilateral debt forgiveness). In FY 2006, the Congress transferred roughly \$10 million into the IRRF from the ESF. In FY 2008, P.L. 110-252 rescinded \$50 million.

<sup>b</sup> FY 2003 reflects \$40 million from the ESF base account that was not reimbursed and \$10 million from P.L. 108-11. SIGIR calculates expired funds as appropriations less obligations, as of the expiration date. Some ESF was transferred to other agencies under the Foreign Assistance Act of 1961, Sec. 632(b). DoS did not indicate whether its reported obligations include such transfers, so SIGIR's calculations may overstate expired funds.

<sup>c</sup> Generally, the Congress does not appropriate the CERP to a specific country, but rather to a fund for both Iraq and Afghanistan. SIGIR reports DoD's allocation to the CERP for Iraq as an appropriation.

<sup>d</sup> Includes funds transferred from the Iraq Freedom Fund (IFF).

<sup>e</sup> Includes funds appropriated to the IFF by P.L. 108-11, Title I, and transferred to reconstruction activities, with the exception of funds transferred to NRRRF, which are recorded under that fund.

<sup>f</sup> The \$20 million reported for FY 2009 was appropriated by P.L. 111-8.

<sup>g</sup> The status of funds as of 3/31/2010 for ECA was not available.

<sup>h</sup> Excludes \$75 million for the Special Inspector General for Iraq Reconstruction under P.L. 108-106.

<sup>i</sup> Reconstruction support funding is provided for Project and Contracting Office (PCO) activities per the P.L. 109-234 and P.L. 110-28 conference reports.

	FY 2009		FY 2010		TOTAL APPROPRIATED	STATUS OF FUNDS		
	P.L. 111-32	P.L. 111-117	P.L. 111-118	OBLIGATED		EXPENDED	EXPIRED	
	6/24/09	12/16/09	12/19/09					
<b>MAJOR FUNDS</b>								
Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2) <sup>a</sup>				20,864	20,386	19,930	478	
Iraq Security Forces Fund (ISFF)	1,000			18,039	17,041	15,584	428	
Economic Support Fund (ESF) <sup>b</sup>	439	383		4,559	3,747	3,120	430	
Commander's Emergency Response Program (CERP) <sup>c</sup>	337		160	3,743	3,550	3,430	138	
<b>Subtotal</b>	<b>1,776</b>	<b>383</b>	<b>160</b>	<b>47,205</b>	<b>44,724</b>	<b>42,064</b>	<b>1,473</b>	
<b>OTHER ASSISTANCE PROGRAMS</b>								
Natural Resources Risk Remediation Fund (NRRRF) <sup>d</sup>				801	801	801		
Iraq Freedom Fund (Other Reconstruction Activities) <sup>e</sup>				700	680	654		
Migration and Refugee Assistance (MRA) and Emergency Refugee & Migration Assistance (ERMA)	260			604	592	546		
P.L. 480 Food Aid (Title II and Non-Title II)				395	395	395		
International Narcotics Control and Law Enforcement (INCLE)	20			386	368	240		
Democracy Fund (Democracy)				265	265	197		
International Disaster Assistance (IDA) and International Disaster and Famine Assistance (IDFA)	51	6		219	215	194		
Iraq Freedom Fund (TFBSO)				100	85	44		
Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR) <sup>f</sup>	20	30		90	62	62		
Child Survival and Health Programs Fund (CSH)				90	89	89	1	
Department of Justice (DoJ)	4	3		65	58	36		
International Affairs Technical Assistance				16	16	14		
Overseas Humanitarian, Disaster and Civic Aid (OHDACA)				16	16	10		
U.S. Marshals Service	1			9	9	9		
International Military Education and Training (IMET)	2	2		8	6	3		
Alhurra-Iraq Broadcasting				5	5	5		
Education and Cultural Exchange Programs (ECA) <sup>g</sup>				5				
<b>Subtotal</b>	<b>357</b>	<b>41</b>		<b>3,772</b>	<b>3,661</b>	<b>3,298</b>	<b>1</b>	
<b>RECONSTRUCTION-RELATED OPERATING EXPENSES</b>								
Coalition Provisional Authority (CPA) <sup>h</sup>				833	832	799		
Project and Contracting Office (PCO) <sup>i</sup>				830				
USAID Operating Expenses (USAID OE)				222				
Iraq Freedom Fund (PRT Administrative Costs)				100				
U.S. Contributions to International Organizations (IO Contributions)				68				
<b>Subtotal</b>				<b>2,053</b>	<b>832</b>	<b>799</b>		
<b>RECONSTRUCTION OVERSIGHT</b>								
Special Inspector General for Iraq Reconstruction (SIGIR)	7	23		203	164	148		
DoD Office of Inspector General (DoD OIG)				26				
USAID Office of Inspector General (USAID OIG)				18				
Defense Contract Audit Agency (DCAA)				16				
DoS Office of Inspector General (DoS OIG)				13				
<b>Subtotal</b>	<b>7</b>	<b>23</b>		<b>276</b>	<b>164</b>	<b>148</b>		
<b>Total</b>	<b>2,140</b>	<b>447</b>	<b>160</b>	<b>53,307</b>	<b>49,381</b>	<b>46,309</b>	<b>1,474</b>	

## Department of State and Foreign Operations

Appropriations for civilian agencies in Iraq are requested in two parts. Funding for State Operations is requested in the DoS Congressional Budget Justification (CBJ) to cover personnel, construction, security, and other operating costs necessary to support diplomatic efforts. Funding for Foreign Operations is requested in the DoS/U.S. Agency for International Development (USAID) Foreign Operations CBJ.

Foreign Operations includes funds for which SIGIR has oversight responsibility:<sup>80</sup>

- ESF
- International Narcotics Control and Law Enforcement (INCLE)
- Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR)
- International Military Education and Training (IMET)

Over the course of the next year, the Administration will draw down its provincial reconstruction efforts in Iraq and transition to a long-term diplomatic presence. Accordingly, the Administration requested \$1.57 billion in FY 2010 supplemental appropriations for DoS operating expenses. The supplemental funds are intended to support the transition of five Provincial Reconstruction Teams (PRTs) to more permanent Enduring Presence Posts (EPPs) administered by the Chief of Mission.<sup>81</sup> Plans call for the EPPs to comprise two permanent consulates—one in Basrah and one in northern Iraq—and three temporary posts along the Arab-Kurd “fault line” in Tameem, Ninewa, and Diyala provinces.

DoS has said the supplemental funding will support increased infrastructure, personnel, support, and security requirements that it will assume as DoD support for these locations is phased out.<sup>82</sup>

The FY 2010 supplemental and FY 2011 regular appropriations requests also included \$832 million for INCLE activities in Iraq.<sup>83</sup> This is almost double the cumulative appropriations to the INCLE from FY 2003 through the regular FY 2010 appropriation, which totaled \$438 million.<sup>84</sup> The additional INCLE resources were requested to help DoS prepare for the transition of police-training responsibility from DoD, effective October 1, 2011. FY 2010 supplemental funding is intended to cover start-up costs, including base camp and aviation facility upgrades, construction of security infrastructure, procurement of aircraft for transportation between program hubs and field locations, and the recruitment and training of key security, contract management, and oversight personnel.<sup>85</sup> FY 2011 funding is intended to help DoS cover increased costs for security guards, communications, life support, force protection, and transportation requirements created by the departure of DoD.<sup>86</sup>

The INCLE and ISFF combine for a total request of \$3.83 billion to support the ISF in the FY 2010 supplemental and FY 2011 regular CBJs. Comprising 86% of the total requests for Iraq, programs to develop the ISF remain the dominant focus of the U.S. reconstruction effort in Iraq.<sup>87</sup>

The Administration requested \$29.8 million in FY 2011 NADR funding to help the GOI develop a computerized watch list for terrorism suspects, to prepare senior-level Iraqi police officers to take over counterterrorism training, and to support programs that focus on demining, dismantling Iraq’s nuclear facilities, and destroying conventional weapons.<sup>88</sup> It also requested \$2.0 million in FY 2011 IMET funds to promote military-to-military relations by providing English language training and human rights classes to Iraqi civilian and military personnel.<sup>89</sup>

Comprising 86% of the total requests for Iraq, programs to develop the ISF remain the dominant focus of the U.S. reconstruction effort in Iraq.

## Iraq Relief and Reconstruction Fund

The Congress provided \$20.86 billion to the IRRF through two appropriations: IRRF 1 (\$2.48 billion) and IRRF 2 (\$18.39 billion).<sup>90</sup> IRRF funding can no longer be obligated to new projects; unobligated funds may only be used for adjustments to ongoing projects or for contract closeout.<sup>91</sup> As of March 31, 2010, \$20.39 billion had been obligated and \$478 million had expired. Of the \$20.39 billion in obligated IRRF, \$19.93 billion (98%) had been expended, and \$456 million (2%) had not been expended.<sup>92</sup> For the status of the IRRF, as of March 31, 2010, see Table 2.4.

According to NEA-I, there were 29 ongoing IRRF 2 projects this quarter. Among the largest were electricity projects, procurement of a railroad communications system, and procurement of equipment for Basrah Children’s Hospital. Most ongoing IRRF projects are expected to be completed by summer 2010, with only one project—to replace or repair

elevators in northern Iraq—extending into 2011. Several of the projects were grants to the GOI, three of which were set to expire on March 31, 2010.<sup>93</sup>

The Executive Order that authorized the Iraq Transition Assistance Office (ITAO)—which has coordination, oversight, and reporting responsibilities for remaining IRRF funds—expires on May 8, 2010. According to U.S. Embassy-Baghdad, ITAO will become a caretaker organization at that time, managing and monitoring projects until they are completed, continuing to exercise fiscal and budget oversight, and archiving records. ITAO’s continuing status depends on the evolving plans for the Embassy’s Office of Provincial Affairs (OPA). It may continue as an independent, but smaller, unit that reports to the Assistant Chief of Mission for Assistance Transition until absorbed by OPA or fully closed out in mid-2011. Until then, direct-hire personnel will continue to draw down. ITAO currently is staffed by 12 civilians, down from 24 in August 2009.<sup>94</sup>

The Executive Order that authorized the Iraq Transition Assistance Office expires on May 8, 2010.

TABLE 2.4  
IRRF: STATUS OF FUNDS, BY APPROPRIATION AND SECTOR  
\$ Millions

APPROPRIATION	SECTOR	STATUS OF FUNDS			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
IRRF 1	<b>Subtotal</b>	<b>2,271.3</b>	<b>2,260.8</b>	<b>2,248.9</b>		
IRRF 2	Security & Law Enforcement	4,977.3	4,931.0	4,892.4	-0.8 (0%)	
	Electric Sector	4,213.3	4,099.8	4,051.0	25.0 (1%)	33.3 (1%)
	Justice, Public Safety Infrastructure, & Civil Society	2,319.1	2,314.0	2,206.9	4.0 (0%)	8.6 (0%)
	Water Resources & Sanitation	2,075.2	1,971.4	1,927.0	4.6 (0%)	25.8 (1%)
	Oil Infrastructure	1,724.7	1,612.9	1,592.6	8.4 (1%)	0.9 (0%)
	Private Sector Development	862.3	860.0	830.0		-8.7 (-1%)
	Health Care	818.6	801.9	782.4	5.6 (1%)	12.1 (2%)
	Education, Refugees, Human Rights, Democracy, & Governance	470.7	519.6	447.6		0.5 (0%)
	Transportation & Telecommunications Projects	463.3	466.9	439.8	18.8 (4%)	4.4 (1%)
	Roads, Bridges, & Construction	327.6	280.0	267.1	-1.4 (0%)	4.5 (2%)
	Administrative Expenses	220.5	219.5	217.9		
	ITAO Capacity Development	51.5	48.5	26.7	-0.1 (0%)	2.7 (11%)
		<b>Subtotal</b>	<b>18,523.9</b>	<b>18,125.6</b>	<b>17,681.5</b>	<b>64.0 (0%)</b>
<b>Total</b>		<b>20,795.2</b>	<b>20,386.4</b>	<b>19,930.4</b>	<b>64.0 (0%)</b>	<b>84.1 (0%)</b>

Note: Data not audited. Numbers affected by rounding.

Sources: DoS, response to SIGIR data call, 4/5/2007; NEA-I, response to SIGIR data call, 4/2/2010; OSD, response to SIGIR data call, 4/10/2009; U.S. Treasury, response to SIGIR data call, 4/2/2009; USAID, response to SIGIR data call, 4/13/2009; USTDA, response to SIGIR data call, 4/2/2009.

## Iraq Security Forces Fund

The Congress has appropriated \$18.04 billion to the ISFF to support Iraq's Ministry of Defense (MOD) and Ministry of Interior (MOI) in developing the Iraqi Security Forces (ISF).<sup>95</sup>

As of March 31, 2010, \$1.46 billion of obligated funds had not been expended. An additional \$1.00 billion remains unobligated, but \$0.43 billion of this amount has expired. This leaves \$0.57 billion of the funds appropriated for FY 2009 (P.L. 111-32) available for obligation to new projects.<sup>96</sup>

According to a recently released SIGIR audit, USF-I had obligated \$16.75 billion (93%) of the \$18.04 billion appropriated to the ISFF and liquidated \$15.09 billion (90%) of those obligations, as of December 31, 2009. These values are the same as the unaudited values reported in the January 2010 SIGIR *Quarterly and Semiannual Report* and consonant with agency-reported values this quarter.<sup>97</sup> For the status of the ISFF, as of March 31, 2010, see Figure 2.4 and Table 2.5.

### ISFF Quarterly Obligations and Expenditures

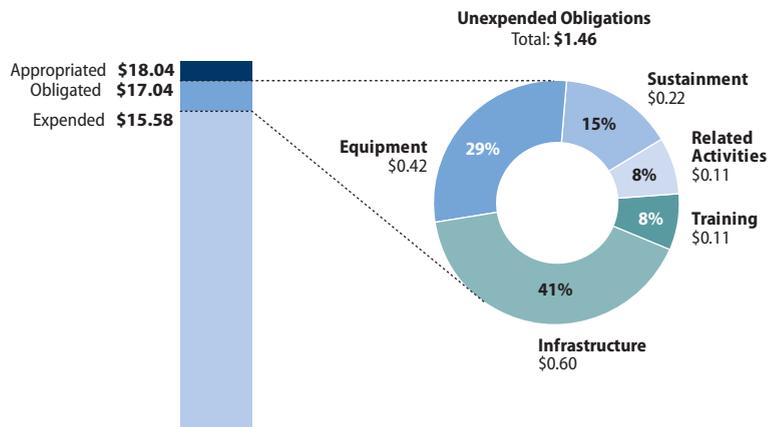
As of March 31, 2010, \$17.06 billion (95%) of the \$18.04 billion appropriated to the ISFF has been allocated to four major sub-activity groups: Equipment, Infrastructure, Sustainment, and Training.

The remaining \$0.98 billion (5%) of the ISFF has been allocated to smaller sub-activity groups. Collectively termed "Related Activities," they include the ISFF Quick Response Fund, detainment centers, and rule-of-law complexes.<sup>98</sup>

This quarter, USF-I obligated \$295.3 million of the ISFF—four times as much as the \$73.0 million obligated last quarter. Most new obligations were made for MOD Equipment, though significant obligations were also made for MOI Equipment. The Infrastructure sub-activity group received the least amount of new obligations.

This quarter, USF-I expended \$495.8 million—less than the \$516.8 expended last quarter. Expenditures followed a similar pattern and were concentrated in the Equipment sub-activity group for both the MOD and MOI.<sup>99</sup>

FIGURE 2.4  
ISFF: STATUS OF FUNDS  
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Source: OSD, response to SIGIR data call, 4/12/2010.

### Evolving Support for Iraqi Security Forces

In February 2010, the Administration requested \$1.00 billion in FY 2010 supplemental appropriations and \$2.00 billion in FY 2011 regular appropriations for the ISFF.<sup>100</sup> If Congress appropriates the full amount requested, the ISFF will have received \$21.04 billion in total appropriations, and it will eclipse the IRRF (\$20.86 billion) as the largest U.S. reconstruction fund for Iraq.<sup>101</sup>

Though the scale of support for the ISF is undiminished, U.S. reconstruction managers are changing the focus of these programs. The requested FY 2011 ISFF appropriation is intended primarily for MOD forces. According to the Administration's request, more than 50% of the \$1.00 billion FY 2010 supplemental request is planned for Sustainment, including maintenance of fixed-wing and rotary aircraft and newly transferred U.S. equipment, as well as modernization of the Iraqi Army's mechanized division.<sup>102</sup> The FY 2011 request allocates funds primarily to remaining MOD Equipment requirements, including division-level communication equipment and armored transport.<sup>103</sup>

In January 2010, USF-I released a revised spend plan for the FY 2009/FY 2010 ISFF appropriations.

If Congress appropriates the full amount requested, the ISFF will eclipse the IRRF as the largest U.S. reconstruction fund for Iraq.

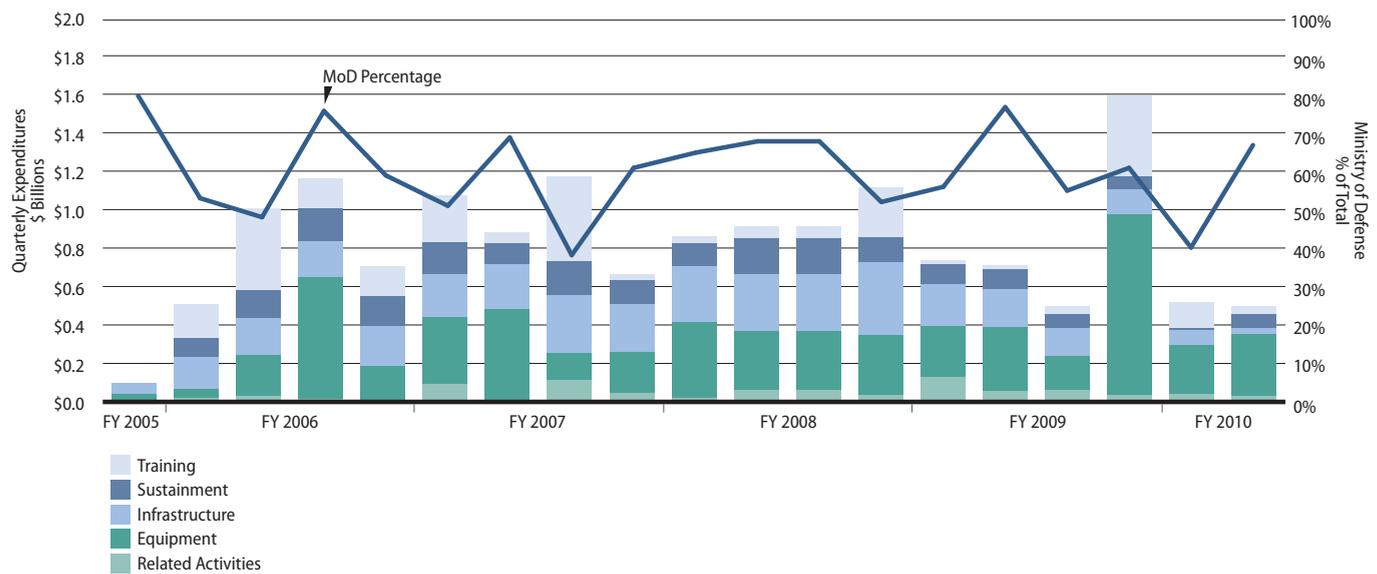
TABLE 2.5  
ISFF: STATUS OF FUNDS, BY MINISTRY AND SUB-ACTIVITY GROUP  
\$ Millions

MINISTRY	SUB-ACTIVITY GROUP	STATUS OF FUNDS			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Defense	Infrastructure	3,272.1	3,088.6	2,762.9	3.9 (0%)	22.1 (1%)
	Equipment	4,743.5	4,592.3	4,384.7	180.3 (4%)	229.1 (6%)
	Training	541.7	451.2	395.8	23.1 (5%)	23.6 (6%)
	Sustainment	1,962.7	1,878.1	1,708.8	19.6 (1%)	59.0 (4%)
	<b>Subtotal</b>	<b>10,520.0</b>	<b>10,010.2</b>	<b>9,252.2</b>	<b>226.8 (2%)</b>	<b>333.8 (4%)</b>
Interior	Infrastructure	1,447.8	1,379.0	1,107.9	1.5 (0%)	5.6 (1%)
	Equipment	1,899.2	1,751.0	1,536.9	51.3 (3%)	95.5 (7%)
	Training	2,523.4	2,428.4	2,373.7	6.1 (0%)	14.1 (1%)
	Sustainment	672.5	595.5	546.7	1.0 (0%)	17.7 (3%)
	<b>Subtotal</b>	<b>6,542.9</b>	<b>6,153.9</b>	<b>5,565.2</b>	<b>59.9 (1%)</b>	<b>132.9 (2%)</b>
Other	<b>Subtotal</b>	<b>976.4</b>	<b>876.7</b>	<b>766.4</b>	<b>8.6 (1%)</b>	<b>29.1 (4%)</b>
<b>Total</b>		<b>18,039.3</b>	<b>17,040.9</b>	<b>15,583.8</b>	<b>295.3 (2%)</b>	<b>495.8 (3%)</b>

Note: Data not audited. Numbers affected by rounding.

Sources: OSD, response to SIGIR data call, 4/12/2010; SIGIR, Quarterly and Semiannual Report to the United States Congress, 1/2010.

FIGURE 2.5  
ISFF: QUARTERLY EXPENDITURES, BY MINISTRY AND SUB-ACTIVITY GROUP, FY 2005– FY 2010  
\$ Billions and % of Total



Note: Data not audited. Numbers affected by rounding.

Sources: OSD, response to SIGIR data call, 4/12/2010; SIGIR, Quarterly and Semiannual Reports to the United States Congress, 10/2005–1/2010.

It proposed decreasing funding for MOD training by \$71.1 million and applying the balance to Sustainment (\$22.5 million) and Equipment (\$48.6 million).<sup>104</sup> The largest newly proposed MOD Sustainment project was \$20.7 million for life support and facility management of warehouses at Abu Ghraib and Taji, and the largest newly proposed MOD Equipment project was for ship repair equipment, a naval support-vessel simulator, and command-and-control equipment at the Umm Qasr naval base.<sup>105</sup>

The revised spend plan also proposed a funding decrease of \$62 million for MOI Training, shifting the balance to Sustainment. The largest newly proposed MOI Sustainment project was for maintenance of non-intrusive inspection equipment, which allows personnel at entry control points around Baghdad to x-ray vehicles for explosives.<sup>106</sup>

For details on quarterly ISFF obligations since the fund's inception, by sub-activity group and ministry, see Figure 2.5.

## Economic Support Fund

Since 2003, the Congress has appropriated \$4.56 billion to the ESF to improve infrastructure and community security, promote democracy and civil society, and support capacity building and economic development.<sup>107</sup>

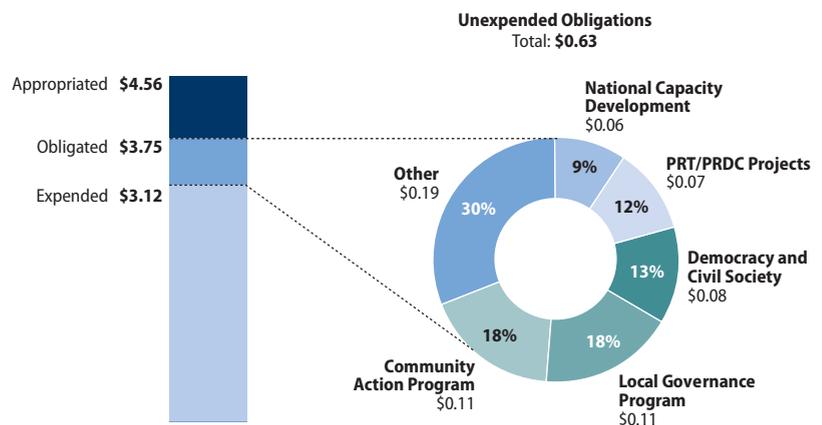
As of March 31, 2010, \$626 million of obligated funds had not been expended. An additional \$812 million remains unobligated, but \$430 million of this amount has expired. This leaves \$382.5 million appropriated for FY 2010 (P.L. 111-117) available for obligation to new projects.<sup>108</sup> This quarter, SIGIR announced an audit of the status of the ESF.

For the status of the ESF, as of March 31, 2010, see Figure 2.6 and Table 2.6.

### ESF Quarterly Obligations and Expenditures

The ESF has been allocated to programs in three tracks: Security, Political, and Economic. This quarter, there were net deobligations in each of the tracks. The largest deobligation came in the Democracy and Civil Society Program; NEA-I reported

**FIGURE 2.6**  
**ESF: STATUS OF FUNDS**  
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data calls, 7/16/2009 and 4/8/2010; NEA-I, responses to SIGIR data call, 4/2/2010, 4/10/2010, and 4/12/2010; USACE, response to SIGIR data call, 4/1/2010.

\$259.4 million obligated as of December 31, 2009, but only \$234.2 million obligated as of March 31, 2010.<sup>109</sup> The largest new obligation was a relatively modest \$1.4 million for elections support.<sup>110</sup>

The largest expenditures this quarter were in the security track: \$18.8 million for PRT/PRDC Projects, \$18.6 million for the Community Action Program, and \$17.6 million for the PRT Quick Response Fund.<sup>111</sup> The net reduction in expenditures for the Provincial Economic Growth (or *Tijara*) program is a result of a transfer by U.S. Embassy-Baghdad. According to USAID, \$20 million in expenditures previously recorded under ESF were moved to IRRF 2.<sup>112</sup> This had the effect of decreasing total expenditures under the program, freeing up ESF funds.

### ESF Programming for FY 2011

The Administration requested \$383 million in FY 2011 appropriations for the ESF.<sup>113</sup> As U.S. troops withdraw from Iraq, this funding is intended to enable DoS to strengthen and normalize the bilateral relationship between the United States and Iraq. Accordingly, the request focuses on building Iraqi capacity.<sup>114</sup>

TABLE 2.6  
**ESF: STATUS OF FUNDS, BY TRACK AND PROGRAM**  
 \$ Millions

TRACK	PROGRAM	STATUS OF FUNDS			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Security	PRT/PRDC Projects	700.0	508.5	436.0	-2.3 (0%)	18.8 (5%)
	Community Stabilization Program	646.5	619.3	619.0		7.4 (1%)
	Local Governance Program	407.5	407.5	294.5	-3.0 (-1%)	-0.5 (0%)
	Community Action Program	382.1	382.1	268.2		18.6 (7%)
	PRT Quick Response Fund	257.0	208.9	163.8	-11.2 (-5%)	17.6 (12%)
	Infrastructure Security Protection	217.0	184.0	181.7	-0.2 (0%)	0.6 (0%)
	<b>Subtotal</b>		<b>2,610.1</b>	<b>2,310.2</b>	<b>1,963.1</b>	<b>-16.8 (-1%)</b>
Political	National Capacity Development	309.4	309.4	251.6		7.1 (3%)
	Democracy and Civil Society	281.6	234.2	155.6	-25.2 (-10%)	7.6 (5%)
	Iraqi Refugees	95.0	95.0	90.6		0.4 (0%)
	Economic Governance II, Policy and Regulatory Reforms	85.0	85.0	85.0		
	Ministerial Capacity Development	48.0	41.0	30.0	-0.8 (-2%)	0.5 (2%)
	Regime Crimes Liaison Office	33.0	30.1	28.4		
	Elections Support	13.9	13.9	13.4	1.4 (11%)	1.3 (11%)
	Monitoring and Evaluation	7.3	7.6	0.5	0.3 (4%)	0.5
	USAID Program Expenses	0.2	0.2	0.1		
<b>Subtotal</b>		<b>873.4</b>	<b>816.4</b>	<b>655.2</b>	<b>-24.3 (-3%)</b>	<b>17.5 (3%)</b>
Economic	O&M Sustainment	285.5	272.1	270.8	-0.1 (0%)	3.8 (1%)
	Inma Agribusiness Development	124.0	124.0	82.7		0.2 (0%)
	Provincial Economic Growth	85.8	85.8	38.1		-10.6 (-22%)
	Targeted Development Program	57.4	57.4	31.3		1.8 (6%)
	Plant-Level Capacity Development & Technical Training	51.5	47.9	47.8		0.1 (0%)
	Izdihar	32.8	32.8	31.4		
	<b>Subtotal</b>		<b>637.0</b>	<b>620.0</b>	<b>502.0</b>	<b>-0.1 (0%)</b>
<b>Total</b>		<b>4,120.5</b>	<b>3,746.6</b>	<b>3,120.3</b>	<b>-41.2 (-1%)</b>	<b>75.2 (2%)</b>

Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data calls, 7/16/2009 and 4/8/2010; NEA-I, responses to SIGIR data call, 4/2/2010, 4/10/2010, and 4/12/2010; USACE, response to SIGIR data call, 4/1/2010.

### Controlling Security Costs

U.S. Embassy-Baghdad reports that neither DoS nor USAID considers security costs to be a determining factor in choosing which projects to pursue in Iraq. Accordingly, they informed SIGIR that they do not engage in a cost-benefit analysis with respect to security. Instead, projects are selected based on their potential benefits, regardless of possible security costs.<sup>115</sup>

Security costs are determined after program objectives are decided. The Regional Security

Office (RSO) has specific rules and standards for private security contracts, which are considered when developing budgets. For example, USAID budgets 21%–23% for security costs. U.S. Embassy-Baghdad says that it does not consult USF-I about security costs.<sup>116</sup> Security and life-support costs are excluded when calculating the Iraqi government’s required cost-sharing contribution for certain U.S.-funded reconstruction projects.<sup>117</sup>

Neither DoS nor USAID considers security costs to be a determining factor in choosing which projects to pursue in Iraq.

## Commander's Emergency Response Program

Since 2004, the Congress has provided \$3.74 billion in CERP funding for Iraq. As of March 31, 2010, \$120 million of obligated funds had not been expended. An additional \$193 million remains unobligated, but \$138 million of that amount has expired. Only funds appropriated for FY 2010 (P.L. 111-118) that have not been obligated—\$55 million as of March 31, 2010—may be obligated to new projects.<sup>118</sup> This quarter, SIGIR announced an audit of the status of the CERP.

For the status of the CERP, as of March 31, 2010, see Figure 2.7 and Table 2.7.

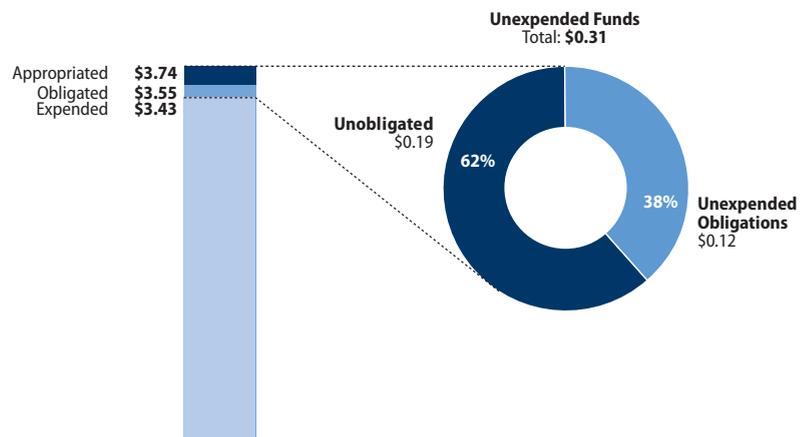
### CERP Quarterly Obligations and Expenditures

DoD reported that, as of March 31, 2010, \$63 million (39%) had been obligated and \$31 million (20%) had been expended from the \$160 million FY 2010 CERP allocation for Iraq. However, due to the lengthy CERP reporting process, the most current project-level data for those amounts is not yet available.<sup>119</sup>

The DoD Office of the Under Secretary of Defense(Comptroller) (OUSD(C)) does not maintain records of quarterly obligations and expenditures, by project category, for prior fiscal year appropriations; it reports obligations and expenditures from the current fiscal year appropriation only. Consequently, SIGIR cannot provide a full accounting of quarterly CERP obligations and expenditures by project category for the entire CERP fund with data supplied by OUSD(C).

To meet its congressional reporting mandate, SIGIR uses the Iraq Reconstruction Management System (IRMS) to provide obligation and expenditure data by project category for prior year appropriations, as well as current data by project category. However, as both SIGIR and the DoD Office of Inspector General (DoD OIG) have reported, CERP data from the IRMS is incomplete.<sup>120</sup> Moreover, IRMS does not account for all obligations and expenditures reflected in top-line CERP data provided by the Defense Finance and Accounting Service (DFAS).

FIGURE 2.7  
CERP: STATUS OF FUNDS  
\$ Billions



Note: Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas. The appropriated value is the CERP allocation for Iraq.

Sources: OSD, responses to SIGIR data calls, 10/13/2009 and 4/13/2010.

Until DoD provides access to an alternative source of project-level data, SIGIR will continue to use the most recently updated CERP data available from IRMS.

According to U.S. Embassy-Baghdad, ITAO and USACE continue to discuss the ultimate disposition of IRMS. USACE will continue to manage the system until it is archived or until it is transferred to another organization.<sup>121</sup> According to ITAO, the system will be shut down on September 1, 2010. It plans to provide read-only access until September 30, 2010, after which time the database will be housed on another server for a period of 10 years. Just before the September 1, 2010, suspension date, ITAO plans to pull a limited set of fields for all records, which it will maintain in spreadsheets. Records for ongoing projects are to be shared with U.S. Embassy-Baghdad. In-depth investigations will be referred to the implementing organizations, which maintain their own records.<sup>122</sup>

### CERP Programming for FY 2011

The Administration requested \$200 million in FY 2011 appropriations for Iraq.<sup>123</sup> According

TABLE 2.7  
**CERP: STATUS OF FUNDS, BY PROJECT CATEGORY**  
 \$ Millions

PROJECT CATEGORY	STATUS OF FUNDS		QUARTERLY CHANGE	
	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Water & Sanitation	636.2	547.2	-1.0 (0%)	3.9 (1%)
Protective Measures	473.1	371.4	36.6 (8%)	36.1 (11%)
Electricity	361.0	294.9	5.0 (1%)	11.2 (4%)
Transportation	336.7	269.1	1.8 (1%)	2.3 (1%)
Education	322.6	254.8	-0.9 (0%)	5.1 (2%)
Civic Cleanup Activities	200.2	158.8	5.4 (3%)	5.0 (3%)
Other Humanitarian and Reconstruction Projects	150.6	110.8	7.5 (5%)	11.2 (11%)
Economic, Financial, and Management Improvements	120.9	84.4	3.4 (3%)	5.1 (6%)
Agriculture	111.1	90.0	11.1 (11%)	18.2 (25%)
Civic Infrastructure Repair	109.4	89.3	18.3 (20%)	12.0 (16%)
Healthcare	104.8	90.6	1.4 (1%)	3.3 (4%)
Law & Governance	103.2	91.4	2.7 (3%)	1.4 (2%)
Condolence Payments	49.0	44.3	0.1 (0%)	0.6 (1%)
Battle Damage	42.9	34.4	0.9 (2%)	0.8 (2%)
Telecommunications	28.0	22.9	-0.7 (-2%)	
Civic Support Vehicles	24.3	20.0		
Food Production & Distribution	0.0	0.0	-13.8 (-100%)	-10.5 (-100%)
Detainee Release Payments	0.0	0.0	-1.0 (-100%)	-0.6 (-100%)
<b>Subtotal</b>	<b>3,173.8</b>	<b>2,574.3</b>	<b>76.7 (2%)</b>	<b>105.3 (4%)</b>
Unaccounted-for CERP Allocations	376.1	855.4	-22.3 (-6%)	-33.6 (-4%)
<b>Total</b>	<b>3,549.9</b>	<b>3,429.7</b>	<b>55.4 (2%)</b>	<b>71.7 (2%)</b>

**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** IRMS, *MNC-I Quarterly Report*, 1/15/2010; IRMS, *USF-I CERP Category Report*, 4/14/2010; OSD, responses to SIGIR data calls, 10/13/2009 and 4/13/2010.

to USF-I, both the number and value of CERP-funded reconstruction projects will decline with the scheduled troop withdrawal. Commanders plan to execute reconstruction projects that are simpler in scope, shorter in duration, and less expensive, in order to avoid leaving unfinished projects. *Money as a Weapon System* (MAAWS), the CERP policy manual, was updated on March 1, 2010, to include a risk assessment matrix to help commanders determine such risk when assigning CERP reconstruction projects to units approaching the end of their missions. In addition, USF-I requires that a memorandum of agreement be signed with a responsible

Iraqi official before project work begins to mitigate the risk that CERP-funded projects completed by U.S. forces will not be sustained.<sup>124</sup>

**Ongoing Management and Control Issues**

Over the past several years, concerns about the adequacy of CERP project management controls have been raised by the Congress and addressed in various audit reports by SIGIR, GAO, and the Army Audit Agency. Issues identified include concerns about project selection, cost, oversight, record keeping, and cash payments. DoD has improved the program's controls over time and is considering further reforms.

This quarter, SIGIR released an audit on 46 CERP-funded projects at the Baghdad International Airport Economic Zone (BEZ), with a total value of \$35.5 million. SIGIR found that the majority of funds expended on 22 of these projects (worth \$19.3 million) resulted in generally successful outcomes. However, at this point, about \$16.1 million expended on 24 projects had generally unsuccessful outcomes; these funds are at risk of being wasted without further action. USF-I is actively working with the Iraqi government, which now owns the facilities, to identify opportunities to gain additional benefits from the U.S.-funded investments.<sup>125</sup>

SIGIR also found that CERP guidance did not adequately reflect the evolving manner in which commanders used CERP funds. For example, BEZ projects used management and oversight procedures designed for smaller, quick-reaction projects, rather than large-scale economic development efforts.<sup>126</sup>

The BEZ reflects a wider pattern of large CERP projects subject to inadequate controls. DoD is currently performing an internal assessment of existing processes. Options under consideration include a single departmental coordinator, dedicated CERP managers and contracting personnel in theater, and increased pre-mobilization and in-country training.<sup>127</sup>

This quarter, DoD leadership again acknowledged the need for strong oversight. General David Petraeus, Commander of U.S. Central Command (CENTCOM), stated in his March 2010 testimony before the Senate Armed Services Committee that small CERP projects can be the most efficient and effective means of addressing emergent needs of local communities in U.S. forces' areas of operations. Furthermore, he considers proper oversight "critical."<sup>128</sup> CENTCOM has requested the Army Audit Agency to conduct additional audits of the CERP and established new guidelines for the number of projects each CERP team should oversee.<sup>129</sup>

U.S. Secretary of Defense Robert Gates reiterated the importance of CERP oversight in recent testimony before the Senate Appropriations

Subcommittee on Defense. He added that, "nonetheless, even with improved execution and oversight, it is unrealistic to expect a tool like CERP—whose very effectiveness and existence is tied to its flexibility and the discretion granted to local commanders in a war zone—to attain a zero-defect standard."<sup>130</sup>

On March 2, 2010, General Peter Chiarelli, Vice Chief of Staff of the U.S. Army, issued a memo that established new standards for the selection and training of contracting officer's representatives (CORs), who are responsible for contractor oversight. Among the reforms are pre-deployment selection and training and improved training materials for deployed CORs. In addition, commanders and supervisors are required to nominate personnel with experience in the type of contract support required, to ensure they receive contract-specific training, and to consider their effectiveness as CORs when preparing performance evaluations.<sup>131</sup>

SIGIR supports these efforts and the need for effective controls over higher-dollar projects and those with cash payments. However, continuing improvement is necessary. For example, this quarter SIGIR recommended improving planning for large-scale development projects. Additionally, attention must continue to be paid to costly projects that do not meet the senior-level approval criteria.

SIGIR continues to uncover illegal use of CERP funds. In one case, a U.S. Army Captain pled guilty to embezzling \$690,000 in CERP funds. In another, two Korean military officers and an enlisted soldier pled guilty to charges in Korea for criminal activity related to their mishandling of CERP funds. Criminal charges in several additional cases related to the misappropriation or misuse of CERP funds are anticipated. Having appropriate management controls in place that are tailored to contingency environment needs is key to the effective and efficient implementation of CERP projects in other contingencies, such as Afghanistan, where the Administration has requested \$1.10 billion in FY 2011 appropriations.

Having appropriate management controls in place that are tailored to contingency environment needs is key to the effective and efficient implementation of CERP projects.

## Smaller Funds

The Congress has appropriated, or otherwise made available, at least \$6.10 billion in smaller funding streams for Iraq reconstruction. SIGIR has classified these funding streams into three categories:<sup>132</sup>

- Other Assistance Programs—\$3.77 billion
- Reconstruction-related Operating Expenses—\$2.05 billion
- Reconstruction Oversight—\$0.28 billion

Most are managed by DoS, though a significant amount of funding was appropriated or transferred to other departments and temporary agencies. Given the complicated way funds have been transferred, exact amounts are difficult to determine. As of March 31, 2010, at least \$4.61 billion (75%) of these funds had been obligated, and at least \$4.20 billion (69%) had been expended.<sup>133</sup> For details on the status of funds, see Table 2.3.

## Other Assistance Programs

Approximately \$3.77 billion in funding for Iraq reconstruction has been provided through smaller assistance programs, including appropriations to the Departments of State, Treasury, and Justice for operations in Iraq, and through transfers from larger

funds. As of March 31, 2010, at least \$3.66 billion (97%) had been obligated, and at least \$3.30 billion (87%) had been expended.<sup>134</sup>

For a description of selected smaller assistance programs, see Table 2.8.

## Operating Expenses

Approximately \$2.05 billion has been appropriated directly for reconstruction-related operating expenses. Data is incomplete, but as of March 31, 2010, at least \$832 million (41%) had been obligated, and at least \$799 million (39%) had been expended.<sup>135</sup>

## Reconstruction Oversight

Approximately \$276 million has been appropriated directly for reconstruction oversight. Data is incomplete, but as of March 31, 2010, at least \$164 million (59%) had been obligated, and at least \$148 million (54%) had been expended. These funds support SIGIR and the Iraq-related work of other oversight agencies.<sup>136</sup>

For details on the oversight of Iraq reconstruction, see Sections 3 and 4 of this Report and Appendices G and H.

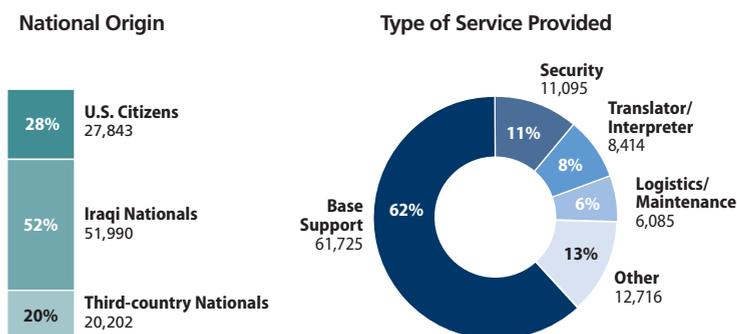
## Contracting

As of March 31, 2010, there were 99,420 DoD contractors working in Iraq (not including Logistics Civil Augmentation Program, or LOGCAP, contractors).<sup>137</sup> The most recent census of DoD contractors—which includes contractors’ national origin and type of service provided—showed 100,305 DoD contractors in Iraq, as of February 2010.<sup>138</sup> For a breakdown of DoD contractors, by national origin and type of service provided, see Figure 2.8.

As of March 31, 2010, there were 2,795 DoS and USAID private security contractors (PSCs) working in Iraq. According to U.S. Embassy-Baghdad, DoS and USAID do not maintain records of non-security contractors supporting reconstruction efforts.<sup>139</sup> For more information on PSCs, see the Security subsection of this report.

Given the complicated way funds have been transferred, exact amounts are difficult to determine.

FIGURE 2.8  
DOD CONTRACTORS IN IRAQ, AS OF 2/2010  
100,035 Total Contractors



Note: Data not audited. Numbers affected by rounding.

Source: ADUSD(Program Support), “Contractor Support of U.S. Operations in USCENTCOM AOR, Iraq, and Afghanistan,” 2/28/2010.

# RECONSTRUCTION FUNDING SOURCES AND USES

TABLE 2.8  
SELECTED OTHER ASSISTANCE PROGRAMS, BY IMPLEMENTING AGENCY

FUND AND AMOUNT APPROPRIATED	PURPOSE
<b>Department of Defense</b>	
<b>Natural Resources Risk Remediation Fund (NRRRF)</b> \$801 million	NRRRF was used for early reconstruction of the oil sector. USACE reported that all funds were fully expended as of September 30, 2008.
<b>Iraq Freedom Fund (IFF)</b> \$700 million	The IFF was established by P.L. 108-11 on April 16, 2003, to fund additional expenses for ongoing military operations in Iraq and elsewhere. It allows the Secretary of Defense to transfer funds to finance combat, stability operations, force reconstitution, and other war-related costs. Once funds are transferred, they "take on the characteristics" and are subject to the same rules and restrictions as the receiving fund or account.
<b>Overseas Humanitarian, Disaster, and Civic Aid (OHDACA)</b> \$16 million	OHDACA provides basic humanitarian aid and services to populations in need. According to the Defense Security Cooperation Agency, which oversees OHDACA, these funds build indigenous capabilities and cooperative relationships with allies and potential partners and improve access to areas not otherwise available to U.S. forces.
<b>Department of State</b>	
<b>Migration and Refugee Assistance (MRA) and Emergency Refugee and Migration Assistance (ERMA)</b> \$604 million	MRA and ERMA are administered by the Bureau of Population, Refugees, and Migration (PRM) and are used to fund contributions to International Organizations that benefit Iraqi refugees, internally displaced persons (IDPs), and other conflict victims; funding is also provided to non-governmental organizations (NGOs) who fill gaps in the international community's multilateral response.
<b>International Narcotics Control and Law Enforcement (INCLE)</b> \$386 million	INCLE is administered by the Bureau of International Narcotics and Law Enforcement Affairs.
<b>Democracy Fund</b> \$265 million	The Democracy Fund is allocated by the Bureau of Democracy, Human Rights, and Labor (DRL) to support democracy-promotion programs of a variety of agencies, including the National Democratic Institute and the International Republican Institute.
<b>Nonproliferation, Anti-Terrorism, Demining, and Related Programs (NADR)</b> \$90 million	NADR supports security and humanitarian-related initiatives. The FY 2010 request for Iraq includes funding for humanitarian demining, anti-terrorism, small-arms destruction, and other activities.
<b>International Military Education and Training (IMET)</b> \$8 million	IMET is intended to strengthen alliances and promote military professionalism through training and education for students from allied and friendly nations. The program is administered jointly with DoD.
<b>Educational and Cultural Affairs (ECA)</b> \$5 million	ECA supports education, democracy, civil society, and cultural heritage activities in Iraq through educational and cultural exchanges.
<b>U.S. Agency for International Development</b>	
<b>International Disaster Assistance (IDA) and International Disaster and Famine Assistance (IDFA)</b> \$219 million	The USAID Office of Foreign Disaster Assistance (OFDA) is responsible for IDA and IDFA. These funds allow the U.S. government to respond to disasters in foreign countries, through famine relief, cash food aid, and related programs.
<b>P.L. 480 Food Aid (Title II and Non-Title II)</b> \$395 million	P.L. 480 Title II Food Aid, also known as Food for Peace, provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries.
<b>Child Survival and Health (CSH)</b> \$90 million	The USAID Bureau of Global Health is responsible for CSH, which funds maternal, newborn, and child health programs implemented by private voluntary organizations (PVOs) and NGOs.
<b>U.S. Treasury</b>	
<b>International Affairs Technical Assistance</b> \$16 million	The Department of Treasury is responsible for International Affairs Technical Assistance, which is funded in Iraq by DoS, under a reimbursable agreement. Office of Technical Assistance advisors work with foreign governments to improve their financial systems.

Note: Data not audited. Numbers affected by rounding.

Sources: NRRRF: USACE, GRD, response to SIGIR data call, 10/6/2008; IFF: OSD, responses to SIGIR data calls, 10/2/2009 and 4/14/2010; OHDACA: DSCA, "Overseas Humanitarian, Disaster, and Civic Aid: Fiscal Year 2010 Budget Estimates," 5/2009; OSD, response to SIGIR data call, 4/15/2010; MRA and ERMA: DoS, PRM, response to SIGIR data call, 4/14/2010; INCLE: INL, responses to SIGIR data calls, 10/14/2009 and 4/14/2010; Democracy Fund: DoS, DRL, responses to SIGIR data call, 4/2/2010 and 4/9/2010; NADR: USAID, "U.S. Overseas Loans and Grants [Greenbook]," 2008, [gbk.eads.usaidallnet.gov/query/do?\\_program=eads/gbk/countryReport&unit=N](http://gbk.eads.usaidallnet.gov/query/do?_program=eads/gbk/countryReport&unit=N), accessed 4/15/2010; DoS, "Foreign Operations Congressional Budget Justification, Fiscal Year 2010," 5/2009, pp. 49, 55; IMET: DoS, "Foreign Operations Congressional Budget Justification, Fiscal Year 2010," 5/2009, p. 88; DoS, response to SIGIR data call, 3/17/2010; ECA: NEA-I, response to SIGIR data call, 10/2/2009; DoS, ECA, response to SIGIR data call, 4/14/2010; IDA/IDFA: USAID, response to SIGIR data call, 4/14/2010; P.L. 480: USDA, Foreign Agricultural Service, "Fact Sheet: Food Assistance," 4/2009, [fas.usda.gov/info/factsheets/foodaid.asp](http://fas.usda.gov/info/factsheets/foodaid.asp), accessed 10/16/2009; NEA-I, response to SIGIR data call, 4/2/2010; CSH: NEA-I, response to SIGIR data call, 4/2/2010; International Affairs Technical Assistance: U.S. Treasury, OTA, "Office of Technical Assistance Overview," 12/30/2005, [ustreas.gov/offices/international-affairs/assistance/](http://ustreas.gov/offices/international-affairs/assistance/), accessed 10/16/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 10/3/2009.

DoD expects the number of contractor personnel in Iraq to decline to no more than 75,000 by August 2010, at which time the Administration expects to have approximately 50,000 U.S. troops in-country.

### Drawdown of Contractor Workforce

According to the Commission on Wartime Contracting in Iraq and Afghanistan (CWC), DoD expects the number of contractor personnel in Iraq to decline to no more than 75,000 by August 2010 (not including LOGCAP contractors),<sup>140</sup> at which time the Administration expects to have approximately 50,000 U.S. troops in-country.<sup>141</sup> This represents a significant decline in the absolute number of DoD contractors, from a high of more than 160,000 in September 2008. However, as a ratio of contractors to troops, the projection for August 2010 increases from roughly 1:1<sup>142</sup> to 3:2.<sup>143</sup> For a historical perspective, see Table 2.9.

Throughout drawdown planning and execution, USF-I has emphasized limiting contractors in all areas, transitioning from non-Iraqi contractors to local nationals and increasing the use of competitive, firm-fixed-price contracts to reduce costs. However, the number of some types of contractors—including materiel-handling teams,

engineers, and transportation specialists—may temporarily increase while U.S. troops draw down by the August 31, 2010, deadline. Accordingly, USF-I has established a senior officer board to review new and recurring requirements both before and after that date.<sup>144</sup>

### Challenges

On March 29, 2010, the CWC held hearings to learn whether the U.S. government had adequate plans and mechanisms in place to ensure that contractors reduced their workforce appropriately as U.S. forces withdraw. The hearings focused particularly on KBR’s LOGCAP III contract for logistical support in Iraq.<sup>145</sup>

In October 2009, the Defense Contract Audit Agency (DCAA) issued a report concluding that KBR was not effectively managing its staffing levels during the planned military troop drawdown and that improved management could save the U.S. government approximately \$193 million over the 8-month period from January 2010 through August 2010.<sup>146</sup>

At the CWC hearing, a KBR official said that requirements for logistical support at some KBR-supported sites increased in 2009 as military forces consolidate from smaller, non-KBR-supported sites to larger, KBR-supported sites. The KBR official also noted that, in supporting many agencies, it has experienced duplicative and competing direction as the various agencies attempted to provide contract oversight without any interagency coordination of their efforts.<sup>147</sup>

In testimony on March 17, 2010, William Solis of GAO outlined five challenges to DoD contingency contracting:<sup>148</sup>

- having adequate numbers of contract oversight and management personnel
- training personnel to work with contractors
- ensuring that local and third-country nationals are properly screened
- compiling reliable data on the number of contractor personnel
- identifying requirements for contractor support in ongoing operations

TABLE 2.9  
ESTIMATED SCALE OF CONTRACTOR SUPPORT FOR U.S. MILITARY OPERATIONS

CONFLICT	ESTIMATED PERSONNEL (Thousands)		CONTRACTOR TO MILITARY RATIO
	CONTRACTOR	MILITARY	
Revolutionary War	2	9	1:6
War of 1812	N/A	38	N/A
Mexican-American War	6	33	1:6
Civil War	200	1,000	1:5
Spanish-American War	N/A	35	N/A
World War I	85	2,000	1:24
World War II	734	5,400	1:7
Korea	156	393	1:2.5
Vietnam	70	359	1:5
Gulf War	9	500	1:55
Balkans	20	20	1:1
Iraq, 2008	160	200	1:1
Iraq, August 2010 (Projected)	75	50	1:0.7

Note: Adapted from original, which estimated total contractor personnel in-theater to be 190,200 as of April 30, 2008, including 30,300 DoD contractor personnel supporting Iraq operations from neighboring countries. Projections for August 2009 include only DoD contractor personnel—estimates from DoS and USAID were not available. Estimates also do not include LOGCAP contractors, who may number as many as 189,000, making the contractor to military personnel ration significantly higher. For some conflicts, the estimated number of contractor personnel includes civilians employed by the U.S. government.

Sources: CBO, “Contractors’ Support of U.S. Operations in Iraq,” 8/2008, pp. 9, 13; CWC, press release, “Wartime Contracting Hearing to Focus on Managing Contractors during Iraq Drawdown,” 3/19/2010; DoD, “Fiscal Year 2011 Budget Request: Overview,” 2/2010, Chapter 6, p. 1.

Identifying requirements is particularly salient for the Iraq drawdown. DoD doctrine and guidance requires personnel who plan, support, and execute military operations to also determine the contract support needed to accomplish their missions. According to the GAO, while USF-I has taken steps to identify all the LOGCAP support it needs, it has not identified other necessary contract support. MNF-I (the predecessor to USF-I) delegated that responsibility to the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) and other contracting agencies, rather than to operational personnel. However, JCC-I/A could not determine theater-wide levels of contracted services required, because it lacked sufficient, relevant information on future requirements—information that should have been provided by operational personnel.<sup>149</sup>

## Contractor Services and Costs

On January 29, 2010, the Office of the Secretary of Defense issued a Directive-Type Memorandum (DTM) that established business rules for use in estimating and comparing the full costs of military and DoD civilian manpower and contractor support. It specified that these rules should be used when determining the workforce mix of new or expanding mission requirements, or when deciding whether to use DoD civilians to perform functions currently being performed by contractors.<sup>150</sup>

Costs that must be considered for military and civilian manpower include:<sup>151</sup>

- direct labor costs, such as basic pay, allowances, health care benefits, child care, education, and commissaries
- direct non-labor costs, such as office space and supplies
- indirect costs, such as the fair share of higher-level management and shared professional support (accounting, legal, human resources, budget, data processing, and other services)

Cost calculations should include those paid by DoD and those borne by other federal agencies. Costs that must be considered for service contracts include:<sup>152</sup>

- negotiated contract price
- cost of goods, services, and benefits provided in-kind to contractors
- costs incurred for contract administration and oversight
- insurance costs against indemnity

Using these business rules, as well as case-specific assumptions, the DTM provided a cost comparison for a Department of the Army Operations Research Analyst position in the Washington, D.C., metropolitan area.<sup>153</sup> The estimated comparative costs are shown in Table 2.10. In this example, the DoD civilian had the least cost.

JCC-I/A could not determine theater-wide levels of contracted services required, because it lacked sufficient, relevant information on future requirements—information that should have been provided by operational personnel.

TABLE 2.10  
SAMPLE COST COMPARISON FOR A DEPARTMENT OF THE ARMY OPERATIONS RESEARCH ANALYST

TYPE OF PERSONNEL	BASE PAY	PROGRAMMED AMOUNT	FULL COST TO DoD	FULL COST TO THE GOVERNMENT
Military O-5, 20 Years of Service	\$121,848	\$155,631	\$210,968	\$264,548
Civilian GS-14, Step 5	\$111,104	\$143,435	\$157,239	\$168,349
Contractor (Government Site)	N/A	\$218,592	\$218,592	\$218,592
Contractor (Contractor Site)	N/A	\$268,555	\$268,555	\$268,555

**Note:** Data not audited. Cost calculations reflect specific assumptions for the example, and should not be generalized. Base Pay includes locality adjustment for military and civilian personnel as well as Basic Allowance for Housing (BAH) for military personnel.

**Source:** OSD Directive-Type Memorandum 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support," 1/29/2010, p. 23.

## Overview of Funding Uses

SIGIR classifies the major U.S. reconstruction funds by their use into 4 reconstruction areas, comprising 17 sectors. Developments in the Security, Infrastructure, Governance, and Economy areas are discussed

in the following pages of this Report. For the status of U.S. reconstruction funding by use, see Table 2.11. For the status of major funds, by program, in each of SIGIR’s four reconstruction areas, see Appendix C. ♦

**TABLE 2.11**  
**STATUS OF MAJOR U.S. RECONSTRUCTION FUNDS, BY USE**  
\$ Billions

AREA	SECTOR	STATUS OF FUNDS			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Security	Equipment	7.34	7.03	6.61	0.23 (3%)	0.32 (5%)
	Training	5.97	5.75	5.62	0.03 (0%)	0.04 (1%)
	Infrastructure	5.81	5.55	4.95	0.01 (0%)	0.03 (1%)
	Sustainment	2.64	2.47	2.26	0.02 (1%)	0.08 (4%)
	Rule of Law	1.54	1.53	1.32	0.04 (3%)	0.05 (4%)
	Related Activities	1.27	1.17	1.04	0.01 (1%)	0.03 (3%)
	<b>Subtotal</b>		<b>24.57</b>	<b>23.51</b>	<b>21.79</b>	<b>0.34 (1%)</b>
Infrastructure	Electricity	5.18	5.03	4.91	0.03 (1%)	0.05 (1%)
	Water and Sanitation	2.75	2.64	2.51		0.03 (1%)
	Oil and Gas	2.05	1.94	1.91	0.01 (0%)	
	General Infrastructure	1.25	1.24	1.24		
	Transportation and Communications	1.16	1.12	1.01	0.02 (2%)	0.01 (1%)
	<b>Subtotal</b>		<b>12.39</b>	<b>11.96</b>	<b>11.58</b>	<b>0.06 (1%)</b>
Governance	Capacity Development	2.55	2.30	2.05	-0.01 (-1%)	0.06 (3%)
	Democracy and Civil Society	2.19	2.17	1.83	-0.03 (-1%)	0.03 (2%)
	Public Services	1.98	1.96	1.78	0.03 (2%)	0.04 (2%)
	Humanitarian Relief	0.85	0.85	0.80	-0.01 (-1%)	
	<b>Subtotal</b>		<b>7.58</b>	<b>7.29</b>	<b>6.46</b>	<b>-0.02 (0%)</b>
Economy	Economic Governance	0.82	0.83	0.76		
	Private Sector Development	0.77	0.76	0.62	0.01 (1%)	0.01 (2%)
	<b>Subtotal</b>		<b>1.59</b>	<b>1.59</b>	<b>1.38</b>	<b>0.01 (1%)</b>
<b>Total</b>		<b>46.13</b>	<b>44.35</b>	<b>41.21</b>	<b>0.39 (1%)</b>	<b>0.76 (2%)</b>

**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010, 4/10/2010, and 4/12/2010; OSD, responses to SIGIR data calls, 4/10/2009, 10/13/2009, 4/12/2010, and 4/13/2010; U.S. Embassy-Baghdad, responses to SIGIR data calls, 7/16/2009 and 4/8/2010; U.S. Treasury, response to SIGIR data call, 4/2/2009; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009; USTDA, response to SIGIR data call, 4/2/2009.

## SECURITY

As of March 31, 2010, the United States had allocated \$24.57 billion, obligated \$23.51 billion, and expended \$21.79 billion for programs and projects to develop the Iraqi Security Forces (ISF) and support the rule of law in Iraq.<sup>154</sup> For the status of these funds, see Figure 2.9 and Table 2.12.

This quarter, there were \$337.9 million in new net obligations for security programs—more than three times last quarter’s net obligations. Most new obligations were for ISF equipment, including \$180.3 million for Ministry of Defense (MOD) forces and \$51.3 billion for Ministry of Interior (MOI) forces from the ISFF. New obligations for training, sustainment, and rule of law programs were relatively modest. The most notable was nearly \$36.6 million obligated for the CERP-funded Protective Measures program. Obligations for ISF infrastructure were low, as they were last quarter.<sup>155</sup>

This quarter, there were \$542.3 million in new net expenditures for security programs. Similar to obligations, new expenditures focused on equipment for the ISF. Nearly \$59.0 million was expended on MOD sustainment, a major increase over the amount expended last quarter.<sup>156</sup>

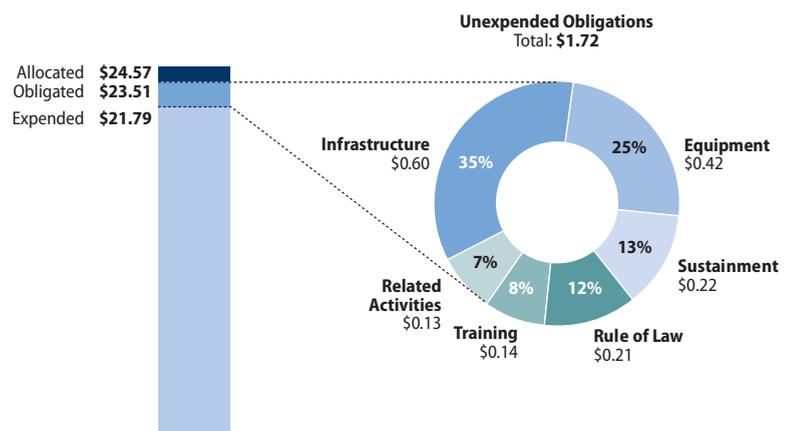
### Security Concerns

In March 2010, General Raymond T. Odierno, Commander of U.S. Forces-Iraq (USF-I), observed that slow progress continues to be made toward normalcy across Iraq, noting a drop in security incidents to levels last seen in 2003.<sup>157</sup> However, Iraq remains vulnerable to sporadic, low-grade violence and well-coordinated mass-casualty attacks. In light of the recent violence around Iraq’s national elections, the country’s ability to manage underlying ethnosectarian divisions through the political process and state security apparatus may be increasingly stressed as U.S. forces continue to draw down.<sup>158</sup>

Violence levels in Iraq—as measured by monthly overall security incidents and including all reported attacks against civilians, the ISF, and U.S. forces—averaged 884 per month this quarter, compared with an average 5,789 per month in 2007. Nearly 70% of all attacks occurred in Baghdad, Diyala, Ninewa, and Salah Al-Din provinces, which are home to approximately half of Iraq’s population.<sup>159</sup>

In northern Iraq, Mosul remained the principal area of concern. Numerous attacks on civilians have been reported in the city and nearby townships, as well as in the outlying areas of Sinjar and Tellafar. As the UN reports, political assassinations and the constant targeting of security forces appear to be part of a calculated strategy by insurgents to prevent the stabilization of the area and limit the opportunity for political engagement and reconciliation.

**FIGURE 2.9**  
**SECURITY: STATUS OF FUNDS**  
\$ Billions



**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; U.S. Embassy-Baghdad, response to SIGIR data call, 7/16/2009; IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; OSD, responses to SIGIR data calls, 4/10/2009 and 4/12/2010.

TABLE 2.12  
SECURITY: STATUS OF FUNDS, BY SECTOR, WITH SELECTED PROGRAMS  
\$ Millions

SECTOR	PROGRAM	STATUS OF FUNDS		QUARTERLY CHANGE	
		OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Equipment	MOD Equipment (ISFF)	4,592.3	4,384.7	180.3 (4%)	229.1 (6%)
	MOI Equipment (ISFF)	1,751.0	1,536.9	51.3 (3%)	95.5 (7%)
	Other	690.9	690.5		
	<b>Subtotal</b>	<b>7,034.2</b>	<b>6,612.2</b>	<b>231.5 (3%)</b>	<b>324.7 (5%)</b>
Training	MOD Training (ISFF)	451.2	395.8	23.1 (5%)	23.6 (6%)
	MOI Training (ISFF)	2,428.4	2,373.7	6.1 (0%)	14.1 (1%)
	Other	2,874.9	2,847.5	-0.8 (0%)	-0.8 (0%)
	<b>Subtotal</b>	<b>5,754.4</b>	<b>5,617.0</b>	<b>28.4 (0%)</b>	<b>36.8 (1%)</b>
Infrastructure	MOD Infrastructure (ISFF)	3,088.6	2,762.9	3.9 (0%)	22.1 (1%)
	MOI Infrastructure (ISFF)	1,379.0	1,107.9	1.5 (0%)	5.6 (1%)
	Other	1,081.5	1,075.5		0.8 (0%)
	<b>Subtotal</b>	<b>5,549.1</b>	<b>4,946.3</b>	<b>5.4 (0%)</b>	<b>28.6 (1%)</b>
Sustainment	MOD Sustainment (ISFF)	1,878.1	1,708.8	19.6 (1%)	59.0 (4%)
	MOI Sustainment (ISFF)	595.5	546.7	1.0 (0%)	17.7 (3%)
	<b>Subtotal</b>	<b>2,473.7</b>	<b>2,255.5</b>	<b>20.6 (1%)</b>	<b>76.7 (4%)</b>
Rule of Law	Protective Measures (CERP)	473.1	371.4	36.6 (8%)	36.1 (11%)
	Justice, Public Safety Infrastructure, & Civil Society – Penal Facilities (IRRF)	92.1	83.3	4.2 (5%)	6.9 (9%)
	Other	964.9	864.9	1.5 (0%)	2.1 (0%)
	<b>Subtotal</b>	<b>1,530.1</b>	<b>1,319.6</b>	<b>42.3 (3%)</b>	<b>45.1 (4%)</b>
Related Activities	Related Activities (ISFF)	876.7	766.4	8.6 (1%)	29.1 (4%)
	Other	290.5	274.9	1.0 (0%)	1.5 (1%)
	<b>Subtotal</b>	<b>1,167.2</b>	<b>1,041.2</b>	<b>9.7 (1%)</b>	<b>30.5 (3%)</b>
<b>Total</b>		<b>23,508.7</b>	<b>21,791.9</b>	<b>337.9 (1%)</b>	<b>542.3 (3%)</b>

**Note:** Data not audited. Numbers affected by rounding. Programs listed in this table had changes of at least \$5 million in combined quarterly obligations and expenditures. Appendix C shows the status of programs in the “Other” categories, which had nominal or no quarterly change. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; U.S. Embassy-Baghdad, response to SIGIR data call, 7/16/2009; IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; OSD, responses to SIGIR data call, 4/10/2009 and 4/12/2010; SIGIR, *Quarterly and Semiannual Report to the United States Congress*, 1/2010.

Violent attacks during the elections served as a reminder that extremist elements continue to try to destabilize the country.

Incidents in central Iraq continue to be concentrated around Kirkuk and have been marked by similar attempts to generate mistrust and provoke conflict between local communities—particularly ahead of the recent elections.<sup>160</sup>

For an overview of major attacks this quarter, see Figure 2.10.

At least 100 violent attacks during the March 7, 2010, elections served as a reminder that extremist

elements—most notably al-Qaeda in Iraq (AQI)—continue to try to destabilize the country.<sup>161</sup> Up to 367 people were killed during the month of March across the country, including 216 civilians and 151 security members.<sup>162</sup> Although AQI started as a broad-based insurgency, capable of sustaining significant operations across Iraq, consistent pressure from USF-I and the ISF has reduced its threat to the GOI’s ability to govern, and forced AQI to



An Iraqi man near Kerbala displays his marked finger, a sign of having voted in the March 7, 2010, Iraqi national elections. Iraqi Security Forces took the lead on election-day security as U.S. forces observed. (USF-I photo)

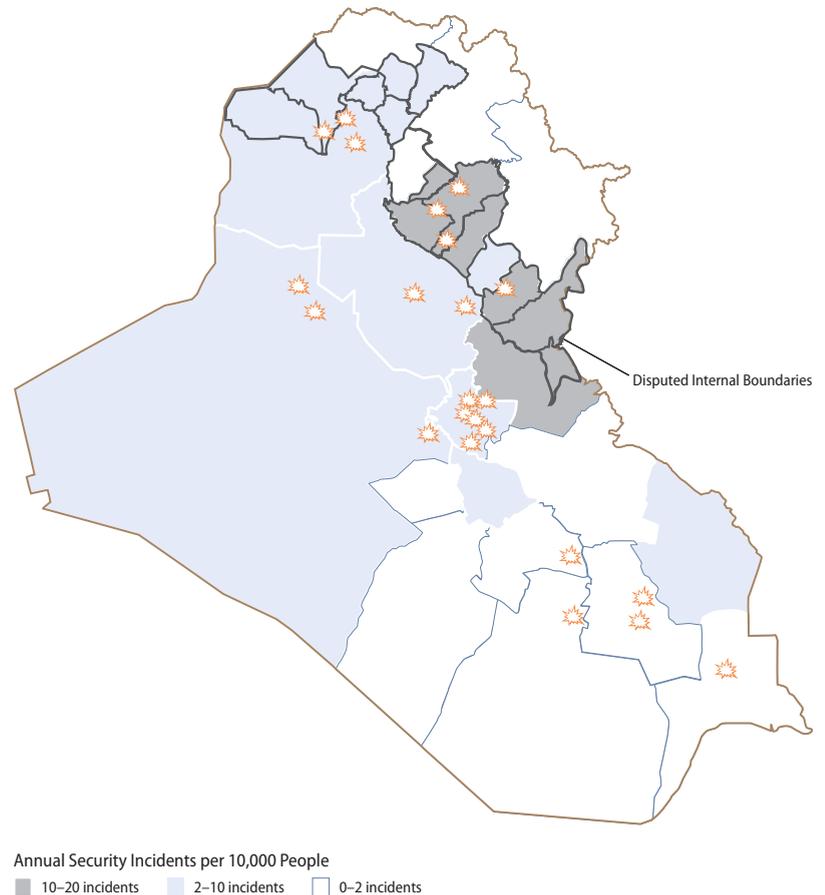
shift to isolated, high-profile attacks. Nonetheless, AQI remains focused on delegitimizing the GOI and delaying formation of the new government after the elections. Recent events suggest it remains a potentially potent force, capable of coordinating and executing complex attacks that can penetrate the security cordon of the ISF. Sunni insurgents, Shia extremists, and Iranian-trained surrogates pose a similar risk to the peaceful formation of a coalition government.<sup>163</sup>

Post-election violence has increased; in the first week of April, a series of major attacks killed more than 100 people. Three coordinated car bombs struck near the Iranian embassy, Egyptian consulate, and home of the German ambassador in downtown Baghdad, leaving at least 40 dead and more than 220 wounded. In addition, a series of bombs destroyed seven apartment buildings, killing more than 35 people.<sup>164</sup> For an update on security incidents, see Figure 2.11.

Notwithstanding the threats posed by external actors, the largest roadblock to a stable, sovereign, and self-reliant Iraq continues to be the underlying, unresolved sources of political conflict around the country:<sup>165</sup>

- a lack of consensus on whether the control of the Iraqi state will be sectarian or secular
- a fluctuating balance of power between the central and provincial governments
- disputed internal boundaries and distribution of wealth between Arabs and Kurds

FIGURE 2.10  
SIGNIFICANT SECURITY INCIDENTS, BY REGION, 1/1/2010–3/31/2010



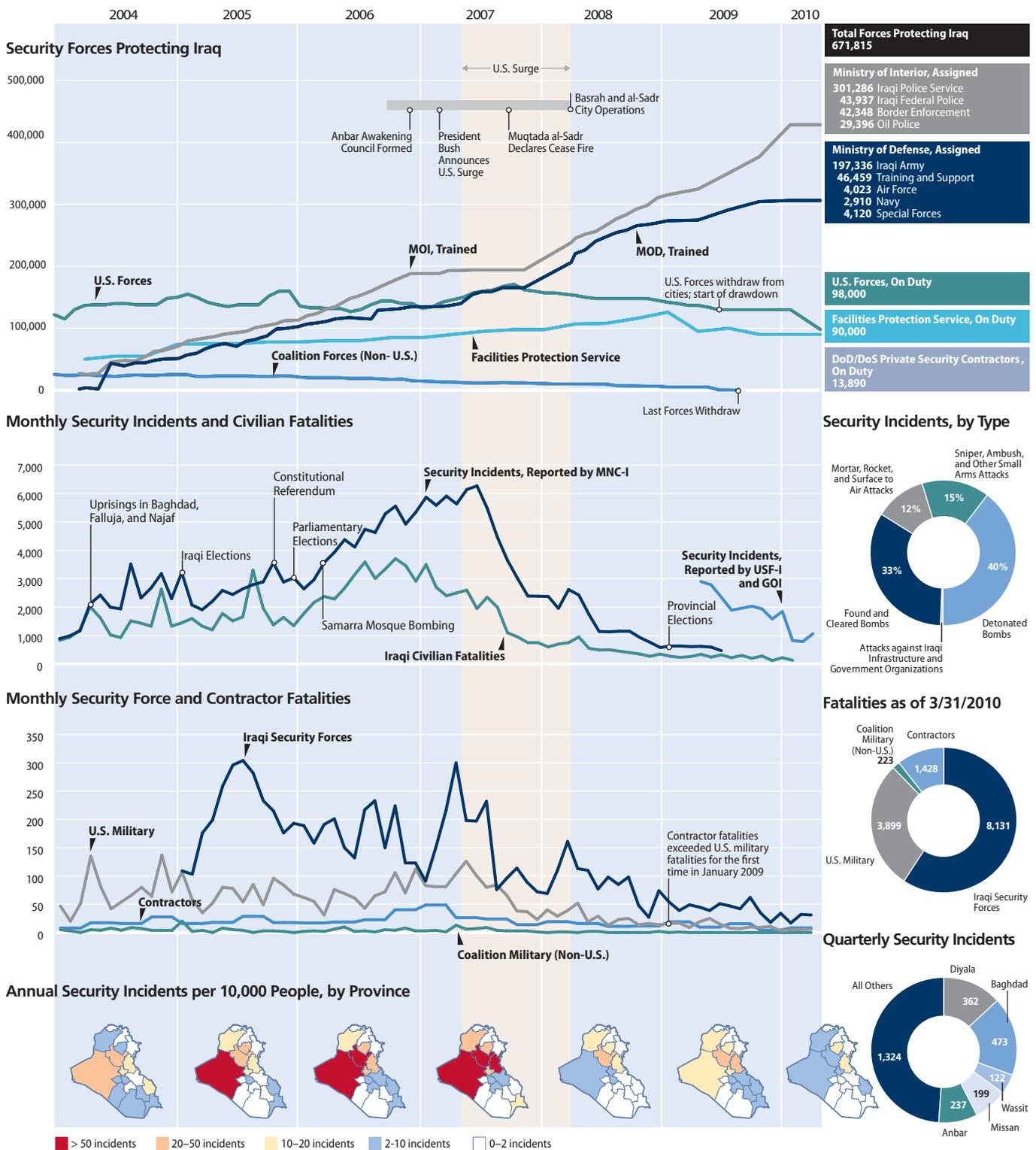
Sources: USF-I, response to SIGIR data call, 3/31/2010; SIGIR analysis of open sources as well as official English and Arabic documents, studies, maps, and satellite imagery.

- Sunni-Shia sectarian divide exacerbated by regional and political tensions

The lack of progress in resolving contentious territorial issues in the northern disputed areas continues to be a major source of tension between Arabs and Kurds. Despite the engagement of the UN Assistance Mission for Iraq (UNAMI) with GOI and KRG representatives, issues remain unresolved and demonstrate the delicate nature of political relations between powerful internal actors.<sup>166</sup>

The largest roadblock to a stable, sovereign, and self-reliant Iraq continues to be the underlying, unresolved sources of political conflict.

FIGURE 2.11  
SECURITY IN IRAQ, 1/2004-3/2010



Note: Data not audited. Numbers affected by rounding. "U.S. Surge" denotes period when at least 150,000 U.S. troops were in Iraq. The MOI and MOD historical line represents trained forces; the totals represent assigned forces. Total fatalities for the ISF exclude fatalities before 1/4/2005 because of lack of data. Security incidents data from two sources are displayed: MNC-I, for 1/1/2004-6/24/2009, and USF-I for 4/1/2009-3/26/2010 (USF-I incorporates GOI reports).

Sources: DoD, *Measuring Stability and Security in Iraq*, 2/2006-9/2009; DoL, responses to SIGIR data calls, 1/5/2010 and 4/12/2010; Brookings Institution, *Iraq Index*, 3/30/2010, pp. 3, 5, and 13; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 4/2009, 10/2009 and 1/2010; GOI, response to SIGIR data call, 12/21/2009; MNF-I, responses to SIGIR data calls, 10/6/2008 and 7/2/2009; CENTCOM, responses to SIGIR data calls, 1/10/2009 and 2/22/2010; USF-I, responses to SIGIR data call, 3/31/2010 and 4/1/2010.

In late 2009, at the request of Prime Minister Nouri al-Maliki, USF-I sponsored meetings in both Baghdad and Erbil between senior GOI and KRG security ministers to develop an interim joint security agreement for the disputed internal boundaries. The initiative aims to disrupt insurgent and terrorist activities in disputed areas by increasing cooperation between the ISF and KRG security personnel. A subcommittee formed of senior-level USF-I, ISF, and KRG commanders was tasked to develop security structures, including command-and-control and intelligence-sharing mechanisms. Following a ministerial summit held in late 2009, combined coordination centers and joint check-points were established, and U.S. forces serve in an advisory role.<sup>167</sup>



Iraqi Army and USF-I joined forces for a combined patrol in Taji, Iraq, on January 30, 2010. (USF-I photo)

than 75,000 troops and their equipment and transferred responsibility for urban areas to the ISF. As of March 31, 2010, all Coalition partners had pulled out, and fewer than 98,000 U.S. military personnel remained in Iraq.<sup>168</sup>

DoD is in the middle of one of the most ambitious logistical operations in history, managing 2.6 million pieces of U.S. equipment that remain in Iraq—everything from tanks to flat-screen televisions. Much of the materiel has to be shipped, but up to 30% of it could be left behind for the GOI.<sup>169</sup> For the status of equipment in Iraq, see Figure 2.12.

DoD is in the middle of one of the most ambitious logistical operations in history.

## Shifting Force Strengths

During the height of the surge, in September 2007, the Multi-National Force-Iraq (the predecessor to USF-I) had approximately 175,000 Coalition troops in Iraq. Since the signing of the Strategic Framework Agreement (SFA), DoD has withdrawn more

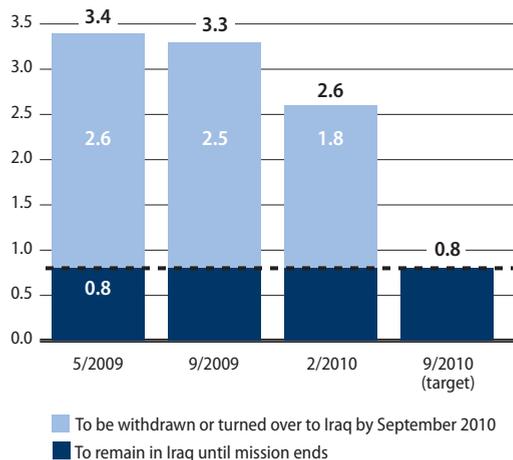
## Role of Private Security Contractors

The United States relies on private security contractors (PSCs) to protect individuals, transport convoys, and forward operating bases, buildings, and other economic infrastructure. For the number of PSCs serving in Iraq, see Table 2.13.

Even today, it is difficult to estimate the total cost of providing security for reconstruction projects and personnel. DoD, DoS, and USAID have not been required to systematically identify financial data for PSCs. As the reconstruction effort evolves from large-scale infrastructure projects to capacity building, physical security could become a larger portion of total contract cost. In addition, requirements for PSC services for DoS and USAID are set to increase to compensate for support previously provided by the U.S. military. Services provided by the military, such as quick-reaction forces and medical evacuation, are difficult to quantify.<sup>170</sup>

In August 2009, DoS OIG identified several increased costs DoS would assume as the U.S. military withdraws, including perimeter and personal

FIGURE 2.12  
**U.S. EQUIPMENT IN IRAQ**  
Millions of Pieces



Source: Frank Oliveri, "How Deep In After We're Out," *CQ Weekly*, 3/15/2010, p. 620.

TABLE 2.13  
PRIVATE SECURITY CONTRACTORS IN IRAQ

	U.S. CITIZEN	THIRD-COUNTRY NATIONAL	HOST NATION	TOTAL
DoD	776	9,127	1,192	11,095
DoS/USAID	1,001	1,671	123	2,795
<b>Total</b>	<b>1,777</b>	<b>10,798</b>	<b>1,315</b>	<b>13,890</b>

Note: DoD data as of 12/31/2009. DoS/USAID data as of 3/31/2010.

Sources: ADUSD (Program Support), "Contractor Support of U.S. Operations in USCENTCOM AOR, Iraq, and Afghanistan," 2/28/2010; U.S. Embassy-Baghdad, response to SIGIR data call, 4/1/2010.

security guards and convoy security for import of equipment, supplies, food, and fuel.<sup>171</sup>

In March 2010, DoS OIG found that U.S. Embassy-Baghdad had not adequately planned for a reduced DoS or DoD presence in Iraq. According to DoS OIG analysis, this lack of planning might result in unnecessary costs to the U.S. government for static security over the next two years. It estimates that approximately \$20 million could be saved if a reduction in contractor support is coordinated with DoS and DoD office closures. The report also expressed concerns about security plans for the USAID compound, citing the vulnerability of transit to and from the location.<sup>172</sup>

In its FY 2010 supplemental appropriations request, DoS requested \$735.3 million for additional security costs in the provinces during the fiscal year, including:<sup>173</sup>

- \$581.8 million for protective security details and static guards at the five successor Enduring Presence Posts (EPPs) locations
- \$109.7 million for physical security programs, such as electronic countermeasures, armored vehicles, overhead cover, and guard towers
- \$35.4 million for 69 additional U.S. Embassy-Baghdad Regional Security Office (RSO) personnel to support the five EPPs
- \$9.4 million for personnel security and suitability

In its FY 2011 regular appropriations request, DoS requested \$378.1 million in additional funding—on top of the appropriations provided in FY 2010—for security operations in Iraq, including:<sup>174</sup>

- \$339.3 million for personal security contract extensions, which are estimated to increase

35% in cost due to inflation, implementation of SPOT, and determination of contract awards based on value (in addition to cost)

- \$16.5 million for RSO operations, such as an improved communications network, consolidation of vehicle maintenance, new accountability mechanisms for armed security personnel
- \$11.4 million for physical security, such as armored vehicles and overhead cover

The remainder of the FY 2011 regular appropriations request would fund security technology, countermeasures for use against weapons of mass destruction, background checks, and threat investigations and analysis.<sup>175</sup>

### Challenges Facing PSCs in Iraq

The GOI has stepped up oversight and regulation of PSCs as part of "enhanced enforcement," considered by some to be excessive. Since December 2009, the U.S. Embassy-Baghdad's RSO has received reports of more than 80 incidents of GOI "harassment" of PSCs, including simple delays of protective security detail (PSD) motorcades, detainment of PSC personnel and their clients (including foreign diplomatic officials), and seizure of contractor and U.S. government equipment. In addition, the GOI has initiated unannounced inspections of PSC compounds both inside and outside the International Zone.<sup>176</sup>

Moreover, PSCs continue to face the bureaucratic challenges of complying with MOI licensing requirements. PSCs report that the rules frequently change—sometimes daily—and that MOI procedures are ineffective or beyond its capacity to manage and maintain. According to RSO, the ministry's management and its fee-based oversight of PSCs "simply do not work, and corruption seems a popular solution to licensing problems."<sup>177</sup>

Under GOI law, for example, companies are required to register vehicles. However, there are no legal provisions for registering armored vehicles because they are considered "controlled items" in Iraq, thereby resulting in confusion, delays, and inconsistent application of vehicle registration fees.

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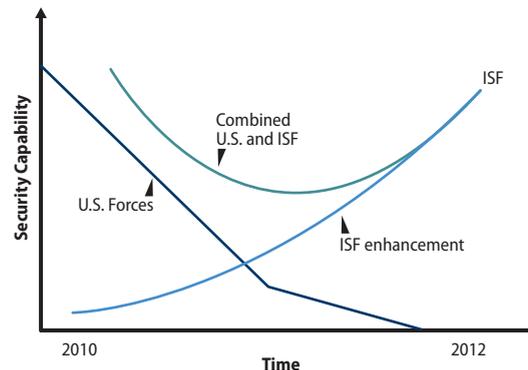
U.S. government contractors are also required to obtain visas as part of the application process for a PSC license. Originally envisioned to be provided at no cost, these visas now require payment of a \$250 fee to cover a health screening against communicable disease, though the GOI has yet to provide these screenings to the companies. RSO reports that it remains engaged with the USF-I Armed Contractor Oversight Branch (ACOB) and the MOI Office of PSC Licensing and Registration to resolve such issues.<sup>178</sup>

## Iraqi Security Forces

The MOI and MOD have reportedly increased the numbers of trained security force personnel to more than 671,000—an increase of more than 80,000 from the 590,000 reported at the end of 2008.<sup>179</sup> The ISF is striving to develop a counter-insurgency force (light infantry and police), while simultaneously building a military capable of protecting Iraq’s borders and exercising influence in the region (armored divisions and aircraft).<sup>180</sup>

Attaining a national defense force, however, remains a challenge. According to a RAND Corporation study published this quarter, the Iraqi Army and Iraqi Police (IP) suffer from gaps in skills training and equipment. Additionally, weak intelligence, logistics, aviation, and air defense capabilities constrain operations.<sup>181</sup>

FIGURE 2.13  
THE SECURITY GAP



Note: Adapted from original. The time line and force capabilities are illustrative.

Source: David C. Gompert, Terrence K. Kelly, and Jessica Watkins, *Security in Iraq: A Framework for Analyzing Emerging Threats as U.S. Forces Leave*, Santa Monica: RAND Corporation, 2010, p. 13.

The RAND Corporation observes that as USF-I prepares to leave Iraq, the quality of the ISF remains uneven, and its ability to assume responsibility for some of the niche capabilities now provided by the USF-I is a work in progress.<sup>182</sup> Additionally, the character of the ISF as a whole also remains in question given the number of locally raised Iraqi Army (IA) battalions and locally recruited IP—the largest group in the ISF reporting directly to provincial governors. Use of the ISF for inter-regional, sectarian, or partisan purposes remains a concern; and mere perception of its incidence could fuel sectarian divisions.<sup>183</sup> The

The character of the ISF as a whole remains in question.

TABLE 2.14  
ISFF FY 2009/2010 SPEND PLAN (REVISED)

MINISTRY	SUB-ACTIVITY GROUP	PREVIOUSLY APPROVED PLAN	PROPOSED CHANGE	REVISED SPEND PLAN
Defense	Sustainment	91.8	22.5	114.3
	Equipment	260.1	48.6	308.7
	Training	196.5	-71.1	125.4
Interior	Sustainment	20.0	62.0	82.0
	Equipment	125.6		125.6
	Training	231.0	-62.0	169.0

Note: Data not audited. Numbers affected by rounding.

Source: USF-I, "Iraq Security Forces Fund (ISFF) FY 2009/2010 Spend Plan (Revised)," 1/2010, p. 2.

study describes a potential “Security Gap” as the combined U.S. military and ISF capabilities decline midway in the withdrawal process. Figure 2.13 illustrates the study’s assertion that the capabilities of the ISF are not on pace to match those of the rapidly departing U.S. forces and equipment.<sup>184</sup>

GOI funding for training, operations, and other capabilities also remains an ongoing concern. Revenue shortfalls in 2009 resulted in system-wide spending cuts, negatively affecting programs to equip, sustain, and train the ISF. In 2009, less than 30% of the MOD’s total budget was available for discretionary (non-personnel) requirements, and just over 20% of the MOI’s total budget was available for such requirements. DoD asserts that “without significant U.S. assistance, the funding is not present for the ISF to sustain and maintain their forces or build the capabilities to reach minimum essential capabilities by the time of the planned USF-I exit in December 2011.”<sup>185</sup>

In view of the ISF’s identified needs, U.S. resources are being directed to bolster the GOI’s minimum essential capabilities. The mission—“Advise, Train, and Equip”—is directed at providing institutional capability, including personnel security, logistics, headquarters development, training centers, and support bases, and

the application of critical resources, including specialized training and equipping.<sup>186</sup>

Recent modifications to the ISFF FY 2009/2010 Spend Plan placed additional emphasis on sustainment and equipment.<sup>187</sup> For details, see Table 2.14.

The emphasis on sustainment and equipment continues through the FY 2010 Supplemental and FY 2011 regular appropriations requests, especially in the case of the MOD. Almost 90% of the proposed funding through FY 2011 would be directed to MOD Equipment (51.8%) and Sustainment (37.7%). The ISFF requests for the MOI are more focused on Training (52.1%), with Equipment (39.8%) and Sustainment (8.5%) notably smaller than the proposed MOD allocations.<sup>188</sup>

### USF-I and INL Training Programs for MOI Forces

The Iraq Training and Advisory Mission (ITAM) police program reported that it has reduced its training backlog from 90,000 MOI personnel to zero. Police program goals will shift as DoD management hands off to a civilian-led DoS effort by October 1, 2011. DoS’s Bureau of International Narcotics and Law Enforcement Affairs (INL) has focused on operational and logistics planning for the program, which is closely tied to the Embassy’s

The ITAM police program reported that it has reduced its training backlog from 90,000 MOI personnel to zero.

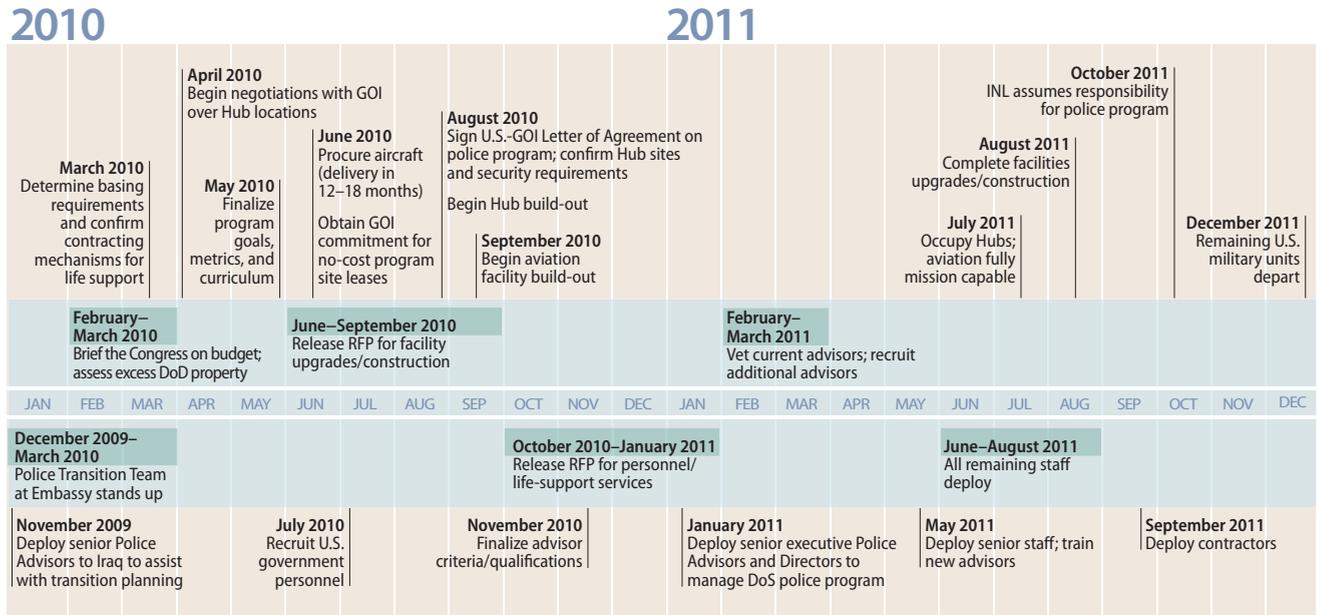
TABLE 2.15  
POLICE TRAINING PROGRAM: DoD vs. DoS

DEPARTMENT OF DEFENSE	DEPARTMENT OF STATE
Developing ability of Iraqi Police Service (IPS) to perform basic policing functions	Developing leadership and management skills for senior officials to effectively manage the IPS and its operations
Focus on counterinsurgency operations	Focus on community policing
Advising and mentoring on all levels of IPS (individual police station up through the MOI)	Advising/consulting at senior levels of IPS (Provincial Police HQ and training centers, police colleges, and MOI); no police station visits
Military-led, with civilian advisors	Civilian-led; no military support
An estimated 5,000 military personnel and 400 civilian advisors, not including combat troops	350 advisors and no more than 1,500 support personnel, including private security contractors
Conducted operations out of 50+ bases and training centers throughout Iraq	Based out of three program hubs in Baghdad, Basrah, and Erbil
Focused on force generation and basic training	Focused on training in management personnel and developing technical skills
Operational equipment (such as vehicles) provided to Iraqis	No operational equipment provided

Source: U.S. Embassy-Baghdad, INL, response to SIGIR data call, 3/17/2010.

# RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.14  
TRANSITION OF IRAQI POLICE TRAINING TO INL



Source: U.S. Embassy-Baghdad, INL, response to SIGIR data call, 3/17/2010.

planning efforts.<sup>189</sup> See Table 2.15 for a comparison of program structure and activity.

Planning for the INL transition is ongoing. These efforts are being funded by \$5 million from the FY 2009 Supplemental and \$7 million from the FY 2010 base appropriations. Because the FY 2009 Supplemental was received in September 2009, these funds had not yet been obligated as of March 31, 2010.<sup>190</sup>

As of March 25, 2010, 365 International Police Advisors (IPAs) were working in Iraq to provide ongoing training and mentoring at the station level, in academies, and at the MOI, with a focus on basic training.<sup>191</sup> Some of the IPAs will transition to be a part of the DoS-led police program over the next year. For a time line of the program’s transition, see Figure 2.14.

**USF-I Training Programs for MOD Forces**  
ITAM-Army continues to conduct programs to train the IA at 9 training centers and 14 schools.



Iraqi Army soldiers receive small-arms training conducted by ITAM personnel in March 2010. (USF-I photo)

This quarter, extra requirements imposed by security operations to support the national elections slowed the pace of training by more than half, but the IA graduated 11,316 soldiers through several courses, including basic combat training. ITAM reported that the IA is now shifting its focus back to building a traditional external defense capability.<sup>192</sup>

Although the number of USF-I will be reduced to 50,000 by August 31, 2010, 4,500 U.S. special operations forces will remain in Iraq and continue to provide training and assistance when requested by the GOI.<sup>193</sup>

These ongoing programs and activities are addressing requirements to implement mission-essential capabilities:<sup>194</sup>

- implementing a merit-based promotion process
- improving representation of Iraqi society (ethnic, sectarian composition)
- evolving toward demand-driven logistics
- improving acquisition and human resource practices
- Providing 140 M1A1 tanks through FMS Program as well as training
- creating a professional NCO corps
- establishing an effective institutional training center system
- transitioning from U.S.-led to Iraqi-led training
- addressing the problem of corruption

This quarter, SIGIR issued an interim report on a program targeted at the development of the Iraqi Special Operations Forces (SOF). The report addresses two contracts costing \$19.3 million and managed by MNSTC-I to provide the SOF with a counterterrorism communications network and intelligence database. SIGIR found that \$1 million in equipment is either not being used or is missing, few of the sites planned to be included in the network were actually connected, the contract did not explicitly state what was required, and many contract documents were missing.<sup>195</sup> For further details, see Section 3.

### Facilities Protection Services

The MOI's Facilities Protection Service (FPS) comprises approximately 94,000 personnel. Of these, 17,000 are full-time FPS police; the remaining 77,000 are Iraqi contractors. This has caused multiple problems because the contractors receive the same base pay but do not receive per diem or hazardous duty pay, although they face the same

hardship and danger. Additionally, contractors are not authorized MOI identification cards, which serve as an authorization to carry arms. In the past, some MOI contractors have had their weapons confiscated by Coalition Forces and Iraqi Police because they lacked this necessary documentation.<sup>196</sup>

### Integration of the Sons of Iraq

USF-I reported that more than 4,565 SOI have been hired into the ISF, and approximately 32,476 SOI have been hired into non-security ministries since October 2008. Although the United States provided funding in coordination with the GOI to field vocational and educational training programs for transitioning personnel, USF-I does not have access to enrollment information.

The GOI provided more than \$270 million to pay SOI salaries in 2009 and an estimated \$50 million thus far in 2010. USF-I does not track SOI logistical and security support provided by the GOI, but it reported that timely pay continues to be a challenge. Although pay operations for January (payment for December work) went relatively smoothly, the GOI apparently was unable to pay out during the month of February. Late passage of the 2010 budget and involvement of the SOI in the national elections were cited as the main roadblocks.<sup>197</sup>

### Foreign Military Sales

More than 136 Iraqi Foreign Military Sales (FMS) cases are in progress, including the purchase of tanks, ships, airplanes, and helicopters, as well as their associated training and sustainment requirements.<sup>198</sup> As of April 11, 2010, the FMS program included 146 Iraqi-signed cases in execution valued at \$5.31 billion since its inception in 2005. As of this quarter, 12 cases valued at \$106 million were closed, and 134 active cases are valued at \$5.20 billion.<sup>199</sup> This quarter, Prime Minister al-Maliki signed a letter of offer and acceptance for procurement of offshore support vessels for the Iraqi Navy's future fleet of patrol watercraft. This case is a cost-sharing agreement using a mixture of GOI FMS funds and the ISFF.<sup>200</sup> As of March 2010, the estimated ordered

\$1 million in equipment is either not being used or is missing.

administration fee was \$188.2 million, of which \$134.4 million in administrative fees were earned and \$63.7 million in administrative fees were paid by the GOI to the U.S. government.<sup>201</sup> For details on the ongoing FMS project at Umm Qasr, see the Infrastructure subsection of this Report.

## The Rule of Law

As of March 31, 2010, the United States had allocated \$1.54 billion, obligated \$1.53 billion, and expended \$1.32 billion to improve the rule of law, including human rights, in Iraq.<sup>202</sup>

Although Iraq has made significant progress over the last several years in establishing the rule of law, there is more work to be done to ensure that Iraq is more peaceful and stable and that it has a more representative form of government than when U.S. efforts began. For example, significant advancements have been made in the area of detention operations, but inefficiencies in the judiciary still delay processing. These problems are being addressed, in part, by the renewed focus of the Higher Judicial Council (HJC) on recruitment and retention of the most highly qualified judges.

Progress is noteworthy in the disposition of legacy security detainees and the conduct of bilateral operations with respect to Iraqi law; however, Iraq's criminal justice system still faces many challenges. Judicial security is progressing slowly because of a lack of resources and continuing threats of violence, which have hampered implementation of a nationwide, strategic judicial security plan.<sup>203</sup>

Judicial intimidation in Iraq significantly hinders administration of the criminal justice system, which impedes the rule of law, leads to a backlog of pre-trial cases—three years in some districts—and precipitates unfair criminal justice procedures. Despite recent developments by the MOI to take responsibility for judicial security and to make plans to adequately staff judicial PSDs, delays continue.<sup>204</sup> This quarter, one judge was assassinated.<sup>205</sup>

## Capacity Building

Under the coordination of a new Rule of Law Coordinator (RoLC), U.S. Embassy-Baghdad plans to continue supporting the GOI in strengthening its law enforcement, adjudication, and corrections capacities. Attorneys, law enforcement agents, and other personnel from the Departments of Justice, State, Defense, and Homeland Security will work together to conduct a variety of capacity-building, investigative, and counterterrorism missions.

Embassy components also manage hundreds of contractor personnel who provide technical assistance and mentoring to the Iraqi justice sector.<sup>206</sup>

INL reports that the GOI has made significant progress in implementing the rule of law in Iraq with the support of targeted U.S. government assistance, including:<sup>207</sup>

- expanding judicial training at the Judicial Development Institute, including advanced curricula and management structures
- developing advanced capacity within the Iraqi court system to assess and address courthouse security vulnerabilities
- modernizing HJC policies, court management and operations, as well as standardized procedures
- continuing advisor support

## Initiatives in the Provinces

This quarter, the United States Marshals Service implemented several initiatives that sought to enhance the rule of law in Iraq. Some of the initiatives designed to protect the integrity of the judicial system included providing ballistic vests to judges and some of their PSDs, coordinating the transfer of Iraqi police to serve as PSDs for judges, and providing PSDs with security training. To enhance law enforcement, the PRT Rule of Law Advisor created provincial committees made up of investigative judges, prosecutors, and Iraqi police to provide training on crime scene investigations, forensics, and criminal procedure. They also conducted inspections of correctional institutions to ensure compliance with international standards and

Judicial intimidation significantly hinders administration of the criminal justice system.



An official of the Iraqi Corrections Service cuts the ribbon officially opening the new joint Tactical Operations Center, Baghdad, on February 2, 2010. (USACE photo)

continued to market their efforts to the Iraqi public through radio spots using Iraqi actors, advertisements, and the distribution of pamphlets. Coordinators spent QRF funding for projects to develop law-school curricula and to buy law books and legal research equipment for law schools as well.<sup>208</sup>

### Court Docket Backlog

The Central Criminal Court of Iraq (CCC-I) for the Rusafa Court—now referred to as the Rusafa Palace of Justice—continues its ongoing mission. The special designation “CCC-I” now applies only to the “Karkh CCC-I,” which relocated to new premises, following the October 25, 2009, bombing of the Ministry of Justice (MOJ) building.

The CCC-I Liaison Office continues to facilitate the investigative hearings and trials at CCC-I for detainees accused of terrorism and other related crimes. For the transfer of the Taji Internment Facility, the CCC-I Liaison Office worked with the court to renew 350 detention orders on detainees with active cases so that they could be transferred to GOI custody. The court has lost one investigative judge, and the four remaining judges have expressed concern about their heavy caseloads.

Where backlog is most apparent (at the Rusafa Prison Complex, for example), the U.S. government has funded select legal defense centers (similar to U.S. Public Defender programs) to expedite cases.<sup>209</sup>

### Iraqi Detainees in U.S. Custody

U.S. forces continue to provide detainee release lists to the Detainee Affairs Joint Subcommittee (JSC) via the GOI Security Committee at least 60 days before releases are scheduled. These releases, in conjunction with the limited transfers to GOI custody, are expected to result in a decrease in the detention population of approximately 500 detainees per month over the next several months. As of March 2010, the GOI, via the JSC, had reviewed 14,712 detainee summary cases and provided warrants for 2,135. U.S. forces reported releasing 7,234 detainees since January 2009 and transferring another 1,389 to the GOI. As of March 31, 2010, fewer than 3,500 detainees remained in U.S. custody.<sup>210</sup>

### U.S.-funded Rule-of-Law Infrastructure

By the end of this quarter, all but one U.S.-constructed and -operated detention facility had been handed over to the GOI, increasing prisoner capacity. The Camp Cropper detention facility is scheduled to be handed over by July 2010. As the U.S. Army Corps of Engineers (USACE) handed over custody of a \$1.3 million U.S.-funded Tactical Operations Center at Cropper-Baghdad to Iraqi corrections officers on February 2, 2010, its Deputy Commanding General emphasized the importance of transferring “world class facilities” to the Iraqi Corrections Service.<sup>211</sup> In Sulaymaniyah province that same month, USACE completed the \$14.9 million renovation of the Ft. Suse Correctional Facility. U.S. projects at the facility have provided housing for an additional 425 inmates, raising the prison capacity to 1,925.<sup>212</sup>

On March 15, 2010, the GOI accepted transfer of a \$107 million U.S.-funded correctional facility in Taji. In addition to 260 general population cells and a special unit that can house up to 5,600 detainees, the facility has classrooms, vocational training

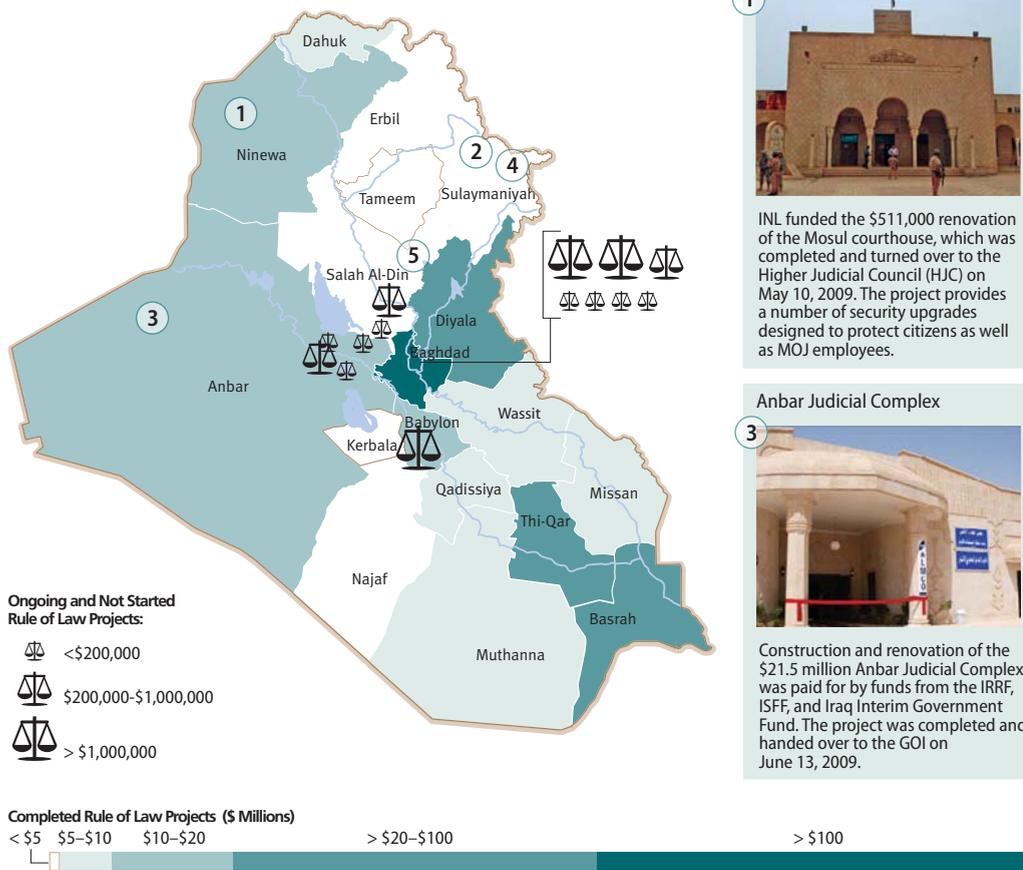
As of March 31, 2010, fewer than 3,500 detainees remained in U.S. custody.

# RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.15

## U.S.-FUNDED PRISONS, COURTS, AND POLICE FACILITIES

Value of Completed Projects and Location of Ongoing and Not Started Projects



**1 Mosul Courthouse**

INL funded the \$511,000 renovation of the Mosul courthouse, which was completed and turned over to the Higher Judicial Council (HJC) on May 10, 2009. The project provides a number of security upgrades designed to protect citizens as well as MOJ employees.

**2 Ft. Suse Correctional Facility**

USACE completed a \$15 million renovation at Ft. Suse on February 15, 2010. Engineers overcame the challenges of completing the project amid the daily operations of the 1,925-inmate prison.

**3 Anbar Judicial Complex**

Construction and renovation of the \$21.5 million Anbar Judicial Complex was paid for by funds from the IRRF, ISFF, and Iraq Interim Government Fund. The project was completed and handed over to the GOI on June 13, 2009.

**4 Chamchamal Correctional Facility**

Completed in March 2009, the \$27 million Chamchamal Correctional Facility has the capacity to hold 3,000 inmates.

**5 Turnover of Taji Prison**

The \$107 million Theater Internment Facility Reconciliation Facility Center (detainment center) in Taji was turned over to the GOI on March 15, 2010. The facility has 260 general population cells and a special unit that can house up to 5,600 detainees.

### INCLE-funded Prison Completion Time Line



### U.S.-FUNDED RULE OF LAW FACILITIES

\$ Millions

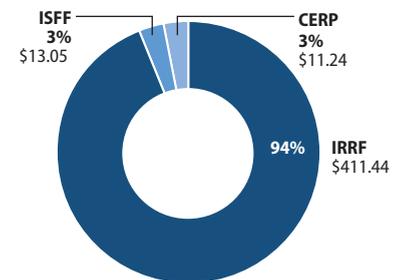
	COMPLETED	ONGOING	NOT STARTED	TOTAL
Police Facilities	157.33	0.06	2.89	160.29
Prisons	144.17	0.80	0.36	145.33
Courts	122.24	7.87	0.15	130.26
<b>Total</b>	<b>423.74</b>	<b>8.73</b>	<b>3.40</b>	<b>435.87</b>

**Note:** Data not audited. Numbers affected by rounding. This list of reconstruction projects is based on IRMS data, which is not fully accurate or complete. Therefore, project totals do not reconcile with top-line obligations and expenditures provided by the agencies.

**Sources:** IRMS, *Global Benchmark*, 4/5/2010; USACE, "Courthouse Renovation Helps Return Rule of Law to Mosul," 5/10/2009; USACE, "U.S. Army Corps of Engineers Prepares Iraq for Upcoming Elections," 1/11/2009; USACE, "Chamchamal Partners Cut Ribbon On Correctional Facility," 3/29/2009; USACE, "Renovations Complete at Ft. Suse Correctional Facility," 2/15/2010; USACE, "U.S. Military Transfers Prison to Iraqi Government," 3/16/2010; U.S. Embassy-Baghdad, RoL, response to SIGIR data call, 4/14/2010.

### U.S. FUNDING FOR RULE OF LAW FACILITIES

\$ Millions



A report by Iraq's Ministry of Human Rights documented 326 cases of torture and poor treatment at MOI facilities in 2009, as well as 152 cases at MOD facilities.

facilities, and a textile mill meant to prepare detainees for reintegration into society.<sup>213</sup>

On September 30, 2009, SIGIR performed an on-site assessment of the al-Hadi Permanent Police Station. The objective of this \$1.2 million ISFF project was to design and construct a local police station compound near the city of Basrah. SIGIR performed the assessment while the ongoing project construction was approximately 32% complete; construction was in compliance with the design standards.<sup>214</sup> For more details on the inspection, see Section 3 of this Report.

For more details on U.S.-funded prisons, courts, and police stations, see Figure 2.15.

### Human Rights

On March 11, 2010, the DoS Bureau of Democracy, Human Rights and Labor released the *2009 Country Report on Human Rights Practices for Iraq*. The report highlighted key areas of concern, including reports of unlawful killing by Iraqi government agents. According to the report, insurgent and

extremist violence and weaknesses in upholding the rule of law have resulted in widespread and severe human rights abuses, including:<sup>215</sup>

- arbitrary or unlawful killings
- insurgent and terrorist bombings and executions
- disruption of authority by sectarian, criminal, and extremist groups
- disappearances
- torture and other cruel, inhuman, or degrading treatment or punishment
- poor conditions in pretrial detention and prison facilities
- denial of fair public trials

A report on the treatment of prisoners in Iraqi custody, released in 2009 by Iraq's Ministry of Human Rights, documented 326 cases of torture and poor treatment at MOI facilities in 2009, as well as 152 cases at MOD facilities, 14 cases at facilities run by the Ministry of Labor and Social Affairs, 1 case at MOJ facilities, and 12 in Peshmerga-controlled facilities in the Kurdistan Region.<sup>216</sup> ♦

## INFRASTRUCTURE

As of March 31, 2010, the United States had allocated \$12.39 billion, obligated \$11.96 billion, and expended \$11.58 billion from the four major funds to rehabilitate Iraq’s infrastructure, including projects in the oil and gas, electricity, water and sanitation, and transportation and communications sectors.<sup>217</sup> About 28% of all U.S. expenditures for Iraq reconstruction have gone to infrastructure projects.<sup>218</sup> For the status of U.S. infrastructure funds, see Figure 2.16 and Table 2.16.

Now that most infrastructure projects have been completed, the U.S. Army Corps of Engineers (USACE) is reducing its presence in Iraq. On March 29, 2010, USACE Gulf Region South became the second of three USACE district-level commands in Iraq to close in the last nine months. The Gulf Region District is now the only operational USACE command in Iraq.<sup>219</sup>

This quarter, there were \$60.2 million in net obligations for infrastructure programs. About half of all new infrastructure obligations were related to electricity, including the IRRF-funded Electric Sector Transmission program, which had \$17.5 million in new obligations. The other major new obligations this quarter occurred in the IRRF-funded Iraqi Communications Systems program.<sup>220</sup>

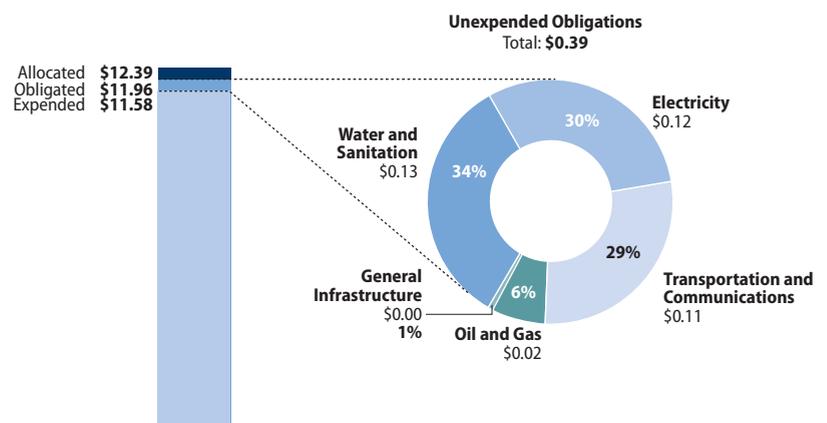
New expenditures this quarter totaled \$91.1 million. Similar to obligations, about half of all new expenditures were related to electricity, but there were also major new expenditures for water and sanitation programs.<sup>221</sup>

By almost all accounts, the delivery of water, electricity, and other basic public services remains unreliable, and the GOI has been struggling to provide the level of investment to improve these services. Due in part to depressed oil revenues, GOI capital spending in 2009 was almost one-third less than it was in 2008. The GOI’s 2010 budget provides for greater investment in water and electricity infrastructure, as well as projects to

rehabilitate and expand the oil sector infrastructure—crucial to anticipated increases in crude oil production and exports. However, the planned level of investment in 2010 is still less than the actual investment in 2008.<sup>222</sup>

To an increasing degree, the GOI is turning to the private sector and outside investors for assistance in improving the country’s infrastructure. This is especially apparent in the area of energy development, as can be seen in the ongoing contracting actions with international oil companies to increase production from Iraq’s oil fields, negotiations to form a joint venture to make more productive use of natural gas resources, and plans being formulated to have independent power producers operate some new power plants.

**FIGURE 2.16**  
**INFRASTRUCTURE: STATUS OF FUNDS**  
\$ Billions



**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; OSD, response to SIGIR data call, 4/10/2009; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009.

TABLE 2.16

**INFRASTRUCTURE: STATUS OF FUNDS, BY SECTOR, WITH SELECTED PROGRAMS**

\$ Millions

INFRASTRUCTURE SECTOR	PROGRAM	STATUS OF FUNDS		QUARTERLY CHANGE	
		OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Electricity	Electric Sector - Transmission (IRRF 2)	1,020.0	1,006.2	17.5 (2%)	18.2 (2%)
	Electric Sector - Generation (IRRF 2)	1,739.1	1,711.9	5.5 (0%)	12.4 (1%)
	Electricity (CERP)	361.0	294.9	5.0 (1%)	11.2 (4%)
	Other	1,906.9	1,898.0	2.0 (0%)	5.4 (0%)
	<b>Subtotal</b>	<b>5,026.9</b>	<b>4,911.0</b>	<b>30.0 (1%)</b>	<b>47.2 (1%)</b>
Water and Sanitation	Water Resources & Sanitation - Potable Water (IRRF 2)	1,339.2	1,317.3	0.1 (0%)	14.8 (1%)
	Water Resources & Sanitation - Sewerage (IRRF 2)	270.5	259.5	4.2 (2%)	5.0 (2%)
	Other	1,034.0	933.4	-0.8 (0%)	11.2 (1%)
	<b>Subtotal</b>	<b>2,643.6</b>	<b>2,510.2</b>	<b>3.5 (0%)</b>	<b>31.0 (1%)</b>
Oil and Gas	Oil Infrastructure - Infrastructure (IRRF 2)	1,607.9	1,587.6	8.4 (1%)	0.9 (0%)
	Other	327.9	326.1	-0.2 (0%)	0.6 (0%)
	<b>Subtotal</b>	<b>1,935.8</b>	<b>1,913.7</b>	<b>8.1 (0%)</b>	<b>1.5 (0%)</b>
General Infrastructure	<b>Subtotal</b>	<b>1,238.5</b>	<b>1,236.3</b>	<b>-0.1 (0%)</b>	<b>0.0 (0%)</b>
Transportation and Communications	Transportation & Telecommunications Projects - Iraqi Communications Systems (IRRF 2)	53.1	37.4	19.2 (57%)	3.6 (11%)
	Other	1,066.0	968.0	-0.5 (0%)	7.9 (1%)
	<b>Subtotal</b>	<b>1,119.0</b>	<b>1,005.4</b>	<b>18.6 (2%)</b>	<b>11.5 (1%)</b>
<b>Total</b>		<b>11,963.8</b>	<b>11,576.6</b>	<b>60.2 (1%)</b>	<b>91.1 (1%)</b>

Note: Data not audited. Numbers affected by rounding. Programs listed in this table had at least \$1 million in quarterly obligations or expenditures. The status of programs in the "Other" categories—which had nominal or no quarterly change—may be found in Appendix C. OSD Comptroller does not report CERP allocation, obligation, and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP allocation, obligation, and expenditure data from the IRMS, which lags in reporting by one quarter. Therefore, totals may not match top-line values found in the Funding section of this Report.

Sources: IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; OSD, response to SIGIR data call, 4/10/2009; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009; SIGIR, *Quarterly and Semiannual Report to the United States Congress*, 1/2010.

## Sustainment

SIGIR has long voiced concern about the sustainment and use of U.S.-funded projects after they are completed and transferred to the GOI. Since 2006, SIGIR audit reports have identified the need to involve GOI officials in the development of U.S. reconstruction projects, including the design of sound asset-transfer procedures that would best ensure that GOI officials will maintain, sustain, and use the facilities so that U.S. funds will not have been wasted.<sup>223</sup> At this time, most U.S.-built facilities have been turned over to the GOI. Yet USACE, which managed the construction of most

of the large infrastructure projects in Iraq, states that it has no visibility on the sustainment and use of facilities once they are turned over to the GOI.<sup>224</sup> Similarly, U.S. Embassy-Baghdad does not have programs to routinely monitor the sustainment and use of facilities once they are handed over, stating that the U.S./Iraq Asset Transfer Memorandum of Understanding places an obligation on the GOI to responsibly maintain assets handed over to it.<sup>225</sup>

Nevertheless, SIGIR continues to identify serious deficiencies in the sustainment, maintenance, and use of U.S.-funded facilities. To date, SIGIR has completed 54 sustainment assessments and found that the GOI has not adequately maintained

14 of the projects assessed. For example, the Nassiriya Water Treatment Plant, a \$277 million IRRF-funded project, was completed in June 2007 and turned over to the Iraqis in September 2007. At the time of SIGIR's site visits in December 2007 and February 2008, the GOI had failed to provide reliable power from the national grid, repair leaks in the distribution system, or provide qualified staff to be trained to operate the facility.<sup>226</sup>

Moreover, SIGIR audits continue to identify instances where completed U.S. facilities have been inadequately maintained and minimally used by the GOI. This quarter, SIGIR issued a report finding that 24 out of 46 projects to develop an economic zone at the Baghdad International Airport were largely unsuccessful in many cases because they were not adequately maintained and only minimally used. For example, a nearly \$2 million cargo terminal is not being maintained and is minimally used, and air traffic control training centers (\$1.8 million), roads and parking lots (\$1.0 million), and incinerators (\$2.9 million) are not being used.<sup>227</sup>

U.S. efforts to train GOI personnel to maintain U.S.-built facilities have also had mixed results. Contracts for large projects may contain an operations and maintenance component to train operators and build technical capacity. However, a SIGIR audit report this quarter noted, for example, that a \$16.5 million contract to Stanley Baker Hill to identify and repair Primary Healthcare Center (PHC) deficiencies, conduct PHC assessments, run an operations and repair program for one year, develop a comprehensive maintenance management program for the Iraqi Ministry of Health, and enhance the ministry's operations and maintenance capabilities had mixed results, with nearly \$4 million apparently having been wasted.<sup>228</sup> Moreover, another audit report this quarter concluded that a counterterrorism network for the Iraqi Special Operations Forces (SOF) is being minimally used, in part, because of poor training of Iraqi SOF personnel in the use and maintenance of the systems, in addition to the high operating costs of the systems.<sup>229</sup>

The Embassy reports that it has completed contracts with USACE to conduct a random survey of Compact Water Treatment Units that were handed over to the GOI. In the electricity sector, the Iraq Transition Assistance Office (ITAO) formerly had a contract for operations, maintenance, and sustainment at selected Ministry of Electricity (MOE) power plants. After this contract ended, the MOE funded this task for six months, but subsequently halted the effort.<sup>230</sup>

See Section 3 for further details on the audit reports that SIGIR issued this quarter.

## Infrastructure Security

### U.S.-funded Projects

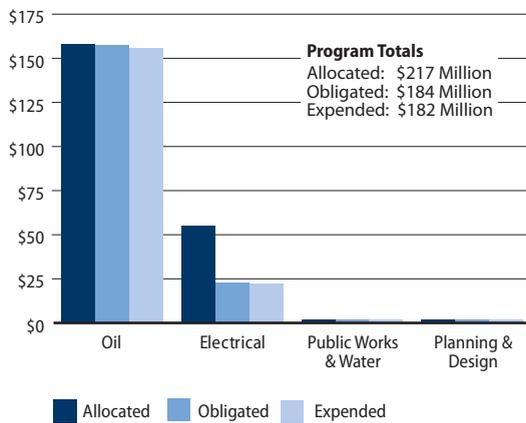
More than \$35 million of the ESF funds allocated to the Infrastructure Security Program (ISP) remain unexpended. As shown in Figure 2.17, about 86% of the expenditures to date have been to protect critical infrastructure in the oil sector, including construction of Pipeline Exclusion Zones (PEZs).<sup>231</sup> The one remaining oil project is expected to be completed in May 2010: a \$2.8 million project to procure and deliver heavy equipment for use by rapid repair teams when responding to pipeline breaks in southern Iraq.<sup>232</sup>

According to USACE, all ISP funding for water projects has been obligated and expended, and all remaining funds were shifted this quarter for work in the electricity sector, where about \$33 million is now available for expenditure.<sup>233</sup> A study identified security improvements for 36 MOE sites; the U.S. government will fund some of those projects, and the MOE will be responsible for the others.<sup>234</sup>

USACE provides contract oversight for the ongoing ISP projects. The ITAO Deputy Director and senior water and electricity consultants at the Embassy, along with their Iraqi counterparts and USACE, are determining the ISP's remaining program priorities. The interagency agreement between DoD and DoS for the ISP expires on June 30, 2011.<sup>235</sup>

SIGIR audits continue to identify instances where completed U.S. facilities have been inadequately maintained and minimally used by the GOI.

FIGURE 2.17  
**INFRASTRUCTURE SECURITY PROGRAM:  
 ALLOCATIONS, OBLIGATIONS, AND EXPENDITURES**  
 \$ Millions



Note: Numbers affected by rounding.  
 Source: USACE, response to SIGIR data call, 4/1/2010.

This quarter, SIGIR issued a sustainment assessment report on a \$1 million ISP project to construct a security perimeter for the Haditha Dam, the second-largest contributor of hydroelectric power in Iraq.<sup>236</sup> For more information, see Section 3.

**Recent Security Incidents**

This quarter, the one documented attack on Iraq’s oil infrastructure occurred on a section of pipeline that runs from the Kirkuk fields to the Doura refinery, Iraq’s third-largest refinery, located in Baghdad. The pipeline had been repaired from a previous attack and reopened just two days prior to this latest incident. Oil was transported via tanker-truck to the refinery—at rates between 20,000 to 25,000 barrels per day (BPD)—while the pipeline remained inoperable. The attack occurred on a section of pipeline not protected by a PEZ.<sup>237</sup>

Four 400-kilovolt (kV) electrical transmission lines were attacked in late February. In the first set of attacks, explosive devices destroyed three towers on the line carrying power from Iran to Diyala, resulting in the loss of 350 megawatts (MW) for five days. During that same period, three lines in

the Mosul area were attacked. At least one tower was damaged, but these attacks did not disrupt electricity supplies.<sup>238</sup>

**Energy**

Although Iraq has substantial proved reserves of oil and natural gas, lack of adequate infrastructure has contributed to an ongoing energy supply-demand gap, reliance on imported petroleum products and electricity, and loss of potential revenues. Now the GOI is laying the groundwork to expand its energy production capacity and improve its ability to get more energy supplies to where they are needed—both within Iraq for productive use and to export terminals, where they bring in the revenues that fund most of the government’s operating and capital budgets.

**Oil and Gas**

As of March 31, 2010, the U.S. government had allocated \$2.05 billion, obligated \$1.94 billion, and expended \$1.91 billion to rehabilitate the oil and gas sector in Iraq.<sup>239</sup>

**Crude Oil Production and Exports**

In February, Iraq’s crude oil exports reached 2.05 million barrels per day (MBPD), the highest monthly average since the 2003 invasion, but then dipped in March to 1.84 MBPD because of inclement weather in the Persian Gulf. For the quarter, exports averaged 1.93 MBPD—slightly higher than last quarter and a 5% increase from the same quarter in 2009.<sup>240</sup>

Crude oil production this quarter averaged 2.38 MBPD, a slight decrease from last quarter but 4% more than the amount produced during the same quarter last year.<sup>241</sup> Of the crude oil retained for domestic use, about 276,000 BPD went to refineries for processing into petroleum products.<sup>242</sup> Another 52,000 BPD was consumed in electric power plants.<sup>243</sup>

For crude oil production and export levels since 2003, see Figure 2.18.

In February, Iraq’s crude oil exports reached 2.05 MBPD, the highest monthly average since the 2003 invasion.

FIGURE 2.18  
**CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 6/2003–3/2010**  
 Million Barrels per Day



Sources: ITAO, "Monthly Import, Production, and Export Spreadsheet," 1/2008; U.S. Embassy-Baghdad, response to SIGIR data call, 10/2/2008; DoS, *Iraq Status Reports*, 5/27/2009, slide 8, 1/13/2010, slide 11, and 4/14/2010, slide 12; NEA-I, response to SIGIR data call, 7/2/2009.

### Refineries and Petroleum Products

Outside of the Kurdistan Region, Iraq has 13 oil refineries, 6 of which receive enough crude oil to operate at about 50% or higher utilization. Three of these refineries—Baiji, Basrah, and Doura—produce the vast majority of Iraq's refined products. This quarter, Iraq's refineries operated at about 60% of their collective capacity of 790,000 BPD. Compared with last quarter, refinery output was down for all the main fuels: gasoline production decreased by about 19%; diesel, 14%; LPG, 11%; and kerosene, 4%. This quarter's production levels were also lower than they were during the same quarter last year: gasoline production decreased by about 15%; diesel, 13%; LPG, 12%; and kerosene, 14%. Iraq continued to supplement domestic production with imports.<sup>244</sup>

### Oil Service Contracts

This quarter, the GOI signed nine outstanding oil service contracts with foreign firms for the Badra, Qaiyarah, Halfaya, West Qurna Phase 1 and 2, Garraf, Zubair, Majnoon, Najma, and Qaiyarah fields.<sup>245</sup> In doing so, the GOI has approved all contracts resulting from the two auctions held in 2009.<sup>246</sup>

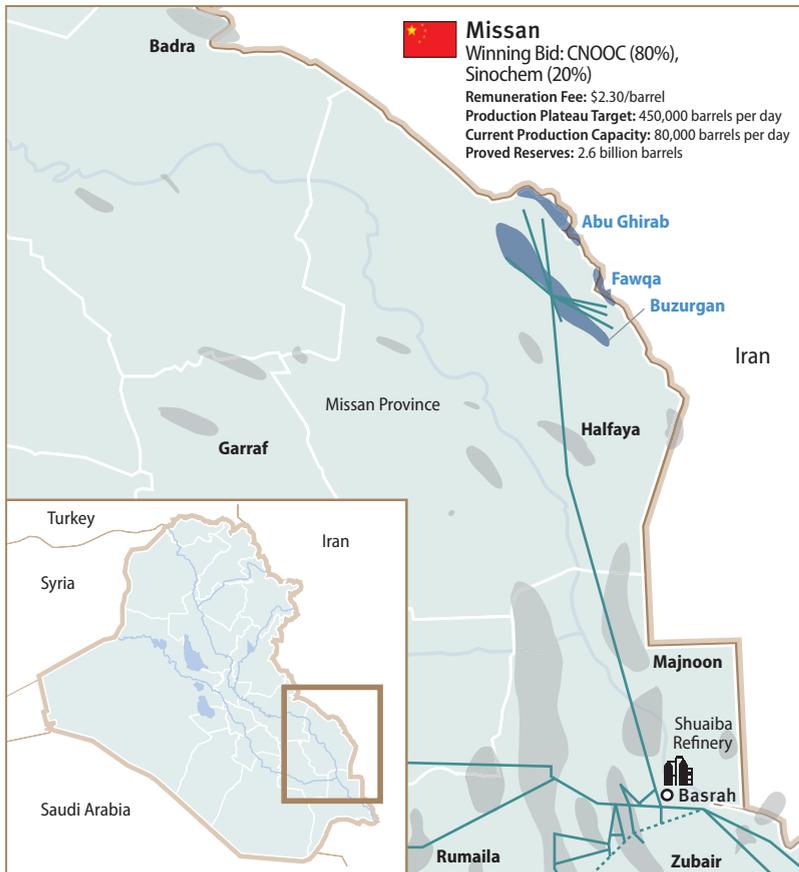
The GOI also reported this quarter that the talks with Nippon Oil Company to develop the Nassiriya oil field had been terminated.<sup>247</sup> In

addition, the Ministry of Oil initialed, but has not signed, an agreement with China National Offshore Oil Company (CNOOC) and Sinochem to develop three fields in Missan province,<sup>248</sup> estimated to hold a combined 2.6 billion barrels of crude oil.<sup>249</sup> The Chinese firms submitted bids for the fields when they were offered during the first petroleum licensing round in June 2009,<sup>250</sup> but the GOI had declined those bids because the initially proposed remuneration fee was significantly higher than the \$2.30 per barrel ceiling set by the ministry.<sup>251</sup> The fields—Abu Ghirab, Fawqa, and Buzurgan—lie along Iraq's southeastern border with Iran (see Figure 2.19). Iraq's sovereignty over the Fawqa field is disputed by Iran, whose troops briefly occupied one of the wells during a border incursion in December 2009.<sup>252</sup>

If the deal is signed, the consortium would be shared by CNOOC (60%), Sinochem (15%), and the GOI (25%),<sup>253</sup> which retains a 25% stake in all service contracts.<sup>254</sup> The target production rate of 450,000 BPD would be a substantial increase over the current production rates of approximately 80,000 BPD.<sup>255</sup> The addition of this deal could raise Iraq's potential future production to almost 12.5 MBPD.<sup>256</sup> However, many industry observers view 6 MBPD as a more realistic oil production target.<sup>257</sup> Major political and technical obstacles—such as corruption,

This quarter, Iraq's refineries operated at about 60% of their collective capacity.

FIGURE 2.19  
LOCATION OF LATEST UPSTREAM OIL SERVICE CONTRACT IN MISSAN



Sources: MEES, *Weekly Report*, Vol. 53 No. 10, p. 1; GOI, Ministry of Oil, "Contract Areas—Missan," [www.pcid-iraq.com/index.php?p=area&area=7](http://www.pcid-iraq.com/index.php?p=area&area=7), accessed 4/1/2010; *Economist Intelligence Unit, Country Report: Iraq*, 3/2010, p. 12; U.S. Embassy-Baghdad, response to SIGIR data call, 4/14/2010.

legal uncertainties, poor infrastructure, an insufficiently skilled workforce, and future OPEC production quotas<sup>258</sup>—must still be overcome before such production rates become possible. The magnitude and timing of the production increases are therefore uncertain.

### Oil Infrastructure Enhancements

Iraq requires substantial domestic and foreign investment in the oil sector and related infrastructure to achieve its ambitious targets for increased oil production, exports, and revenues; estimates range from \$70 billion to more than \$100 billion.<sup>259</sup> It is

not yet clear how management of this investment will be allocated by the GOI, which will ultimately bear the entire financial burden of infrastructure improvements, according to the U.S. Embassy.<sup>260</sup> The Ministry of Oil's total budget of \$4.06 billion for 2010 includes \$2.65 billion for capital infrastructure improvements<sup>261</sup>—a roughly 20% increase over the ministry's 2009 capital budget.<sup>262</sup>

With a total estimated cost of almost \$6 billion, the Iraq Crude Oil Export Expansion (ICOEE) project (previously known as the Southern Export Redundancy Project, or SERP) is one of the GOI's largest oil infrastructure initiatives.<sup>263</sup> During the start-up stage in 2007 and 2008, USACE provided initial funding of \$750,000 for a feasibility study, as well as \$1.5 million for an engineering and design bridge contract<sup>264</sup> until the GOI could begin funding the project with its own resources.

The purpose of ICOEE is to ensure that enough redundant offshore export capacity is in place to maintain southern export rates from Al-Basrah Oil Terminal (ABOT) and other southern terminals.<sup>265</sup> The project would expand southern offshore pipeline capacity from the present 1.6 MBPD to 4.5 MBPD by, at the earliest, 2013.<sup>266</sup> The Ministry of Oil is conducting studies on future expansion of offshore export capacity to as much as 8 MBPD and also seeks to expand onshore export capacity to match that increase.<sup>267</sup>

The GOI announced in February that it would expand the ranks of state oil companies (North, South, and Missan Oil Companies) by establishing a new entity, the Midland Oil Company, within four to six months.<sup>268</sup> The proposed company would cover the oil sector in Iraq's central provinces, including Diyala, Wassit, Babylon, Kerbala, and Qadisiya.<sup>269</sup>

### Natural Gas Utilization

Although Iraq has the world's tenth largest proved reserves of natural gas, it lacks the infrastructure to process and transport gas to where it can be productively used.<sup>270</sup> Because most gas is extracted in conjunction with crude oil, the oil production

increases anticipated over the next decade will likely result in commensurate increases in gas production, potentially magnifying the problems and lost opportunities caused by inadequate gas infrastructure.

One result of Iraq's current natural gas processing limitations is that crude oil and petroleum products constitute about 46% of the fuel consumed at combustion turbine power plants, even though these plants operate most effectively when fueled with gas. New construction, refurbishment, and expansion projects have increased the output of Iraq's combustion turbine plants by 76% over the past two years, but the relative contributions of oil and gas to this output have changed little.

During this period, natural gas use in power plants has increased by 127 million cubic feet (MCF) per day; but virtually all of this increase has occurred at the new Sulaymaniyah and Erbil Gas plants, which are connected by pipeline to the Kurdistan Region's Khor-Mor gas field.<sup>271</sup> Figure 2.20 shows the approximate locations of current and planned combustion turbine plants relative to known gas fields and pipelines.

In southern Iraq, where an estimated 70% of the country's proved gas reserves are located,<sup>272</sup> as much as 700 MCF of gas is flared each day. Countrywide, an estimated 1,000 MCF is flared.<sup>273</sup> The energy content of this wasted gas is more than twice what is needed to replace all the oil currently used to generate electricity in Iraq's combustion turbine plants plus all the LPG that Iraq imports.<sup>274</sup> Estimates of the economic value of this flared gas vary; they range from \$4 million to \$12 million per day.<sup>275</sup>

To make better use of this resource, the Ministry of Oil and Royal Dutch Shell have been negotiating an agreement to proceed with the South Gas Utilization Project. The agreement would result in formation of the Basrah Gas Company, a joint venture between the South Gas Company, Shell, and Mitsubishi. According to Shell's original announcement of the proposed deal, the joint venture would purchase associated



Iraq has the world's tenth largest proved reserves of natural gas, but flares most of what comes out of the ground. (U.S. Army photo)

natural gas from upstream operations; own and operate existing gas gathering, treatment, and processing facilities; repair non-functioning facilities; and develop new facilities. The aim would be to provide reliable supplies of natural gas, natural gas liquids, and LPG for domestic use and export. The time for completing the negotiations had been scheduled to expire in March, but the ministry has extended the deadline to September 2010.<sup>276</sup>

## Electricity

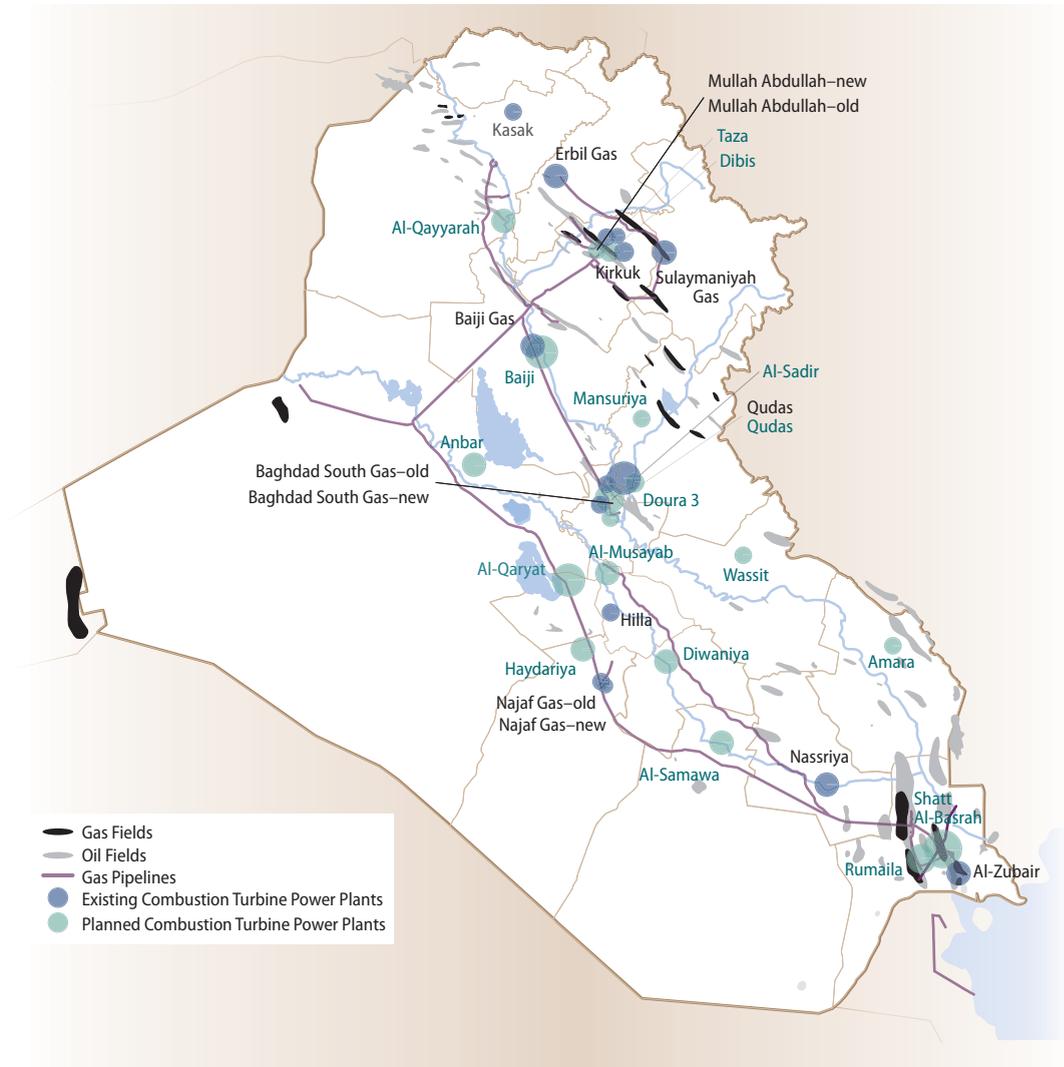
As of March 31, 2010, the United States had allocated \$5.18 billion, obligated \$5.03 billion, and expended \$4.91 billion to improve Iraq's generation, transmission, and distribution of electricity.<sup>277</sup>

About 40% of U.S. expenditures to date on electricity projects have been for the reconstruction or expansion of generating capacity.<sup>278</sup> Now that almost all of those projects have been completed, the focus of remaining work is on the infrastructure that delivers available power to end users, including transmission lines and substations.

In the GOI's 2010 budget, the MOE received more funding for capital expenditures than any other GOI ministry. According to the MOE, it has the funding it needs to proceed with new projects to expand generating capacity, and it is working with foreign advisors to upgrade the transmission and distribution system.<sup>279</sup>

Estimates of the economic value of flared gas range from \$4 million to \$12 million per day.

FIGURE 2.20  
LOCATION OF IRAQ'S NATURAL GAS FIELDS AND COMBUSTION TURBINE POWER PLANTS



Sources: U.S. Embassy-Baghdad, response to SIGIR data call, 1/24/2010; Dana Gas, "Annual Report and Accounts 2008", p. 23; MOE, General Directorate for Gas Power Plants Projects, [www.gppproject.com](http://www.gppproject.com), accessed 4/5/2010; ITAO/ESD, *Electric Daily Performance Reports*, 1/1/2010–3/31/2010.

**Production and Imports**

Electricity production from Iraq's power plants this quarter averaged 5,635 MW, or 135,230 megawatt-hours (MWh) per day. This was a 349 MW (7%) increase from last quarter and an almost 700 MW (14%) increase from the same quarter in 2009, but production remained below the record high reached

in the July–September period of 2009. Electricity imports, predominantly from Iran, increased 4% from last quarter to a new record of 694 MW, bringing the total average daily supply on the grid this quarter to 6,329 MW, or 151,889 MWh.<sup>280</sup>

Rising water levels in Iraq's rivers enabled a resurgence of hydroelectric generation, which

accounted for most of this quarter's increase in production from domestic power plants. The 624 MW output from hydroelectric plants was twice what it was last quarter and the highest quarterly average in two and a half year.<sup>281</sup>

Diesel power plants represent the smallest share (less than 6%) of Iraq's generating capacity, but current diesel capacity is more than 80% higher than it was a year ago.<sup>282</sup> Except for the diesel units at the al-Samawa plant, which were funded by a grant from Japan, the expansion of diesel generating capacity has been funded and carried out entirely by the MOE.<sup>283</sup> With more diesel units on line, these plants produced an average of 271 MW this quarter, 98 MW more than last quarter.<sup>284</sup>

The two privately owned and operated power plants in the Kurdistan Region—the Sulaymaniyah and Erbil Gas plants—also continued to increase their output. These two combustion turbine plants now have a combined nameplate capacity of 984 MW, and production this quarter averaged 782 MW—an increase of 136 MW over last quarter and 358 MW over the same quarter last year.<sup>285</sup> In February, General Electric (GE) announced it had signed a contract with the developer of these plants, Mass Global Company, to supply two more 125-MW combustion turbines for the Sulaymaniyah plant and four units for a new plant that Mass Global is building in Dahuk. According to GE, this additional 750 MW of nameplate capacity is scheduled to come on line in the second half of 2010.<sup>286</sup>

This quarter's production increases were offset somewhat by decreased output from the MOE's combustion turbine plants, which constitute the largest share of Iraq's generating capacity. These plants produced about 2,327 MW, a 192 MW drop from last quarter. Thermal plants produced 1,631 MW, almost the same as last quarter.<sup>287</sup>

For a breakdown of the sources of supply from January 2009 through March 2010, see Figure 2.21.

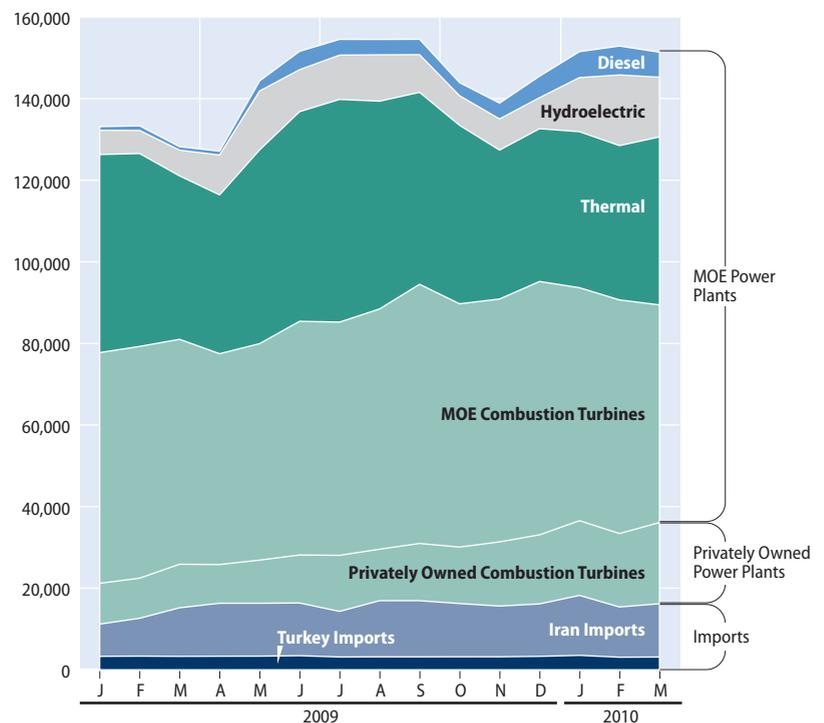
## Supply-Demand Gap

Based on data supplied by the MOE, this quarter's supply met 71% of estimated demand, unchanged



With higher water levels in the Tigris River, production of electric power at Mosul Dam increased to 419 MW this quarter, up 93% from last quarter. (Photo copyright GoogleEarth and DigitalGlobe)

**FIGURE 2.21**  
**SOURCES OF ELECTRICITY SUPPLY ON NATIONAL GRID, BY MONTH, 1/2009–3/2010**  
MWh per Day



Sources: ITAO/ESD, *Electric Daily Performance Reports*, 1/1/2009–3/31/2010.

According to the MOE, most Iraqis do not pay their MOE bills on the grounds that they are not getting reliable power.

from last quarter and up from 66% during the same quarter last year.<sup>288</sup> The lack of reliable electricity supply from the grid has led to widespread use of backyard and neighborhood generators. The cost of electricity purchased from neighborhood generators is about three times the amount charged by the MOE (\$25–\$50 per month for the average household, versus \$10–\$15 per month); however, according to the MOE, most Iraqis do not pay their MOE bills on the grounds that they are not getting reliable power.<sup>289</sup> For electricity supply relative to estimated demand since January 2004, see the insert to this Report.

**Possible Privatization of New Power Plants**

Construction has not yet started on any of the power plant projects associated with the MOE’s contracts to purchase combustion turbines from GE and Siemens. In addition to the two deals signed in December 2008 to purchase 72 turbines (56 from GE and 16 from Siemens), the MOE also has a separate, “Fast Track Deal” with GE for 8 turbines to be delivered to three sites. However, the Ministry of Finance apparently has not yet certified that funds are available for the letter of credit for this deal, and the MOE is behind in the payment to GE that was due at the end of February. The MOE has signed a contract with the engineering, procurement, and construction (EPC) contractor for one of the three sites.<sup>290</sup>

The letter of credit for the larger contract with GE—the so-called “Mega Deal”—is 94% funded. The final payment for equipment is due in October 2010, and the final payment for services, testing, training, and parts is not due until January 2012. The Siemens letter of credit is 85% funded, and the remainder is due in 2011. The MOE has not yet entered into contracts with any EPCs for these projects, and U.S. Embassy-Baghdad reports that GE and ITAO are working with the MOE to streamline the EPC selection process. For some projects, the GOI apparently is now pursuing the independent power-producer model that has taken hold in the Kurdistan Region. Under this approach, the GOI would sell at least some of the



In a \$10.2 million, CERP-funded project completed in three phases, USACE installed 1,200 solar-powered street lights along 35 kilometers of roadway in and around Falluja. (USACE photo)

GE and Siemens turbines to private investors who, in turn, would build, operate, and maintain the plants for a set term. A DoS-funded program to provide technical assistance to the MOE is helping the ministry establish internationally accepted best practices in developing this private-sector investment initiative.<sup>291</sup>

**Recently Completed and Ongoing U.S. Projects**

According to the Iraq Reconstruction Management System (IRMS), 10 U.S.-funded electricity projects with a total value of \$18.7 million were completed this quarter.<sup>292</sup> The largest was a \$9.3 million, ESF-funded project to construct a 132-kV electrical network between Bab al-Zubair and al-Basrah Center Power Station. USACE completed this two-year construction project at the end of March, but has not yet turned it over to the MOE. A fault was discovered, and the contractor is repairing one of the lines.<sup>293</sup> The second-largest project completed this quarter was the \$3.2 million third and final phase of a CERP project to install solar-powered streetlights in Falluja. USACE completed this project in January, almost one-half year ahead of schedule. The total cost of the three phases was \$10.2 million.<sup>294</sup>

As of March 31, 2010, 109 electricity projects with a combined value of \$141 million were ongoing.<sup>295</sup> The three largest projects—construction of the Farabi and Jamila substations in al-Sadr City, construction of another in Ramadi, and rehabilitation

of a fourth in Falluja—have fallen further behind schedule. USACE now expects work on these 132-kV substations to be completed in June or July 2010, roughly three years later than originally planned, at a total cost of \$98.8 million. Funding for these three projects comes from the IRRF.<sup>296</sup>

Most ongoing electricity projects—105 of the 109 projects reported in IRMS—are funded through the CERP. Their costs range from \$1,000 to \$4.8 million; collectively, they have a value of almost \$41 million.<sup>297</sup>

This quarter, SIGIR issued an assessment report on a USACE-managed project to provide and install six 33/11-kV mobile substations in al-Qaim, in western Anbar province.<sup>298</sup> See Section 3 for more information on this inspection.

ITAO reports that, under the Ministerial Capacity Development Program's Master Electricity Plan, the United States has set up specialized planning software and associated hardware and begun to provide training classes for the MOE. Moreover, it has requested that the contractor performing this work submit a proposal to expand the project and provide the MOE with a grid code—basically, the technical rules that power plant operators and others must follow to ensure the proper functioning of the national grid. All \$4.85 million of the funds allocated for the plan have been obligated.<sup>299</sup>

## Strategic Energy Planning

On January 11, 2010, the World Bank made a \$5 million grant available to help the GOI develop an integrated national energy strategy to foster sustainable development.<sup>300</sup> Insufficient coordination and communication between the Ministries of Electricity and Oil—exemplified by MOE combustion turbine power plants not being colocated with the Ministry of Oil's gas infrastructure—has been an obstacle to strategic energy planning. The U.S. government attempted to address this issue in 2007 with the formation of the Energy Fusion Cell (EFC). Comprising representatives from the Embassy, the U.S. military, and the two energy ministries, the EFC was charged with crafting an integrated energy

strategy for infrastructure security and repair efforts. Soon after the EFC was formed, the U.S. Government Accountability Office (GAO) issued a report commenting that the effectiveness of this effort would depend on the EFC's ability to obtain buy-in from the two ministries.<sup>301</sup>

Since the EFC was disbanded in late 2008 and replaced by the Energy and Services Division, the U.S. government has had no ongoing formal effort to better coordinate energy planning between the two ministries. According to U.S. Embassy-Baghdad, some activities under USAID's National Capacity Development (*Tatweer*) program promote such inter-ministerial coordination on an ad hoc basis, and the Embassy anticipates that the working groups of the Economic and Energy Joint Coordination Committee under the U.S.-Iraq Strategic Framework Agreement will also promote such communication. While the Embassy believes that development of a national energy strategy is a key step toward better coordination between the two ministries, it also acknowledges that U.S. government sponsorship or funding would hinder acceptance by the Iraqis.<sup>302</sup> The World Bank-funded project will be implemented by the Prime Minister's Advisory Commission.<sup>303</sup>

## Water and Sanitation

As of March 31, 2010, the United States had allocated \$2.75 billion, obligated \$2.64 billion, and expended \$2.51 billion to rehabilitate Iraq's water and sanitation sector.<sup>304</sup> As of this quarter, U.S.-funded water projects provide a total of 2.45 million cubic meters of water per day—an increase of roughly 450,000 cubic meters since January 2008.<sup>305</sup> These projects generate almost a quarter of the 9.92 million cubic meters of potable water that Iraq produces each day and serve 8.7 million Iraqis. An additional 300,000 Iraqis are expected to receive potable water once ongoing U.S.-funded water projects are completed.<sup>306</sup> U.S. Embassy-Baghdad reported that U.S.-funded sewerage projects

While the Embassy believes that development of a national energy strategy is a key step, it also acknowledges that U.S. government sponsorship or funding would hinder acceptance by the Iraqis.

process 1.2 million cubic meters of wastewater per day, benefiting 5.3 million people.<sup>307</sup>

According to a DoD assessment, the Iraqi Ministry of Municipalities and Public Works has been effective in ensuring that the available public water supply is safe for consumption through efficient repairs of water networks, proper treatment of potable water, and effective point-of-use testing programs.<sup>308</sup> However, the same assessment found that Iraq still lacks adequate water supplies because of a sharp drop in reservoir levels, broken distribution systems, and management problems.<sup>309</sup> According to the Baghdad Water Authority, nearly 50% of potential potable water is routinely lost to leaks, illegal tapping, and waste.<sup>310</sup> Delivery of services continues to lag in many parts of the country, leaving many Iraqis without access to clean drinking water and adequate sanitation facilities.<sup>311</sup>

World Bank figures released in February 2010 show that potable water service is available to less than 70% of the population outside of Baghdad and can drop to as low as 48% in rural areas. In Baghdad, most residents have in-home access to potable water, but varying sources estimate that between 10% and 25% of the population is disconnected from the water supply network and relies on expensive alternative sources for drinking water, such as delivery by tankers. In some areas, water is available only in the evening; and in many areas, village residents illegally tap into water pipelines.<sup>312</sup> Fewer homes are connected to wastewater sanitation systems than to potable water sources. According to the World Bank report, less than 8% of the homes outside Baghdad were connected to sewerage systems, though other sources report higher connection rates in major cities outside the capital.<sup>313</sup>

### U.S.-funded Water Projects Completed This Quarter

An \$8.3 million ESF-funded project to repair turbine generators and rehabilitate butterfly valves at the Kharkh Water Treatment Plant in Baghdad province was completed this quarter, nearly two years after its originally planned completion date.

Potable water service is available to less than 70% of the population outside of Baghdad and can drop to as low as 48% in rural areas.



USACE personnel inspect one of two Rolls-Royce turbines at the Kharkh Water Treatment Plant. (USACE photo)

Several CERP-funded projects were also completed this quarter, including:<sup>314</sup>

- a \$498,000 upgrade to water purification systems in Diyala province
- a \$180,000 project to clean canals in Baghdad province
- a \$147,000 project to build a water distribution network in Muthanna province
- a \$90,000 project to rehabilitate a water compact unit in Ninewa province
- \$72,000 in projects to build seven wells in Baghdad and Babylon provinces

### Water Projects Funded by World Bank

The World Bank announced completion of a new \$25.5 million project to provide a water treatment facility to serve an area of Muthanna province with a population of more than 250,000. Construction was funded through the Emergency Water Supply, Sanitation, and Urban Rehabilitation Project of the Iraq Trust Fund, a vehicle set up by the World Bank and the United Nations to funnel international donor assistance to Iraq. In December 2004, the World Bank approved the project under a \$110 million grant. In addition to the Muthanna project, the grant aims to upgrade and rehabilitate basic water supply and sanitation services in eight cities, including Kerbala, al-Samawa, and Erbil. The Muthanna project consists of eight water treatment units, 25 kilometers (km) of new pipeline, a staging water tank, and pumping stations.<sup>315</sup>

## Ongoing U.S.-funded Water Projects

As of March 31, 2010, almost 300 CERP-funded water projects remained ongoing, valued at \$65.0 million; 12 IRRF projects, valued at \$105.4 million, are also underway.<sup>316</sup>

Ongoing CERP projects include construction of water compact units in Babylon province and installation of a deepwater well in Qadissiya province.<sup>317</sup> Several CERP-funded projects underway are concentrated in provinces bordering the Kurdistan Region, including Ninewa, Salah Al-Din, Diyala, and Tameem provinces. A large number of ongoing CERP and I-CERP projects have been awarded to local Iraqi contractors.<sup>318</sup>

Two projects that had been scheduled for completion this quarter are now expected to be completed in June—the \$10 million (ESF) Garma Water Reverse Feeding project in Basrah province and a \$23.1 million IRRF-funded segment of the \$70 million Meshkab Water Treatment Plant in Najaf province.<sup>319</sup> For a description of the largest ongoing U.S. water and sanitation projects, see Figure 2.22.

## U.S.-funded Water Projects Not Yet Started

According to IRMS data, funding for several water projects has been obligated, but construction has not yet begun. These include the \$2.6 million CERP-funded al-Nuamiyah water treatment project in Anbar province and several smaller projects, with contract values of less than \$1 million each, to build sewage treatment lagoons, water treatment plants, and sewage repairs in Anbar, Basrah, Baghdad, and elsewhere.<sup>320</sup>

## Transportation and Communications

As of March 31, 2010, the United States had allocated \$1.16 billion, obligated \$1.12 billion, and expended \$1.01 billion to rehabilitate Iraq's transportation and communications sectors.<sup>321</sup> This

FIGURE 2.22

## SELECTED ONGOING U.S.-FUNDED WATER PROJECTS

\$ Millions



Sources: USACE, response to SIGIR data call, 4/2/2010; USACE Commander, SIGIR interview, 1/12/2010; USACE, response to SIGIR data call, 1/16/2010; SIGIR PA-08-144-148, "Falluja Waste Water Treatment Facility," 10/27/2008.

quarter, Iraq's Minister of Transportation sought to expand the number of airlines serving Iraq, meeting with Dutch officials in March in a bid to initiate air travel between the two countries. Work began this quarter on a new airport that will serve Kerbala and Najaf provinces. In addition, Iraq's railroad service continued to expand, and telecommunications improved in Baghdad.<sup>322</sup>

## Transportation

### Ports

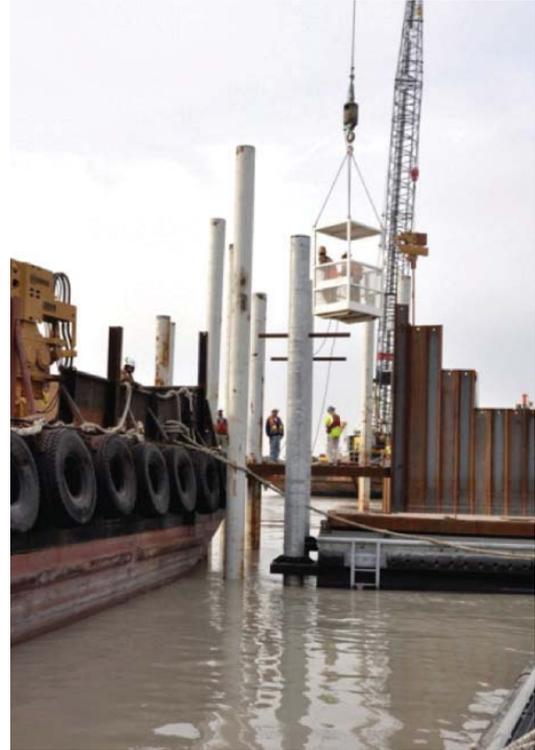
Construction of the \$53 million GOI-funded Umm Qasr pier and seawall project continued this quarter with work on a tail wall, drains, and a seawall backfill to prevent clay from seeping into a portion of the port area.<sup>323</sup> USACE reported that Iraqi naval ships had sailed through the construction site and docked at Pier 2, causing safety hazards and slowing construction, and that its staff had worked with Iraqi naval officials to stop disruptions at the site.<sup>324</sup> The project is USACE's first Foreign Military Sales project with Iraq.<sup>325</sup>

Umm Qasr, the largest of five Iraqi ports, includes 22 operational berths, 33 warehouses, and four container cranes. It is the primary point of entry for food and general cargo coming into Iraq, including 85% of grain imports. By 2008, the port was receiving more than 75,000 containers, and by 2012, it is expected to be processing up to 150,000 containers.<sup>326</sup>

A French company has contracted to complete construction of Dock 4 at Umm Qasr, and an Italian construction company announced this quarter that it would begin construction at the al-Faw port at the southernmost tip of Iraq.<sup>327</sup> Iraqis hope the port will compete with Dubai, becoming a transit point for goods coming by sea that are destined for the eastern Mediterranean and Europe, bypassing the Suez Canal. Iraq's railroad would accommodate land travel.<sup>328</sup>

### Roads and Bridges

Work continued this quarter on two IRRF projects in Salah Al-Din province—the \$7.8 million Baghdad-Kirkuk Carriageway and the \$7.1 million Shirqat Bridge. USACE reports that no progress had been made in February on the 40-km highway designed to link Baghdad to Kirkuk, which is in its second phase of construction. Construction of the road is three years behind schedule, and given the slow progress, USACE reported that it was unlikely to be completed by a March 2010 deadline.<sup>329</sup>



Construction of the \$53 million pier and seawall continued this quarter at Umm Qasr in Basrah province. (USACE photo)

The deadline for the project has been extended to June 30, 2010.<sup>330</sup>

The Shirqat Bridge is located in an agricultural region of the province, where minimal ferry service is available. USACE reported that construction was 75% complete as of March 10, though the forecast completion date was March 31, 2010.<sup>331</sup> Again, the deadline has been extended to June 30, 2010.<sup>332</sup> Elsewhere in Salah Al-Din, smaller roads and bridges were under construction this quarter, including a new joint U.S.- and GOI-funded road to connect outlying villages and serve a combined population of about 75,000.<sup>333</sup>

In Anbar province, major road construction continued along Iraq's border with Syria. Ground-breaking began in January, and the GOI committed to provide \$52 million for the USACE-managed border project to construct 90 km of roads to link remote outposts and protect against smugglers and foreign insurgents.<sup>334</sup>

## Railroads

In February, the Iraqi Republic Railway Company resumed service connecting Iraq and Turkey for the first time since the 1980s.<sup>335</sup> The National Investment Commission (NIC) has identified 45 regional railway construction projects in need of private investment for construction, including lines to connect Kerbala, Najaf, and al-Samawa in the south and Mosul and Dahuk in the north.<sup>336</sup> For a map of Iraq's current railroad lines, both completed and preliminary, see Figure 2.23.

This quarter, the U.S. government began operations and maintenance training following the completion of 33 U.S.-funded digital microwave radio sites.<sup>337</sup> The U.S. Department of Transportation (DOT) Attaché Office and project contractor Volpe Center worked with Iraqi railroad personnel to monitor continuing work and to phase in activities between Baghdad and Hilla, located in Babylon province.<sup>338</sup>

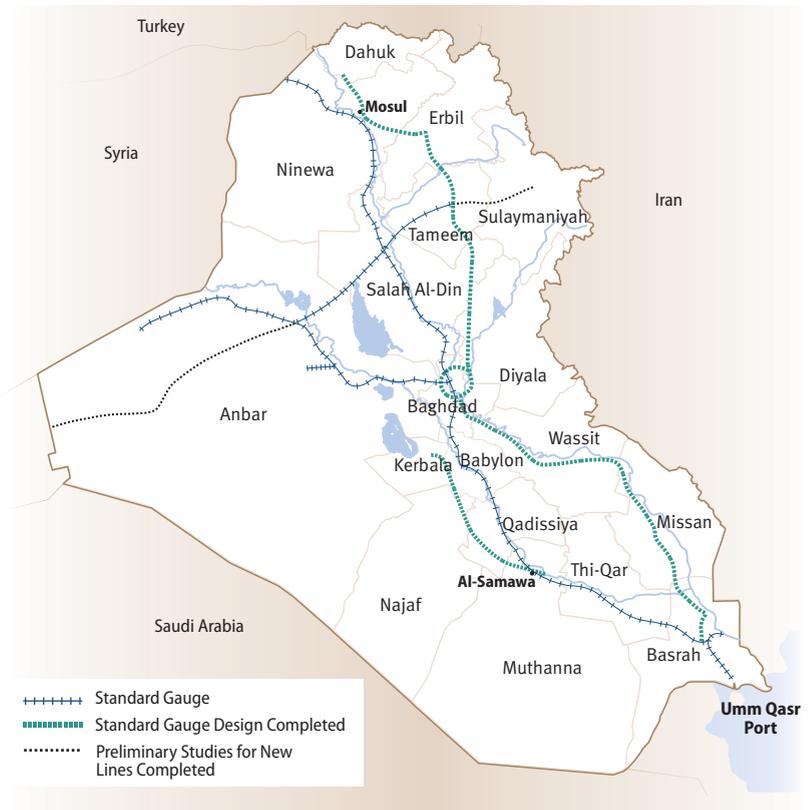
The digital network runs from the Syrian border, through Baghdad, to the Port of Umm Qasr and provides microwave radio technology on more than 1,000 km of railroad track.<sup>339</sup> According to IRMS data, this \$44.3 million IRRF- and ESF-funded project is the largest ongoing U.S. transportation project. Now 76% complete, it is scheduled for completion in September 2010.<sup>340</sup>

## Aviation

Iraq continued to expand its aviation sector this quarter as it sought to take early possession of dozens of Boeing airplanes purchased in 2008, take gradual control of its air traffic control services, increase flight routes to other countries, and open a new terminal in the Kurdistan Region.

Iraq's Transportation Ministry said it hoped to obtain early delivery of 55 Boeing 737, 777, and 787 airplanes (originally due to arrive in 2013) as part of a \$5.9 billion deal signed with Boeing and Canada's Bombardier in 2008. The agreement with Boeing includes \$30 million for pilot training and \$7 million for the construction of a training institute in Baghdad.<sup>341</sup> The Iraqi Civil Aviation

FIGURE 2.23  
IRAQI RAILWAY SYSTEM



Source: GOI, Iraqi Republic Railway Company, [www.iraqirailways.com/private/mapen.htm](http://www.iraqirailways.com/private/mapen.htm), accessed 3/30/2010.



Iraqi workers climb atop a train engine of the Iraqi Republic Railway Company. (USACE photo)



An Iraqi Airways plane parks at Baghdad International Airport. (USAID photo)

Authority (ICAA) had several contracts with Boeing in place this quarter, including agreements to publish arrival and departure procedures at Basrah and Baghdad airports and to send controllers to Miami for U.S. training.<sup>342</sup>

The Boeing purchase would boost Iraq's fleet, which currently consists of four aging planes and depends heavily on leased aircraft. The push for new planes comes as plans move forward for Iraq to take control of its air traffic control services. The ICAA currently operates airspace in Iraq above 24,000 feet. Plans call for Iraqi control of airspace above 15,000 feet by fall 2010 and below 15,000 feet by the end of 2011.<sup>343</sup>

Meanwhile, two more foreign airlines announced plans to begin flights to Iraq. Lufthansa Airlines announced it would begin flights to Erbil beginning on April 25, 2010, and to Baghdad by summer, ending a 20-year hiatus in Lufthansa flights to Iraq.<sup>344</sup> Greek airline Viking Hellas began flights between

Athens and three Iraqi cities—Baghdad, Sulaymaniyah, and Erbil—in February.<sup>345</sup> Six commercial airports now operate in Iraq—Basrah, Najaf, Baghdad, Sulaymaniyah, Erbil, and Mosul.

Mosul's airport is located on a U.S. military base, with air-traffic control services provided by the U.S. Army.<sup>346</sup> In January, the U.S. Army's 34th Infantry Division handed over part of the taxiway at Basrah International Airport that can accommodate the landing of large aircraft. The facility was first occupied by the British in 2003, and the runway had been used to park U.S. helicopters.<sup>347</sup> Erbil International Airport plans to open a new terminal and runway by spring or summer 2010.<sup>348</sup>

For information on SIGIR's audit of the Commercial Economic Zone at Baghdad International Airport, see Section 3.

### Telecommunications

The completion date for construction of a Baghdad communications center was postponed again this quarter. USACE reported that the \$18.3 million al-Mamoon Exchange and Communications Center was currently 25% complete and would be finished in January 2011.<sup>349</sup> The original contract, valued at nearly \$23 million, was awarded in 2006 but later terminated for lack of progress. A new contract was re-awarded on July 31, 2009. In October 2009, USACE reported that the project was 2% complete and behind schedule, and a new target completion date was set for August 2010. In January 2010, USACE reported the project was 7% complete.<sup>350</sup> ♦

Two more foreign airlines announced plans to begin flights to Iraq.

## GOVERNANCE

As of March 31, 2010, the United States had allocated \$7.58 billion, obligated \$7.29 billion, and expended \$6.46 billion to support democracy, governance, capacity development, and public services in Iraq.<sup>351</sup> For the status of these funds, see Figure 2.24 and Table 2.17.

This quarter, there were \$63.1 million in net deobligations for governance programs. Most of these deobligations came from the Provincial Reconstruction Team (PRT) Quick Response Fund and the Democracy and Civil Society program, both of which are funded by the ESF. The CERP-funded Civic Infrastructure Repair program had \$18.3 million in new obligations, the most of any governance-related program.<sup>352</sup>

This quarter, there were \$107.4 million in net expenditures. Most new expenditures were for capacity development, including \$18.6 million for PRT/Provincial Reconstruction Development Council (PRDC) projects and \$7.4 million for the Community Stabilization Program, both of which are funded by the ESF.<sup>353</sup>

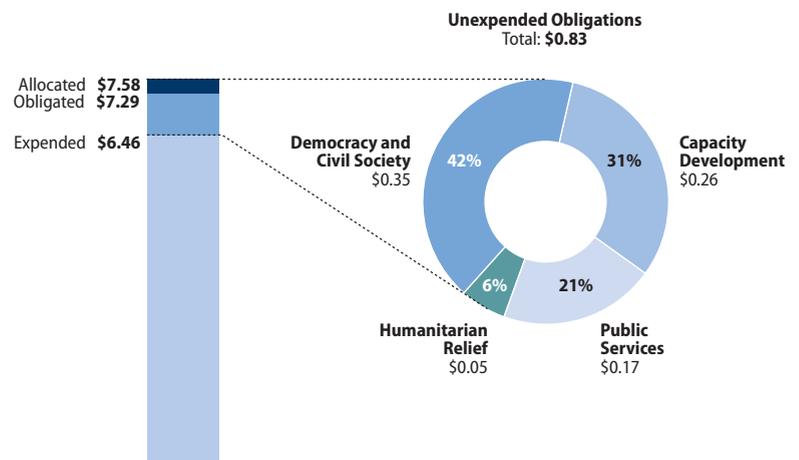
## National Elections

On March 7, 2010, about 11.5 million Iraqi voters turned out to elect the 325-seat Council of Representatives (CoR) from a pool of more than 6,170 candidates.<sup>354</sup> For voter turnout, see Figure 2.25, and for elections results, see Section 1.

## Electoral System

The CoR elections were held using an open-list electoral system in accordance with the 2009 amendment to the Electoral Law of 2005. Voter ballots offered a choice of political blocs—which could include “single list” blocs (that is, a bloc with just one candidate) or political blocs comprising one or more parties that have submitted a list of multiple candidates (25% of whom must be women). In the open-list system, voters indicate

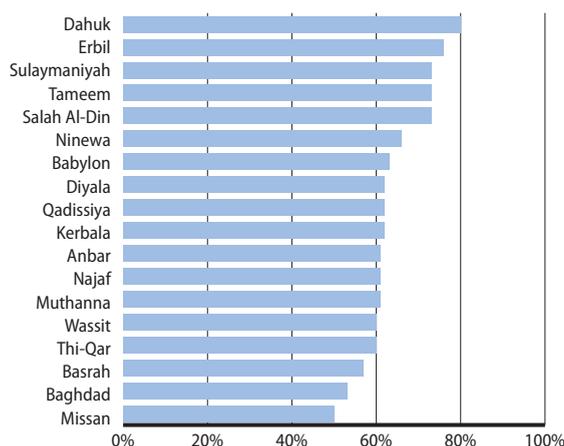
FIGURE 2.24  
GOVERNANCE: STATUS OF FUNDS  
\$ Billions



**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, responses to SIGIR data call, 4/2/2010, 4/12/2010, and 4/14/2010; U.S. Embassy-Baghdad, response to SIGIR data call, 4/8/2010; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009.

FIGURE 2.25  
IRAQI VOTER TURNOUT



**Source:** GOI, IHEC, “Voter Turnout Figures,” 3/9/2010, [ihc.ic/English/press\\_releases.aspx?id=2189](http://ihc.ic/English/press_releases.aspx?id=2189), accessed 3/17/2010.

TABLE 2.17

## GOVERNANCE: STATUS OF FUNDS, WITH SELECTED PROGRAMS

\$ Millions

SECTOR	PROGRAM	STATUS OF FUNDS		QUARTERLY CHANGE	
		OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Capacity Development	PRT/PRDC Projects (ESF)	496.0	423.5	-2.6 (-1%)	18.6 (5%)
	Community Stabilization Program (ESF)	619.3	619.0	0.0 (0%)	7.4 (1%)
	National Capacity Development (ESF)	309.4	251.6	0.0 (0%)	7.1 (3%)
	PRT Quick Response Fund (ESF)	208.9	163.8	-11.2 (-5%)	17.6 (12%)
	Other	669.1	589.3	-0.5 (0%)	4.4 (1%)
	<b>Subtotal</b>		<b>2,302.7</b>	<b>2,047.2</b>	<b>-14.3 (-1%)</b>
Democracy and Civil Society	Democracy and Civil Society (ESF)	234.2	155.6	-25.2 (-10%)	7.6 (5%)
	Community Action Program (ESF)	311.0	226.4	0.0 (0%)	16.4 (8%)
	Other	1,627.2	1,445.1	-1.6 (0%)	3.0 (0%)
	<b>Subtotal</b>		<b>2,172.4</b>	<b>1,827.0</b>	<b>-26.8 (-1%)</b>
Humanitarian Relief	Food Production & Distribution (CERP)	0.0	0.0	-13.8 (-100%)	-10.5 (-100%)
	Other Humanitarian and Reconstruction Projects (CERP)	150.6	110.8	7.5 (5%)	11.2 (11%)
	Other	703.9	692.5	0.0 (0%)	0.5 (0%)
	<b>Subtotal</b>		<b>854.5</b>	<b>803.3</b>	<b>-6.3 (-1%)</b>
Public Services	Civic Infrastructure Repair (CERP)	109.4	89.3	18.3 (20%)	12.0 (16%)
	Health Care - Equipment Procurement and Modernization (IRRF 2)	277.1	270.2	2.4 (1%)	9.6 (4%)
	Civic Cleanup Activities (CERP)	200.2	158.8	5.4 (3%)	5.0 (3%)
	Other	1,371.5	1,265.8	3.7 (0%)	11.0 (1%)
	<b>Subtotal</b>		<b>1,958.2</b>	<b>1,784.2</b>	<b>29.7 (2%)</b>
<b>Total</b>		<b>7,287.7</b>	<b>6,461.7</b>	<b>-17.7 (0%)</b>	<b>120.9 (2%)</b>

**Note:**Data not audited. Numbers affected by rounding. Programs listed in this table had changes of at least \$5 million in combined quarterly obligations and expenditures. Appendix C shows the status of programs in the "Other" categories, which had nominal or no quarterly change. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** DoS, response to SIGIR data call, 4/5/2007; IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, responses to SIGIR data call, 4/2/2010, 4/12/2010, and 4/14/2010; U.S. Embassy-Baghdad, response to SIGIR data call, 4/8/2010; USACE, response to SIGIR data call, 4/1/2010; USAID, response to SIGIR data call, 4/13/2009; SIGIR, *Quarterly and Semiannual Report to the United States Congress*, 1/2010.



An Iraqi voter on election day, March 7, 2010. (IHEC photo)

their preferred bloc and then go on to select their preferred candidate within that bloc. Thus, the voters determine which individual candidates will fill a winning bloc's seats.<sup>355</sup> Blocs can represent nationwide political movements, provincial interests, or ethnic, religious, or sectarian groups. By contrast, the 2005 elections used a closed-list system. Voters selected the winning blocs, but not individual candidates. Rather, a winning bloc chose its representatives through an internal selection process and without voter input.<sup>356</sup>

# RECONSTRUCTION FUNDING SOURCES AND USES

TABLE 2.18  
**NUMBER OF SEATS WON PER BLOC, BY PROVINCE**  
 2010 Election

	PROVINCE	ALLOCATED SEATS
North	Ninewa	34
	Sulaymaniyah	17
	Erbil	15
	Tameem	13
	Salah Al-Din	12
	Dahuk	11
Central	Baghdad	70
	Babylon	16
	Anbar	14
	Diyala	13
	Najaf	12
	Wassit	11
	Qadisiya	11
	Kerbala	10
South	Basrah	24
	Thi-Qar	18
	Missan	10
	Muthanna	7
Compensatory		7
<b>National Total</b>		

Source: GOI, IHEC, "Number of seats won per bloc by province," 4/2/2010.

## CoR Seat Distribution and Allocation

The CoR's 325 seats comprise 310 provincial seats, awarded on the basis of the population of each province, as well as 8 seats for minority groups and 7 compensatory seats.

Voters first choose a bloc and may, but are not required to, also vote for a candidate from that bloc. A proportional system is used to award seats to a bloc based on its share of votes within each province. Votes cast for blocs that do not gain enough seats to be entitled to a single seat in a province are ignored.

Candidates from a winning bloc are awarded seats based on the number of votes they received. For example, if a bloc wins three seats, then the three candidates within that bloc with the most votes are entitled to seats.<sup>357</sup>

The seven compensatory seats are awarded to winning blocs in proportion to the seats won nationwide. In the March 2010 election, the top three vote-winning blocs—al-Iraqiya, State of Law Coalition, and Iraqi National Alliance—won 2 compensatory seats each. The fourth-place Kurdistan Coalition won the remaining compensatory seat. Winning seats are filled by the candidates within that bloc who had the largest share of votes in

their own provinces but were not seated.<sup>358</sup> For the number of seats won per bloc by province, see Table 2.18.

If fewer than 25% (82) of all 325 seats have been filled by women under the procedures established above, a special procedure is employed. It begins with the provinces with the lowest proportion of women elected and with the blocs entitled to seats with the lowest proportion of women elected. Within blocs entitled to seats in those provinces, the lowest-ranked males are replaced with the highest-ranked unseated females until 82 women are among the candidates to be seated. According to the United Nations Assistance Mission in Iraq, "this adjustment mechanism will ensure that there are at least 25% women in the Council of Representatives, although the percentage of women in each governorate and each [bloc] may vary."<sup>359</sup>

According to Article 76 of Iraq's Constitution, within 15 days after the President is selected, he or she shall ask the largest bloc to select a candidate for Prime Minister.<sup>360</sup> However, it is unclear if post-election political negotiations prior to the start of this selection process could affect the number of seats held by a bloc and, therefore, which bloc is the largest.

TABLE 2.19  
TIME LINE OF THE GOVERNANCE GAP

EVENT	TIME PERIOD	CONSTITUTIONAL AUTHORITY
Preliminary election results	4 days after election	
Uncertified official results	15 days after election	All election inquiries resolved by Iraq's Higher Judicial Council (HJC)
Certified official results	Pending recount	HJC certifies the election
CoR convenes	15 days after certification of the election	Article 54: Eldest member shall chair the first session to elect the speaker and two deputies
CoR Speaker elected	During first session of the CoR	Article 55: Elected by absolute majority of secret balloting
President elected	No set deadline	Article 70: Elected by 2/3 majority. If no candidate receives required majority, two candidates with highest number of votes compete; majority vote wins.
Presidential charge to form government	Within 15 days of President's election	Article 76: President asks the largest CoR bloc to nominate a candidate for Prime Minister
Prime Minister-designate names Council of Ministers	Within 30 days of designation	Article 76: If Prime Minister-designate fails to name CoM within this time period, the President shall charge a new nominee for Prime Minister
Prime Minister-designate puts forth Council of Ministers and ministerial program for approval	No set deadline	Article 26: If they do not receive a vote of confidence, the President must ask a new nominee to form the CoM within 15 days.

Sources: Institute for the Study of War, "Process of Government Formation," 3/11/2010; UNAMI, "Iraqi Constitution," [www.uniraq.org/documents/iraqi\\_constitution.pdf](http://www.uniraq.org/documents/iraqi_constitution.pdf), accessed 4/16/2010.

### "Governance Gap"

Iraq's constitution contains articles that put into question the GOI's ability to function fully during the period when national elections are held and the government is being reformed. On March 15, 2010, the CoR officially ended its term and all of its sessions stopped, pending the seating of the new CoR.<sup>361</sup> The President of Iraq's term, which is constitutionally tied to the term of the CoR, ended on the same day. According to Article 72 of Iraq's Constitution, the President continues to exercise his or her duties after the term has ended and until the newly seated CoR elects a new President, but does not make clear the President's authorities during that period. Furthermore, some constitutional language leaves the authority of the Council of Ministers—which includes the Prime Minister—in question following the "dissolution" of the CoR. Article 64 states that "the Council of Ministers in this case is deemed resigned and continues to run everyday business."<sup>362</sup> This period in which executive authority may be in question or, at least, not clearly defined could potentially affect the

functioning of the federal government just prior to and following national elections. For a time line of this governance gap, see Table 2.19.

### U.S. and International Support for the Election

The DoS Bureau of Democracy, Human Rights and Labor (DRL) funded a range of activities related to the March elections. These activities built on the approximately \$170 million in past and current DRL-funded programs that targeted the 2009 provincial and KRG elections, as well as broader democracy-building programs. In addition, in coordination with the United Nations Assistance Mission for Iraq (UNAMI), USAID's \$103 million Election Strengthening Program (ESP) has provided advice and technical assistance to the Independent High Electoral Commission (IHEC).<sup>363</sup>

Specific U.S.-funded activities in support of the March election included the following:<sup>364</sup>

- **Supporting Out-of-Country Voting.** USAID funded a \$5.5 million program to support IHEC's "Out of Country Voting" initiative.

This period in which executive authority may be in question or, at least, not clearly defined could potentially affect the functioning of the federal government.

According to the IHEC, 272,016 voters cast their ballots in 16 other countries.<sup>365</sup>

- **Equipping the Electoral Offices.** USAID funded a \$2.5 million project (conducted in coordination with IHEC and the PRTs) to provide equipment and supplies to the governorate electoral offices.
- **Developing Domestic “Get Out the Vote” Programs.** USAID funded a \$2 million program to train and support Iraqi civil society organizations to conduct voter education workshops, supplementing IHEC’s voter outreach efforts and efforts by DRL grantees. American University worked with an Iraqi NGO to train community leaders and local groups on targeting election information to low-turnout populations—specifically, people from rural areas, women, illiterate people, and the young. The International Republican Institute (IRI) dispatched voter education teams to deliver election process training and help rural Iraqis connect with the political process. The International Research & Exchanges Board (IREX) and IRI carried out programs to televise candidate debates, town hall forums, and issue-based talk shows.
- **Strengthening Political Parties and Candidates.** In 2009, the National Democratic Institute (NDI) and IRI trained almost 3,000 candidates and 119 political parties or coalitions in drafting party platforms, communicating election messages, and building voter support. Both organizations also held training specifically for female legislators and other politically active women in party recruitment, staff development, strategic planning, and field-office organization.
- **Bolstering Professional Media Election Coverage.** The Institute for War & Peace Reporting and IREX trained Iraqi media professionals in best practices for election reporting. IREX published an update of the “Code for Media Coverage During Elections” and provided training for journalists in television, radio, and Internet media in partnership with the privately owned Iraqi Media Institute.

- **Ensuring Domestic Election Monitoring.** In partnership with the Iraqi Sun Network for Election Monitoring, NDI held “train the trainer” programs for political party members, civil society groups, and other activists who, in turn, provided poll monitor training to thousands of Iraqis. In addition, NDI and the Iraqi Sun Network trained 2,500 observers to participate in an activity designed to identify potential problems on Election Day.

International support for the election was extensive and included the following:

- The United Nations Office for Project Services (UNOPS) funded an initiative to train more than 29,000 domestic observers to monitor processes on Election Day.<sup>366</sup>
- The International Foundation for Electoral Systems provided technical support to IHEC’s “Out of Country Voting” program and supported domestic GOI voter registry, finalizing IHEC’s public outreach plan and materials and developing political party, candidate, and coalition databases.<sup>367</sup>

NDI and IRI trained almost 3,000 candidates and 119 political parties or coalitions in drafting party platforms, communicating election messages, and building voter support.

## Legislation

Since November 2009, Iraq’s CoR has passed several important pieces of legislation. In addition to finalizing the electoral law and setting up the March election, the CoR passed amendments to the investment law as well as the 2010 budget and laws that dissolved the Ministry of Labor and Social Affairs and the Ministry of Municipalities and Public Works.<sup>368</sup> Additionally, on February 3, 2010, the Non-Governmental Organizations Law was approved, providing several protections to nongovernmental organizations (NGOs) and specifying how these NGOs are to be formed and regulated. This law, first introduced to the CoR in March 2009, replaces CPA Order 45 and provides an avenue for appeal in case of an NGO’s denial of registration or license revocation. It also requires the government to



The National Anti-Corruption Strategy 2010–2014.

have reasonable suspicion that accounts are inaccurate or manipulated before auditing an NGO.<sup>369</sup>

### Legislative Strengthening Program

This quarter, USAID's Legislative Strengthening Program (LSP) entered its second year of providing technical support to the CoR and began implementing its newly approved work plan. LSP reports working closely with the CoR on a transition plan and orientation program for newly elected members and with members of the international donor community to coordinate support of the CoR.<sup>370</sup>

The \$24 million, ESF-funded LSP contract award to U.S. firm AECOM began in October 2008 and is scheduled to run through September 2010.<sup>371</sup>

### U.S. Support for GOI Anticorruption Efforts

As of March 31, 2010, U.S. Embassy-Baghdad's Anti-Corruption Coordination Office (ACCO) had obligated about \$16.6 million and expended about \$6.8 million for anticorruption initiatives.<sup>372</sup> These include stand-alone programs that provide

workshops and seminars directed toward best practices. For example, in February, ACCO and Iraq's Office of Constitutional Affairs, in partnership with the University of Utah, sponsored a legislative drafting symposium under the auspices of the Ministry of Justice. The Shura Council, an Iraqi state institution responsible for vetting draft legislation for constitutionality, gathered officials from throughout the GOI to discuss obstacles to creating effective anticorruption laws and to explore solutions to ongoing corruption problems.<sup>373</sup>

More far-reaching uses of ACCO's funding streams involve support for various implementing partners, such as the UN Development Programme (UNDP), Iraq Foundation, and IRI. For example, as part of an \$8 million ACCO-funded project, UNDP, ACCO, and senior Iraqi officials developed the new National Anti-Corruption Strategy.<sup>374</sup> For details of the strategy, see Section 1 of this Report.

### Ongoing Governance Capacity Development Programs

U.S. efforts to increase Iraq's capacity for governance—primarily funded by the ESF—are supported through several targeted capacity development programs at national, regional, and sub-regional levels. Of the \$2.55 billion allocated for these efforts, more than \$2.30 billion has been obligated and \$2.05 billion expended as of March 31, 2010. Several of the long-running capacity development programs are now winding down.<sup>375</sup>

### Ministerial Capacity Development Program

As of March 31, 2010, USAID's ESF-funded Ministerial Capacity Development (MCD) program had been allocated \$48 million, of which \$41 million had been obligated and \$30 million expended.<sup>376</sup> The objective of the MCD program has been to help build or strengthen the national government through an effective system of ministries with a focus on helping Iraqi senior government

employees execute their budgets.<sup>377</sup> Currently, DoS is working with the DoD's Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) to review the status of, and close out as appropriate, all remaining FY 2006 ESF MCD contracts and grants.<sup>378</sup>

## National Capacity Development Program

As of March 31, 2010, USAID's ESF-funded National Capacity Development (NCD), or *Tatweer*, program had been allocated \$309.4 million, all of which had been obligated and \$251.6 million of which had been expended—including \$7.1 million expended this quarter.<sup>379</sup> NCD focuses on increasing the effectiveness of ministries through reforming internal operational systems and instituting best practices and international standards. *Tatweer* initiatives assist in the core public administration areas of contract and procurement management, human resource management, project management, leadership and communication, strategic planning, and information technology. Examples of recent programs include:

- working with MOH budget directors to assist in revising their goals to match the needs identified in their five-year strategic plan
- leading a Ministry of Planning and Development Coordination team to assist the GOI with its (currently unreleased) five-year National Development Strategy

USAID reported that nearly 90,000 civil servants have been trained through the NCD program.<sup>380</sup>

## Provincial Reconstruction Teams

The U.S. Embassy-Baghdad's Office of Provincial Affairs (OPA) reported a continued reduction in the footprint of the PRT program this quarter, including the closings of several satellite offices and the merging of embedded PRTs (ePRTs) with the PRTs in Baghdad and Anbar provinces. The new PRT footprint shows 15 PRTs, 1 Regional Reconstruction Team (RRT) in the Kurdistan Region, 4 ePRTs in Baghdad and Anbar provinces, and 18 satellite

offices scattered throughout central and northern Iraq. The Anbar ePRT is slated for consolidation into a satellite office in June 2010. No satellite offices remain in southern Iraq.<sup>381</sup> U.S. Embassy-Baghdad reported that the new footprint would remain through September 30, 2011.<sup>382</sup> Ultimately, the last five PRTs will transition to Enduring Presence Posts (EPPs)—including two consulates in Erbil and Basrah provinces, and three posts in Tameem, Ninewa, and Diyala provinces.<sup>383</sup>

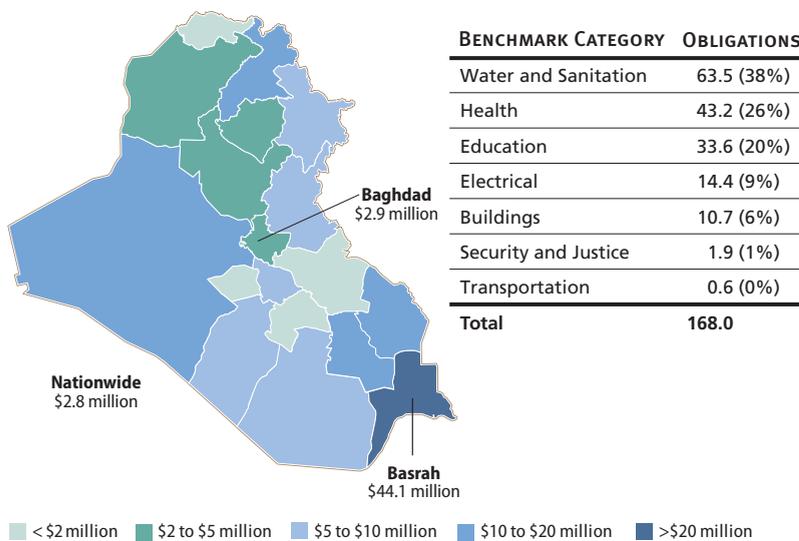
DoS's current authority to employ Section 3161 employees—temporary government employees assigned to Iraq—expires in May 2010. DoS is seeking a new authority to use temporary employees for another three years to help staff the EPPs as well as INL and other programs. According to U.S. Embassy-Baghdad, the number of such employees would be reduced under more restricted use of the new authority.<sup>384</sup>

## PRT Activities

PRT objectives continue to be supported through projects funded by the CERP as well as the ESF Quick Response Fund (QRF), Local Governance Program (LGP III), and PRDC program. PRTs in key strategic provinces typically have large amounts of CERP funds available for projects and thus rely less on the QRF. OPA reviews the projects to determine their success.<sup>385</sup> The PRTs use the QRF to gain influence, reconcile conflicting parties, and enhance civil development through training and mentoring activities. The civilian Foreign Service Officer Team Leader and military Deputy Team Leader on each PRT determine which QRF projects best advance PRT goals. Most projects are limited to \$25,000 or less and focus on specific local development.<sup>386</sup> For instance, in Ninewa province, a \$22,000 project will enable data on the water network system to be digitally archived for easier access. In Missan province, a \$7,000 project involves training the staff of the Directorate of Water Resources.<sup>387</sup>

As ePRTs have drawn down during early 2010, most have experienced a decrease in military

FIGURE 2.26  
**ONGOING PRT/PRDC PROJECTS: OBLIGATIONS, BY PROVINCE AND CATEGORY**  
 \$ Millions



Note: Data not audited. Numbers affected by rounding.

Source: U.S. Embassy-Baghdad, ITAO, response to SIGIR data call, 4/13/2010.

support for their movements throughout the province. As a result, QRF activity has decreased correspondingly. However, U.S. Embassy-Baghdad has reported that the remaining PRTs continue to operate with freedom of movement and are able to adequately monitor QRF-funded projects.<sup>388</sup>

USAID continues to provide financial support to meet PRT goals for building the capacity of city and provincial governments through LGP III activities. These projects address budget formulation and execution, financial management, planning for public investment, public outreach, and other governance activities.<sup>389</sup> As of March 31, 2010, \$407.5 million of the ESF had been obligated to the program, and more than \$294.5 million had been expended.<sup>390</sup> LGP III funds projects in all 14 provinces outside of the Kurdistan Region.<sup>391</sup>

PRDC projects have also used ESF funding to address needs for essential services, such as education, electricity, transportation, and solid waste treatment. They are executed through an Inter-agency Agreement between NEA-I and USACE,

which develops, solicits, contracts, implements, oversees, and delivers PRDC projects. This quarter, 12 projects, valued at \$27.5 million, were completed in seven provinces.<sup>392</sup> As of March 31, 2010, \$423.5 million of the \$496 million obligated for PRDC projects had been expended.<sup>393</sup>

For an overview of PRDC funding, by province and type of ongoing project, see Figure 2.26.

### Assessment of Provincial Development

This quarter, PRTs released their updated assessment of the progress that each provincial government is making toward self-reliance in areas of governance, rule of law, national unity, economic development, and political development. Called the Maturity Model Quarterly Assessment (MMQA), the report ranks progress or regression in each of the five categories based on subjective evaluations made by PRT personnel. The lowest ranking is *beginning*, and progressive rankings include *developing*, *sustaining*, *performing*, and the highest ranking, *self-reliant*. The latest assessment was completed on December 30, 2009, and covers the period from September 1, 2009, to November 30, 2009.<sup>394</sup>

Kerbala province was judged by the PRT working there as *self-reliant* in political development because the provincial government provided adequate supplies of gasoline to consumers through government-owned gas stations and was starting to be responsive to constituents' needs for government services. The biggest leap in progress was noted in Missan province, where the rule-of-law ranking climbed from *low-developing* to *mid-sustaining*. According to PRT Missan's evaluation, security concerns expressed by local judges have turned out to be "overstated." Although judges in the province are still routinely threatened, there have been no acts of violence against them, which has emboldened judges to apply the law more even-handedly.<sup>395</sup>

Baghdad's PRT ranked the province slightly higher (though still ranked as *sustaining*) in the national unity category because rival parties appear to have resolved differences sufficiently to be able to

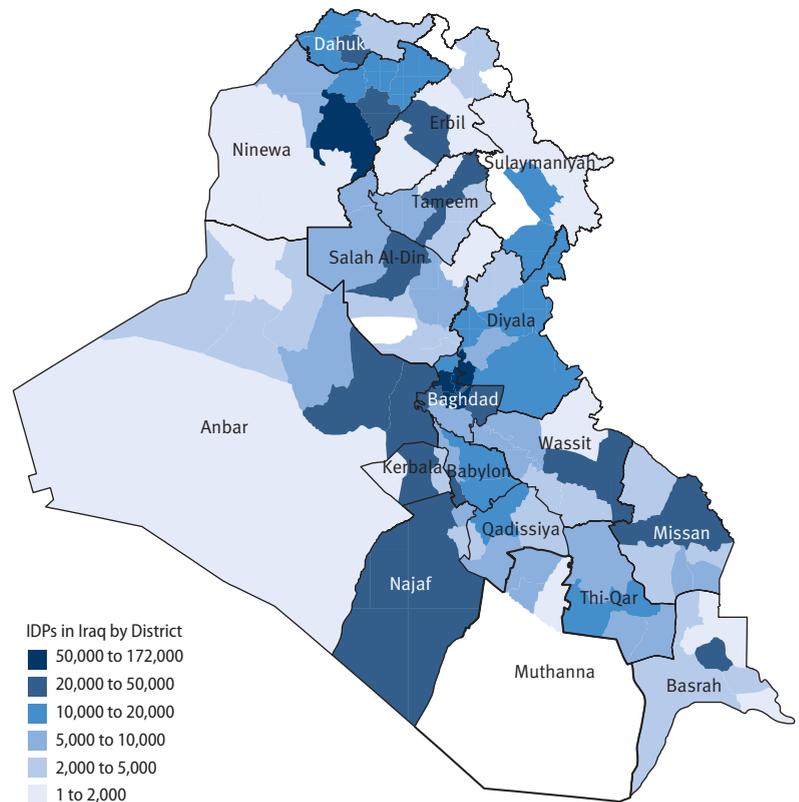
deliver essential services without regard to ethno-sectarian differences. Basrah's PRT noted progress in both governance and political development as several members of the Provincial Council attended training to learn how to create a provincial development strategy, and there was some evidence of a strategy being put into place, prompting the PRT to rank its political development as *performing*. The PRT observed political representation being distributed more widely throughout the province and a reduction in politically motivated violence.<sup>396</sup> Despite continued unresolved political problems in Ninewa and Tameem, assessments in both provinces remained constant at the relatively low rankings of *developing* and *sustaining*.<sup>397</sup>

Diyala, meanwhile, regressed from *developing* to *beginning* in the rule-of-law category because of an apparent increase in sectarian bias by police against Sunnis. PRT Diyala reported politically motivated arrests of Sunni leaders, including the provincial deputy governor and members of the Sons of Iraq. PRT Diyala also reported that it believed the arrests were made at the behest of the GOI. Salah Al-Din province also slipped in governance, political development, and national unity ratings (now at *sustaining*) due to political wrangling over the budget and a political stalemate in the Provincial Council. The PRT also noted a significant black market for fuel distribution in the province.<sup>398</sup>

## Internally Displaced Persons and Refugees

More internally displaced persons (IDPs) and refugees returned to their areas of origin this quarter, and new cases of displacement slowed considerably as Iraqis continued to perceive an improvement in the overall security situation.<sup>399</sup> The United Nations High Commissioner for Refugees (UNHCR) estimated that nearly 450,000 refugees and IDPs had returned to Iraq as of February 2010.<sup>400</sup> The DoS Bureau of Democracy, Human Rights, and Labor estimated roughly 400,000 Iraqis had returned home since

FIGURE 2.27  
IRAQI INTERNALLY DISPLACED PERSONS, BY DISTRICT  
January 2010



Source: Norwegian Refugee Council, Internal Displacement Monitoring Centre, "IDPs in Iraq by District January 2010," [www.internal-displacement.org/8025708F0048E3B1/\(httpInfoFiles\)/A1F617996D005FF7C12576A900385588/\\$file/iraq\\_unhcr\\_idps-by-district\\_jan10.pdf](http://www.internal-displacement.org/8025708F0048E3B1/(httpInfoFiles)/A1F617996D005FF7C12576A900385588/$file/iraq_unhcr_idps-by-district_jan10.pdf), accessed 3/5/2010.

2008, crediting improvements in security and a reduction in sectarian tensions.<sup>401</sup> Approximately 85% of all returnees were reportedly IDPs, and just more than half returned to the Baghdad area.<sup>402</sup>

DoS and others estimate that 1.5 million Iraqis fled from ethno-sectarian violence following the 2006 Samarra mosque bombing.<sup>403</sup> Approximately 200,000 more had already been displaced following the 2003 U.S. invasion, and approximately 1 million—most of them Kurds who relocated to northern Iraq and have established permanent settlements in the Kurdistan Region—were displaced during the previous Iraqi regime.<sup>404</sup> The displaced found refuge mainly in Baghdad, the Kurdistan Region,

and Ninewa and Diyala provinces.<sup>405</sup> Six Baghdad districts were among the 15 districts with the most IDPs.<sup>406</sup> For an overview of IDPs in Iraq, by district where they currently reside, see Figure 2.27.

Hygiene and sanitation conditions for IDPs are reported to be generally better in the Kurdistan Region than in the rest of Iraq, but many of the displaced continued to face inadequate access to food, housing, basic services, and employment. Most IDPs report living with families or in rented housing, though some occupy abandoned homes or public buildings.<sup>407</sup> Roughly 40% rented their homes before they fled and now have nowhere to return. An estimated 22% live in communal settlements, public housing, or makeshift camps.<sup>408</sup>

### **Iraqi Government Assistance to IDPs and Refugees**

In January, the chair of the CoR's committee on displacement and migration proposed allocating an additional \$169.5 million to the existing budget of the Ministry for Displacement and Migration (MoDM).<sup>409</sup> While GOI financial aid was essential for many IDPs and returnees, many have found it inadequate or been unable to access it. A 2009 joint national survey by MoDM, UNHCR, IOM, and others found that 86% of IDPs had obtained food through Iraq's Public Distribution System, while 45% had received monthly MoDM stipends.<sup>410</sup> Prime Minister al-Maliki appointed a senior advisor to act as coordinator of refugee and IDP issues and issued orders for the government to increase financial payouts to the displaced, but the challenges of budget shortfalls, high unemployment, a severe housing shortage, and lack of overall security remain roadblocks to GOI efforts.<sup>411</sup>

According to UNHCR, an \$80 stipend was supposed to be paid monthly to each displaced family, but by January, most families had received only a single payment. According to U.S. Embassy-Baghdad, by the end of 2009, roughly half of some 64,000 registered returnee families had received a promised lump-sum payment of roughly \$850 from the GOI.<sup>412</sup> This quarter, there were two

assistance centers in Baghdad and one each in Diyala, Anbar, Salah Al-Din, and Basrah provinces where returnees could present documents and verification of property ownership and ask police to evict illegal occupants.<sup>413</sup>

The KRG Department of Displacement has been struggling to provide adequate relief in northern Iraq as well, and IDPs in the Kurdistan Region face a particularly restrictive employment environment.<sup>414</sup> Neither the GOI nor the KRG has offered a comprehensive assistance package, and according to the International Rescue Committee, there appears to be no coordination between the two governments.<sup>415</sup>

### **National Unity as a Component of IDP and Refugee Repatriation**

The GOI has yet to formulate a comprehensive policy for reversing the effects of ethnosectarian violence. Sunni leaders, including Deputy Prime Minister Rafi al-Eissawi, have accused the government of discouraging Sunni refugees and IDPs from returning home, but the GOI has denied the allegations.<sup>416</sup>

In Diyala province, thousands of Shia and Sunni families have returned to live in mixed villages with the help of the GOI and in coordination with UNHCR, the PRT, and others.<sup>417</sup> Called the Diyala Initiative, the effort was led by Prime Minister al-Maliki's Implementation and Follow-Up Committee for National Reconciliation and includes a pledge of \$35 million in compensation to local victims of terrorism. U.S. Embassy-Baghdad reported that the UNHCR built more than 3,000 one-room homes as part of the initiative, and other agencies are providing agriculture assistance, job opportunities, water, and education support.<sup>418</sup> The National Reconciliation Committee chairman called on Diyala's tribal sheiks to establish their own tribal reconciliation committee that would focus on helping more IDPs return to their homes.<sup>419</sup>

But elsewhere, many IDPs and refugees reported to UNHCR that they could not safely return to claim their homes. The most common reasons were that the property had been damaged or destroyed,

or had been sold under duress.<sup>420</sup> For an overview of factors affecting IDP decisions to stay put or to relocate, see Figure 2.28.

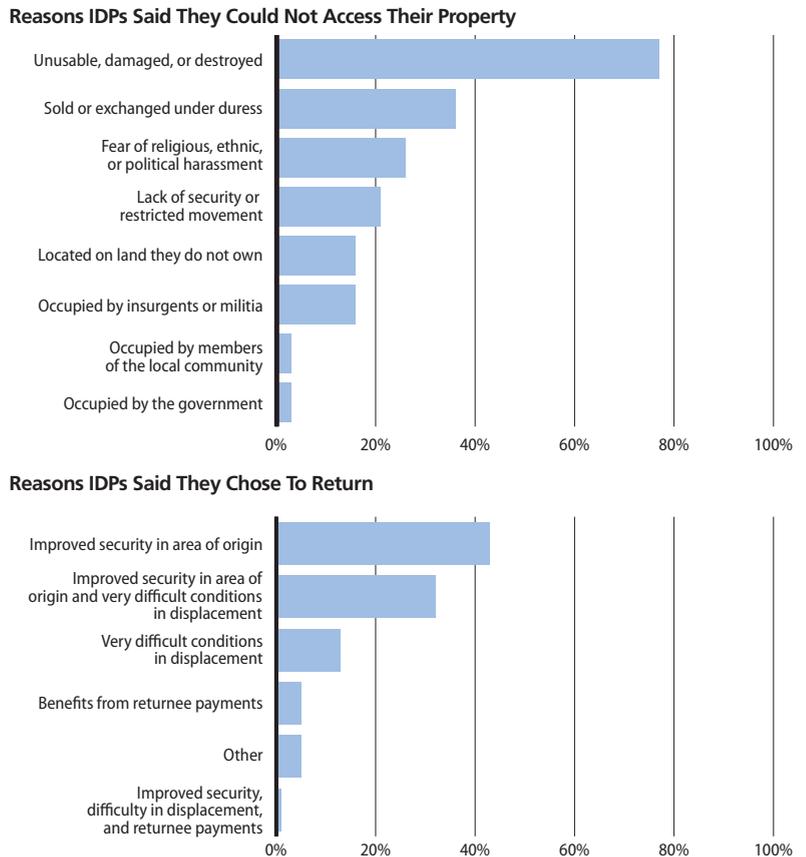
In a November 2009 report, the IOM found that roughly 53% of IDPs surveyed wanted to return to their original homes, 25% hoped to integrate into their host communities, nearly 20% planned to resettle, and less than 3% were waiting to make a decision.<sup>421</sup> Those who managed to return were motivated by improved security in their areas of origin, the promise of government payments to those who elected to return, and the arduous living conditions they faced while displaced.<sup>422</sup>

## U.S. Assistance to Iraqi IDPs and Refugees

In FY 2009, the United States provided a total of \$387 million to assist refugees in neighboring countries and IDPs and returnees in Iraq, including funding for the DoS Bureau of Population, Refugees, and Migration (PRM) and USAID's Office of Foreign Disaster Assistance (OFDA) programs.<sup>423</sup> Of that total, OFDA funded \$83.4 million in programs implemented by 10 partner agencies.<sup>424</sup> PRM contributed \$303.4 million for humanitarian assistance to Iraqi refugees and IDPs through UNHCR and the United Nations Children's Fund, as well as other NGOs, including \$95 million funneled through UNHCR to support the GOI-led Diyala Initiative.<sup>425</sup> Additionally, more than 63,500 IDPs and refugees visited the GOI's Return Assistance Centers (RACs), which were established in 2008 with U.S. funding.<sup>426</sup>

This quarter, USAID's Office of Inspector General (OIG) released an audit of OFDA programs worth \$115 million and operated in FY 2007 and FY 2008 by three implementing partners—International Medical Corps, International Relief and Development, and Mercy Corps. The audit found that while the programs had achieved OFDA's goals of saving lives and alleviating human suffering, there were also significant problems associated with the implementing partners. For instance, the audit found that implementing partners had exaggerated

FIGURE 2.28  
FACTORS AFFECTING IDP DECISIONS TO STAY PUT OR RELOCATE

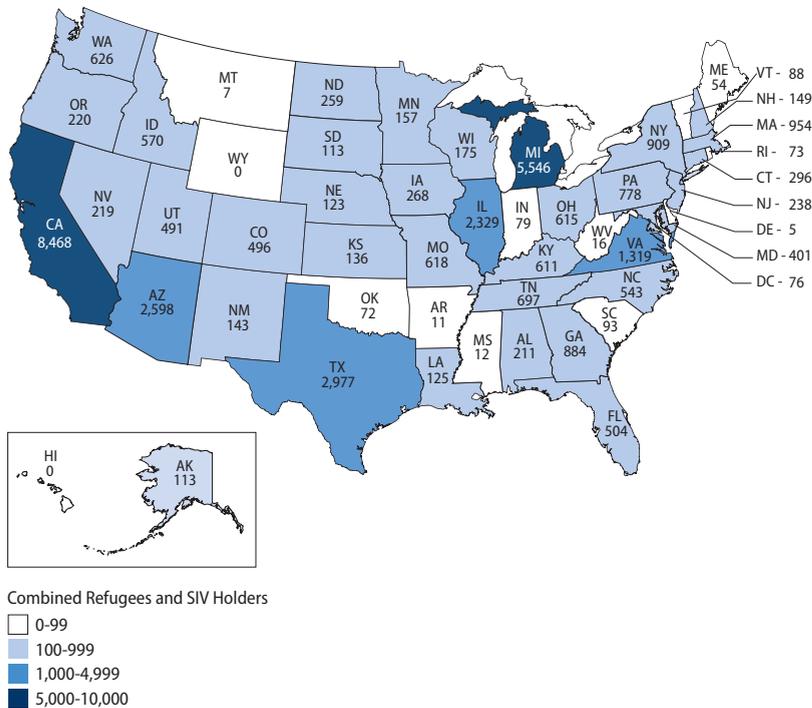


Note: Survey respondents were allowed to select more than one reason; therefore, percentages do not add to 100%.

Sources: International Rescue Committee, "A Tough Road Home: Uprooted Iraqis in Jordan, Syria, and Iraq," 2/2010, p. 7; Norwegian Refugee Council, International Displacement Monitoring Centre, "Patterns of Return and Resettlement," 3/1/2010, [http://www.internal-displacement.org/8025708F004CE90B/\(httpCountries\)/718916EEB6743EEF802570A7004C89B9?OpenDocument&expand=11&link=23.11&count=10000#23.11](http://www.internal-displacement.org/8025708F004CE90B/(httpCountries)/718916EEB6743EEF802570A7004C89B9?OpenDocument&expand=11&link=23.11&count=10000#23.11), accessed 3/5/2010.

beneficiary claims—such as reporting more beneficiaries than the total population of Iraq—and had falsified signatures and fingerprints that resulted in more than \$766,000 in questioned costs. The audit also reported on unauthorized commitments of funds, the absence of program monitoring, and late or insufficient implementation of prior OIG recommendations. OFDA accepted two of the audit's recommendations and disagreed with six, including those that dealt with unauthorized commitments of funds; it did not respond to four of the recommendations.<sup>427</sup>

**FIGURE 2.29**  
**RESETTLEMENT OF IRAQI REFUGEES AND SPECIAL IMMIGRANT VISA**  
**HOLDERS, BY STATE**  
 FY 2006–FY 2009



**Note:** Iraqi SIV data includes only those 1,995 SIV holders (out of 4,634 total issued visas) who signed up to receive resettlement and placement benefits funded by the DoS Bureau of Population, Refugees and Migration. Resettlement locations are reported according to where Iraqis are living on their 30th day in the United States.

**Source:** GAO Report GAO-10-274, "Iraq: Iraqi Refugees and Special Immigrant Visa Holders Face Challenges Resettling in the United States and Obtaining U.S. Government Employment," 3/9/2010, p. 10.

As of March 31, 2010, OFDA had provided nearly \$5.8 million of FY 2010 funds for humanitarian programming in Iraq, including more than \$2.7 million this quarter.<sup>428</sup>

### Resettlement in the United States

As of March 23, 2010, 42,388 Iraqis had resettled in the United States since FY 2007. Of this number, 8,120 resettled in 2010. The majority came to the United States after being processed in third-party countries, predominantly in Jordan and Syria. As of the end of 2009, the largest numbers of refugees had settled in California and Michigan.<sup>429</sup> Placement depends on the location of an individual's family, potential medical needs, and the ability of the

municipal or sponsoring agency to accept them.<sup>430</sup> For an overview of refugee and special immigrant visa (SIV) resettlement, by state, see Figure 2.29.

DoS administers the U.S. Refugee Admissions Program (USRAP), which accepts referrals for Iraqis from UNHCR, embassies, and NGOs, though some do not need a referral and may apply directly for refugee consideration through programs in Jordan, Egypt, and Iraq.<sup>431</sup> To obtain refugee status, Iraqis must provide details of persecution or fear of persecution. To obtain an SIV, Iraqis must have worked for, or on behalf of, the U.S. government in Iraq and provide details of persecution or fear of persecution as a result of their work. Some SIV holders are admitted into the United States as lawful, permanent residents.<sup>432</sup>

While the USRAP program has been processing refugees at the highest levels in more than a decade, the program has been constrained by the economic downturn in the United States, as well as the high levels of trauma, injury, and illness among refugees. Many resettled Iraqis have faced unemployment and homelessness.<sup>433</sup> U.S. government hiring requirements, such as citizenship or background checks, also keep many Iraqi refugees and SIV holders from working in government jobs for which they may be well qualified (as translators, for example). Exceptions include DoD's Defense Language Institute and DoS's Foreign Service Institute, which are both available to non-citizens. However, according to a GAO report, both DoD and DoS have failed to employ Iraqis as translators, interpreters, and cultural awareness instructors despite authorization to do so. GAO also reported that neither government body had plans to employ Iraqis in temporary employment programs, nor had they received funding to do so.<sup>434</sup>

### Health Care

U.S. Embassy-Baghdad's Health Attaché Office (HAO) closed in January 2010. The policy portion of HAO's portfolio was picked up by the Embassy's

Economic Section, and the construction program management functions were assumed by ITAO. The construction program currently has nine projects underway, valued at approximately \$85 million, as well as another \$2.5 million in planned projects.<sup>435</sup> In addition, USACE reported this quarter that all IRRF-funded Primary Healthcare Centers (PHCs) have been turned over to the GOI Ministry of Health (MOH), and 48 hospital renovations have been completed. As of April 1, 2010, USACE estimated that its projects have added the capacity to treat an additional 6.6 million hospital patients and 4.6 million PHC outpatients each year.<sup>436</sup>

## Primary Healthcare Centers

The U.S. government spent about \$345 million to construct and equip 133 PHCs in Iraq. In April 2009, SIGIR reported that a lack of visibility over the status of the PHC program, together with operational and sustainability issues, left the U.S. investment at risk. SIGIR recommended that an assessment of the program be conducted to provide transparency.<sup>437</sup>

SIGIR issued an audit report this quarter on a \$16.5 million contract to Stanley Baker Hill to identify and repair PHC deficiencies, conduct PHC assessments, run an operations and repair program for one year, develop a comprehensive maintenance management program for the Iraqi Ministry of Health, and enhance the MOH's operations and maintenance capabilities. The contract had mixed results, with nearly \$4 million apparently wasted. For more information on this audit, see Section 3.

## Humer Kwer Health Center

In April 2010, SIGIR released a sustainment assessment of the \$0.5 million ESF-funded Humer Kwer Health Center. SIGIR found that the health center, which had been turned over to the GOI in May 2009, was adequately constructed and was being used as intended. As part of the assessment, SIGIR recommended that USACE make some minor, safety-related repairs.<sup>438</sup> Further information about this assessment is in Section 3.



Humer Kwer Health Center's waiting room.

## Basrah Children's Hospital

SIGIR has issued two reports, an inspection report (SIGIR-PA-08-160) and an audit report (SIGIR Audit 06-026), that were critical of the construction of the Basrah Children's Hospital. In July 2009, SIGIR's inspection of the construction of the 94-bed pediatric facility found that inadequate contractor performance, unrealistic timeframes, security issues, and unreliable GOI follow-through had caused repeated setbacks. At the time of the report's release, the estimated date for the hospital to be fully functional was 2011,<sup>439</sup> but USACE now reports that the project is slightly ahead of this schedule.<sup>440</sup>

Nonetheless, when the hospital is completed, it will be about five years behind its original completion date and \$134 million (463%) over its original budget. Construction of the hospital was originally scheduled to be completed by December 31, 2005, at a cost of \$37 million.<sup>441</sup> As of March 31, 2010, the cost had grown to at least \$171 million according to new data provided by USACE.<sup>442</sup> Of this total, the United States has provided about \$110 million for the project, and the rest of the funding (\$61 million) has been provided by the GOI, the Government of Spain, and Project HOPE.<sup>443</sup>

## Missan Surgical Hospital

In July 2009, SIGIR released two inspection reports (PA-08-165 and PA-08-167) on Phases I and II of

construction of Missan Surgical Hospital. SIGIR inspectors found that construction deficiencies, deviations from design specifications, slow progress, and the GOI's inability to meet its commitment to supply equipment and staff had delayed the hospital's opening.<sup>444</sup>

USACE reported that, as of March 31, 2010, work on the 80-bed hospital, funded by \$12.7 million of the ESF, had fallen behind schedule and incurred a cost increase due to construction changes. USACE reports that it is meeting regularly with the contractor to rectify problems and bring the project back on schedule.<sup>445</sup> U.S. Embassy-Baghdad reported that the scope and schedule of the project is currently under review to evaluate changes necessary for timely completion.<sup>446</sup>

### USAID's Health Promotion Program in Iraq

USAID's Health Promotion Program in Iraq is a \$5 million capacity-building program that aims to support the Ministry of Health in the design, implementation, and evaluation of effective communication programs to promote healthier behaviors among individuals, families, and communities to reduce the risk of illness or injury. The one-year program, which is expected to run through September 2010, also works to coordinate support for H1N1 influenza prevention activities.<sup>447</sup>

### Education

DoS reports that, as of March 31, 2010, it was overseeing 40 school construction projects in Iraq, totaling nearly \$42 million; 28 are in progress. Twelve contracts, with a total value of almost \$4 million, are pending award; these are for continuation of

previously started projects. U.S. Embassy-Baghdad reports that these will be the last school construction projects it awards.<sup>448</sup> USACE reported that, as of April 1, 2010, it had completed 1,145 school projects throughout Iraq.<sup>449</sup>

The American University of Iraq, in Sulaymaniyah province, is a U.S.-style, liberal arts institution that opened in 2007. The private, non-profit university, founded by current KRG Prime Minister Barham Salih, has 375 students enrolled for the spring 2010 semester and is constructing a new 430-acre campus. The KRG provided \$65 million to fund the work, and the United States has pledged \$10 million for the university's power plant. The University has received \$1.8 million of the U.S. pledge, which it reallocated for construction of a new academic building. In January 2010, U.S. Embassy-Baghdad announced that it would donate an additional \$1 million for the school's scholarship fund.<sup>450</sup>

### Housing Rehabilitation

Iraq's population is projected to reach 40 million (from its current 27.8 million) by 2025 and will require an estimated 2 million additional housing units by 2015 to accommodate the increase. Iraq's National Investment Commission has identified 75 housing projects in Iraq's 18 provinces.<sup>451</sup> As of March 31, 2010, the U.S. government had completed \$7.4 million worth of housing projects. An additional \$2.8 million in projects were ongoing, and \$508,000 in projects had not yet been started. USAID's \$550,000 project to rehabilitate 10 residential compounds in a Baghdad neighborhood was the largest effort underway this quarter. Most ongoing projects are managed by USAID and valued at less than \$10,000.<sup>452</sup> ♦

## ECONOMY

As of March 31, 2010, the United States had allocated \$1.59 billion, obligated \$1.59 billion, and expended \$1.38 billion to support Iraq’s economic governance and private sector development.<sup>453</sup> For the status of these funds, see Figure 2.30 and Table 2.20.

This quarter, there were \$14.5 million in new obligations for programs to support Iraq’s economy. The CERP-funded Economic, Financial, and Management Improvements program and the CERP-funded Agriculture program accounted for all new obligations.<sup>454</sup>

There were also \$6.0 million in new expenditures, significantly less than the amount expended last quarter. Much of this relative drop in net expenditures from last quarter can be accounted for by two programs that reported fewer expenditures than they did last quarter: the ESF-funded Provincial Economic Growth (PEG), or *Tijara*, program; and the IRRF-funded Market Based Reforms program.<sup>455</sup>

### Key Economic Trends and Developments

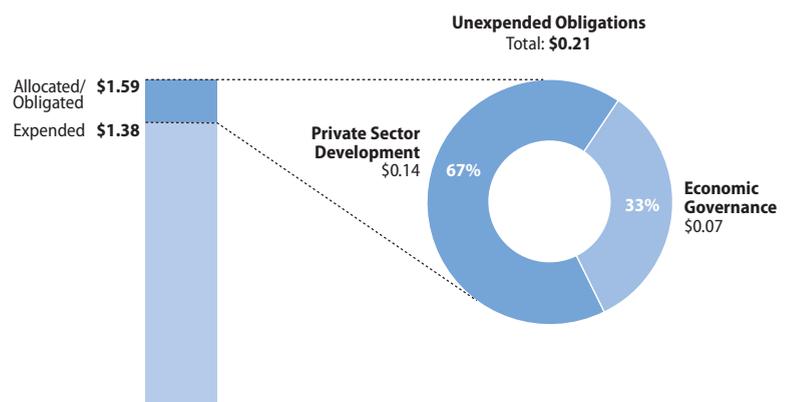
This quarter, Iraq received \$12.97 billion in total revenue from the export of crude oil; \$0.65 billion (5%) was reserved for war reparations to Kuwait, leaving \$12.32 billion in oil export receipts. This is up 122% from the same quarter one year ago,<sup>456</sup> even though the volume of crude oil exports increased just 5% over the same period.<sup>457</sup>

Increased oil revenues were driven primarily by higher oil prices. The weighted average price of Iraq’s crude oil increased by \$2.44 per barrel (3%) over the quarter and by \$37.05 per barrel (102%) from March 31, 2009, to the end of this quarter. Iraqi oil receipts totaled \$37.02 billion in 2009.<sup>458</sup> If current prices and export levels hold steady, Iraq would net \$49.28 billion in oil receipts for 2010,

ahead of 2009, but still short of the \$52.77 billion budgeted by the CoR for 2010.<sup>459</sup>

Iraq’s highly centralized economy is dominated by the oil sector. Oil receipts accounted for 60% of GDP in 2005–2009,<sup>460</sup> with domestic oil refining and consumption pushing the oil sector’s share of the economy even higher. Moreover, the CoR has projected that oil proceeds will account for more than 90% of all government revenue in 2010.<sup>461</sup> As a consequence, the Iraqi economy and government remain vulnerable to fluctuations in the price of oil. This quarter, the International Energy Agency released its projections for global oil consumption in 2010. The forecasts project an increase in demand by 1.6 MBPD, up from 85 MBPD in 2009, to a record 86.6 MBPD.<sup>462</sup> If worldwide demand does increase, it would help to stabilize, and possibly increase, current oil prices, to the benefit of the

FIGURE 2.30  
ECONOMY: STATUS OF FUNDS  
\$ Billions



**Note:** Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

**Sources:** IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; U.S. Treasury, response to SIGIR data call, 4/2/2009; USAID, response to SIGIR data call, 4/13/2009; USTDA, response to SIGIR data call, 4/2/2009.

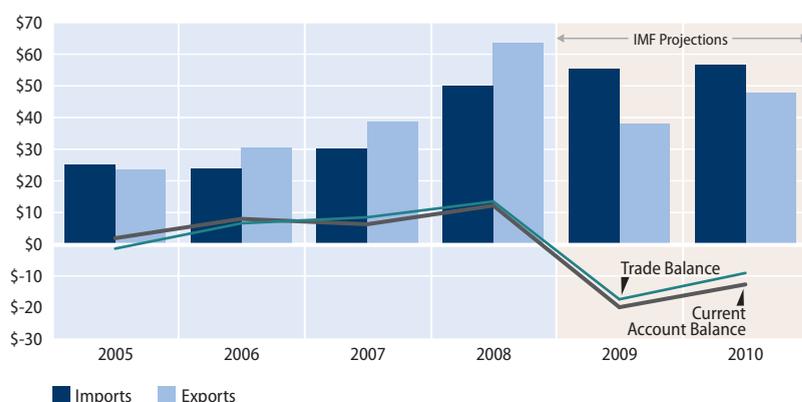
TABLE 2.20  
**ECONOMY: STATUS OF FUNDS, BY SECTOR, WITH SELECTED PROGRAMS**  
 \$ Millions

SECTOR	PROGRAM	STATUS OF FUNDS		QUARTERLY CHANGE	
		OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Economic Governance	Economic, Financial, and Management Improvements (CERP)	120.9	84.4	3.4 (3%)	5.1 (6%)
	Private Sector Development — Market-Based Reforms (IRRF 2)	135.0	109.9	0.0 (0%)	-8.7 (-7%)
	Other	571.4	563.2	0.0 (0%)	0.0 (0%)
	<b>Subtotal</b>	<b>827.3</b>	<b>757.5</b>	<b>3.4 (0%)</b>	<b>-3.5 (0%)</b>
Private Sector Development	Agriculture (CERP)	111.1	90.0	11.1 (11%)	18.2 (25%)
	Provincial Economic Growth (ESF)	85.8	38.1	0.0 (0%)	-10.6 (-22%)
	Other	563.4	493.0	0.0 (0%)	1.9 (0%)
	<b>Subtotal</b>	<b>760.2</b>	<b>621.0</b>	<b>11.1 (1%)</b>	<b>9.6 (2%)</b>
<b>Total</b>		<b>1,587.5</b>	<b>1,378.6</b>	<b>14.5 (1%)</b>	<b>6.0 (0%)</b>

Note: Data not audited. Numbers affected by rounding. Programs listed in this table had at least \$5 million in combined quarterly obligations and expenditures. Appendix C shows the status of programs in the “Other” categories, which had nominal or no quarterly change. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting by one quarter. Therefore, category totals found in the Funding subsection of this Report may not match top-line values found in the four subsections on major reconstruction areas.

Sources: IRMS, *USF-I CERP Category Report*, 4/14/2010; NEA-I, response to SIGIR data call, 4/2/2010; U.S. Treasury, response to SIGIR data call, 4/2/2009; USAID, response to SIGIR data call, 4/13/2009; USTDA, response to SIGIR data call, 4/2/2009; SIGIR, *Quarterly and Semiannual Report to the United States Congress*, 1/2010.

FIGURE 2.31  
**IRAQ'S TRADE BALANCE**  
 \$ Billions



Source: IMF, *Regional Economic Outlook: Middle East and Central Asia*, 10/2009, pp. 55–57.

GOI’s potential revenues. For a historical perspective, see Figure 2.32.

Iraq’s recent monetary stability persisted through the end of the quarter. Until late 2008, the Central Bank of Iraq (CBI) allowed the Iraqi dinar to appreciate against the U.S. dollar to help bring down the core inflation rate.<sup>463</sup> In response to deflationary

pressures during much of 2009, the CBI eased its tight policy stance by maintaining a fixed exchange rate and lowering its policy rate.<sup>464</sup> With indicators now stable, the CBI intends to maintain its current monetary and exchange rate policies.<sup>465</sup>

As of December 2009, year-on-year inflation was -4.4% and year-on-year core inflation was 6.1%.<sup>466</sup> For details, see Figure 2.32.

Low oil prices in 2009 resulted in a negative balance of payments for the year, which was largely covered by reserves built up during previous years.<sup>467</sup> For details on Iraq’s trade balance, see Figure 2.31.

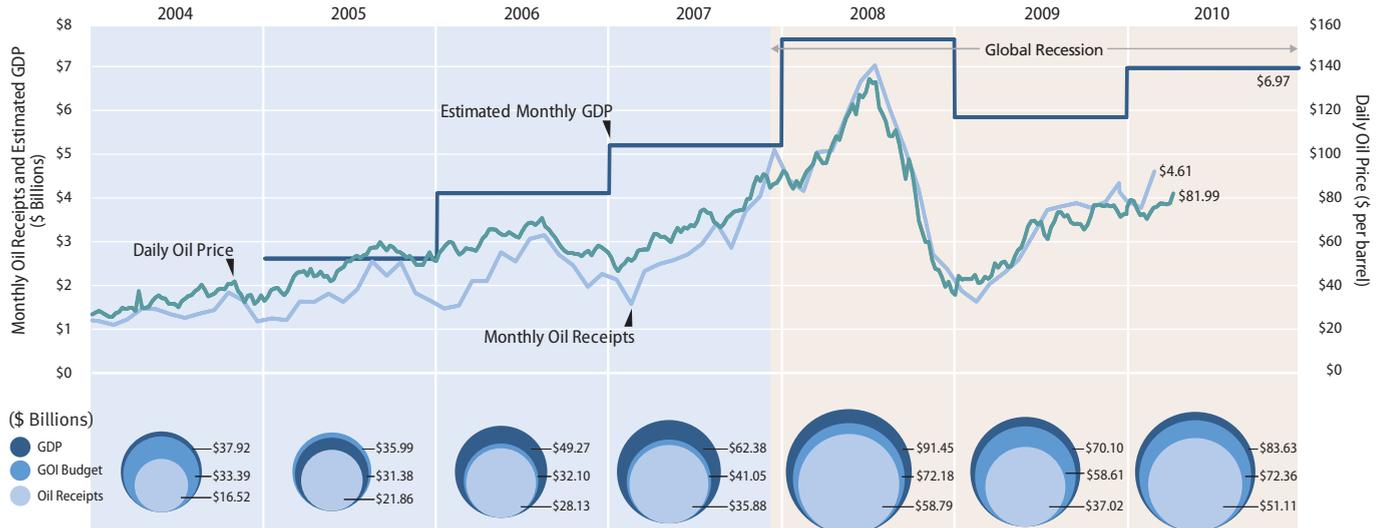
U.S. companies continue to expand trade with Iraq, and U.S. data shows exports steadily increasing from \$1.37 billion in 2005 to more than \$2.00 billion in 2008, before falling in 2009 to \$1.77 billion.<sup>468</sup>

Developing a more complete picture of Iraq’s trade regime is difficult. According to the IMF, GOI tracking of external trade data suffers from serious issues of timeliness and quality.<sup>469</sup> The Iraqi Customs Department, for example, has not yet begun to use new forms designed to track imports because of a lack of resources and ongoing security challenges.<sup>470</sup>

# RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.32  
THE IRAQI ECONOMY, 2004–2010

## Oil Price, Iraqi Oil Receipts, and GDP



## Inflation in Iraq and the Middle East

% Change from Period End (Iraq Monthly Data) or Annual Average (Middle East Average)

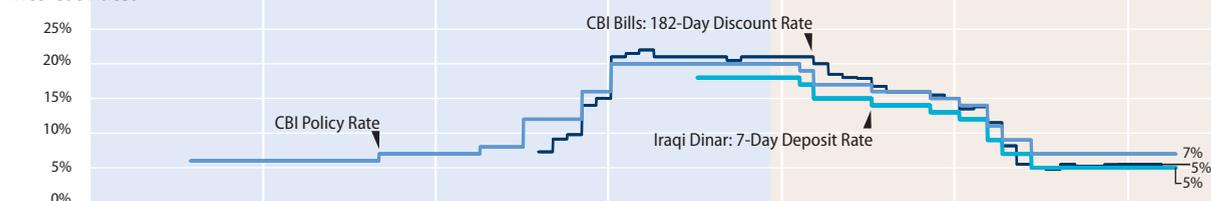


## Exchange Rate

Dinars per U.S. Dollar



## Interest Rates



Note: Data not audited. Numbers affected by rounding. Weekly Iraq Kirkuk netback price at U.S. Gulf used for all oil price descriptions, depictions, and analysis. All dollar values in current prices; GDP for 2007–2010 are estimates; 2010 oil revenue projection is from the 2010 GOI Budget.

Sources: U.S. Treasury, responses to SIGIR data calls, 10/2/2009 and 1/11/2010; IMF, *World Economic and Financial Surveys: World Economic Outlook Database*, 10/2009, [www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx](http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx), accessed 3/31/2010; EIA, *OPEC Revenues Fact Sheet*, 1/2010, [www.eia.doe.gov/emeu/cabs/OPEC\\_Revenues/Factsheet.html](http://www.eia.doe.gov/emeu/cabs/OPEC_Revenues/Factsheet.html), accessed 1/24/2010, and "Weekly Iraq Kirkuk Netback Price at U.S. Gulf," [tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WEPCIRK&f=W](http://tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WEPCIRK&f=W), accessed 1/12/2010; GOI, CBI, "Key Financial Indicators," 4/14/2010, [www.cbi.iq/documents/key\\_financial.xls](http://www.cbi.iq/documents/key_financial.xls), accessed 4/21/2010; SIGIR analysis of CIA, *The World Factbook*, [www.cia.gov/library/publications/the-world-factbook/geos/iz.html](http://www.cia.gov/library/publications/the-world-factbook/geos/iz.html), accessed 2004–2010.

## Economic Governance

The country's transition from a centralized command economy to a more open one, based on free markets overseen by democratic structures, continues to face many challenges, and the governance framework remains a work in progress. Programs to enhance the institutions and framework for economic governance have been related to the (potential) allocation of development funding from international stakeholders. Among the formal processes Iraq has undertaken to this end are:

- **National Development Strategy (NDS), 2005–2007.** Developed in conjunction with the World Bank, the NDS served as a basis for promoting Iraq as a recipient of donor assistance under the International Reconstruction Fund Facility for Iraq (IRRFI).<sup>471</sup>
- **International Compact for Iraq (ICI), 2007–2008.** Developed in conjunction with the United Nations, this five-year program included benchmarks and mutual commitments from both Iraq and the international community. The only review of the compact revealed that several key economic benchmarks were missed, and the program fell short of GOI goals.<sup>472</sup>
- **National Development Plan, 2010–2014.** This plan is currently being developed in conjunction with the United Nations.<sup>473</sup>

### New IMF Stand-By Arrangement

On February 24, 2010, the IMF announced a new two-year Stand-By Arrangement (SBA) for Iraq for up to \$3.6 billion,<sup>474</sup> of which Iraq has already drawn \$455 million.<sup>475</sup> The arrangement, a successor to the previous one that expired in March 2009,<sup>476</sup> is a standard, short-term instrument issued by the IMF to assist middle-income countries facing short-term, balance-of-payment deficits.<sup>477</sup> The SBA is conditioned on Iraq working toward a more sound macroeconomic framework by implementing certain reforms, to include:<sup>478</sup>

- more efficient budget execution and public financial management

- banking sector reform
- greater transparency in the oil industry
- a streamlined public distribution system (PDS)

The SBAs have provided Iraq direction consistent with the goals that were continued in the ICI. The arrangement finalized this quarter, for example, is conditioned on Iraq working to achieve goals that were set, but not attained, under the ICI framework.

The World Bank also announced a new loan program for Iraq in the form of two development policy loans (DPLs) of \$250 million each.<sup>479</sup> Both the IMF and World Bank cited Iraq's expected budget deficits for 2010 and 2011 as a major factor in their decisions to extend the loans.<sup>480</sup> Because of its vulnerability to fluctuations in oil prices, Iraq has solicited precautionary financial support from the IMF and World Bank in the past in the form of SBAs and other loans.

### Financial Management

In March, the Minister of Finance and the CBI, in a statement to the IMF, announced that the GOI would develop a dinar-denominated bond market and an interbank foreign exchange market.<sup>481</sup> The establishment of this secondary market, outside of the dollar-denominated bond auctions currently run by the CBI—which authorities plan to develop further by improving the auction process for treasury bills<sup>482</sup>—could help the GOI finance annual budgets in the face of revenue shortfalls.<sup>483</sup> Iraq is expected to run deficits at least through 2011 before returning to a budget surplus.<sup>484</sup> However, as SIGIR has reported, previous deficit projections for Iraq have failed to materialize, largely due to the GOI's failure to fully execute past budgets.

### Banking Reform

Iraq's banking sector is underdeveloped by international standards and is dominated by the state-owned Rafidain and Rasheed Banks, which hold 90% of the banking system's assets.<sup>485</sup> Capital remains difficult to raise for private enterprises, credit to the economy is estimated at only about

Iraq is expected to run deficits at least through 2011 before returning to a budget surplus.

4% of GDP, and Iraq's private banks—36 at last count<sup>486</sup>—are risk averse and lend only to proven, trustworthy clients.<sup>487</sup> Reports that GOI officials have recently instructed Rasheed and Rafidain Banks to make available 5-year loans (up to \$4,300) to full-time GOI employees at rates below CBI rates present a possible conflict of interest between these institutions.<sup>488</sup> Reforming the Rafidain and Rasheed Banks is a key goal of the IMF's past and present SBAs with Iraq.

## Oil Industry Transparency

On February 11, 2010, the Extractive Industries Transparency Initiative (EITI) announced that Iraq had become a candidate country.<sup>489</sup> The EITI seeks to improve governance in resource-rich countries through the verification and full publication of company and government revenues and receipts from oil, gas, and mining.<sup>490</sup> Iraq, which ranks in the bottom 20% (number 153 out of 183) in the World Bank's most recent country rankings for ease of doing business,<sup>491</sup> would benefit from an improved investment climate that greater transparency would bring. The country will require massive capital investments in its oil sector in the coming years, much of which will come from international oil companies contracted to make the upgrades. Under the rules of the initiative, Iraq now has two years to conform to EITI standards and must then undergo a four-part validation process before being granted the status of EITI compliant.<sup>492</sup>

Other oil-sector reforms—such as the maintenance of a single, auditable account for oil export revenues<sup>493</sup> and completion of a metering system for export fuel flows—have to date been largely implemented. However, Iraq has not yet completed installation of a domestic metering system, which would give a more accurate measure of oil production and distribution internally and allow accurate accounting of proceeds from exports and internal consumption.<sup>494</sup>

## Public Distribution System

The GOI 2010 budget eliminates funding for PDS ration-card items to Iraqi households earning more than 1.5 million Iraqi dinars per month (approximately \$1,280).<sup>495</sup> With the average annual income for Iraqis estimated at roughly \$2,000 per year, however, this exclusion appears to apply only to the nation's wealthiest demographic.<sup>496</sup>

The GOI has budgeted approximately \$3.5 billion for the PDS in 2010<sup>497</sup>—6.7% of the GOI's total operating budget for the year.<sup>498</sup> If that figure becomes final, it would represent a significant reduction in resources for the PDS from last year, which is estimated to have cost the GOI between \$5.3 billion and \$7 billion in 2009.<sup>499</sup> The PDS, the largest emergency food aid program in the world, delivers a basket of goods to Iraqis—7 million of whom subsist on less than \$2 per day.<sup>500</sup> However, the PDS is often cited as inefficient and open to corruption,<sup>501</sup> and beneficiaries are estimated to receive only half of the daily food entitlement.<sup>502</sup> In addition, U.S. Embassy-Baghdad points out that the distribution of imported foodstuffs at heavily subsidized rates through the PDS crowds out and undermines local food producers, processors, and retailers.<sup>503</sup>

The PDS is estimated to have cost the GOI between \$5.3 billion and \$7 billion in 2009.

## Private Sector Development

### Agriculture

Iraq's agriculture sector accounts for approximately 8.4% of GDP<sup>504</sup> and, according to GOI estimates, employs 12.3% of the workforce.<sup>505</sup> Two thirds of the arable farmland in Iraq is state-owned and administered by the Ministry of Agriculture, which maintains the authority to lease land to tenant-farmers.<sup>506</sup>

The GOI estimates that Iraq requires, on average, an estimated 50 to 60 billion cubic meters of water per year to meet its irrigation, drinking, and industrial needs, with 75% of that going to agriculture uses.<sup>507</sup> However, the severe drought in recent years has damaged Iraq's agricultural production. The country continues to import the majority of its



Wheat seed, distributed with assistance from USAID, is given to Iraqi farmers who are struggling after two years of drought. (USAID photo)

Preliminary indications are that Iraq's wheat and barley production will rebound strongly from the drought-suppressed levels of 2008 and 2009.

required grains,<sup>508</sup> with 74% of its wheat demand in 2008 alone being met from abroad.<sup>509</sup> Although grain-producing areas did not receive enough rainfall during the final quarter of 2009 to saturate the soil,<sup>510</sup> preliminary indications are that Iraq's wheat and barley production will rebound strongly from the drought-suppressed levels of 2008 and 2009, especially in the northern regions most affected by the drought.<sup>511</sup> The larger crop will do little to reduce Iraq's dependence on imports for bread-quality wheat, but should increase supplies of feed-quality wheat and barley available for use by livestock producers.<sup>512</sup> With the Ministry of Trade indicating that it intends to only purchase grains of higher quality than is commonly produced by Iraqi farmers, it is possible that wheat imports will increase despite greater indigenous production.<sup>513</sup>

The region-wide water shortage has caused neighboring countries to divert water resources destined for Iraq for their own use. In an interview in February, Iraq's Minister of Water Resources, Abd al-Latif Rashid, estimated that Iraq is receiving 10–15 billion cubic meters per year of water from the Euphrates emanating from Turkey and Syria, less than half the flow Iraq received in the 1980s before Turkey constructed a number of dams upriver.<sup>514</sup> According to the minister, some water sources, such as the Karun River coming from Iran, have almost ceased flowing entirely. The reduced flows from the rivers into the Persian Gulf

permit saltwater to back into large swathes of the lower watersheds, causing salinity levels to rise in the south and rendering agriculture in the region increasingly difficult.<sup>515</sup>

However, water shortages in Iraq are not solely the result of external factors. USAID observers estimate that poor water management policies, which make water available to farmers at no cost, contribute to a 25%–30% over-watering of crops.<sup>516</sup> Iraq received about half the water the GOI estimated it needed in 2009, and how much it will receive in 2010 will depend on hydrological cycles and ongoing negotiations over water releases with neighboring countries.<sup>517</sup> This is the second prolonged drought to afflict Iraq in a decade.

In early April, the Ministry of Agriculture announced a “ban” on imports of tomatoes, okra, squash, eggplant, onions, cucumbers, and peppers.<sup>518</sup> The ban appears more targeted than the blanket ban on vegetable imports imposed in spring 2009. Vegetable prices in Iraq are characterized by large swings tied to seasonal production and imports. Given that the ban has been in effect for such a short period, it is too soon to judge its effects.<sup>519</sup> However, it is noteworthy that the ban in 2009 was largely circumvented by importers, and its impact diluted through the issuance of import licenses by the ministry.<sup>520</sup>

Expanding Iraq's food-processing capacity could help ease the country's reliance on food imports and attain a modicum of food self-sufficiency. To that end, the United States has funded agricultural projects aimed at developing such capacity. This March, in the Kurdistan Region, USACE completed a year-long construction project on the Qadazilla meat processing plant in coordination with the KRG.<sup>521</sup> The aim of this \$1.1 million ESF-funded project was to provide the region with a sanitary, efficient facility to supply area butchers and markets.<sup>522</sup> In April, USACE also announced the completion of the al-Kut Grand Market, in Wassit Province.<sup>523</sup> The project, funded with \$5.2 million from the ESF, has provided nearly 35,000 square feet of retail space



The al-Kanz Poultry Processing Facility is one of the final projects to be completed under a U.S.-funded initiative to reestablish poultry production in Mahmoudiyah. It will supply Iraqis with fresh chicken slaughtered in accordance with Islamic dietary standards. (U.S. Army photo)



Farmers in Thi-Qar province tend bee colonies. Beekeeping provides an extra source of income, helping farmers to weather poor harvests affected by the ongoing drought. (U.S. Embassy-Baghdad photo)

to accommodate 56 fish and meat sellers and an expected work force of 300.<sup>524</sup>

In another project south of Baghdad, a joint effort by the U.S. Army and USDA resulted in the refurbishment of the al-Kanz poultry processing plant, which had been idle for six years. The plant, a \$1.6 million CERP project<sup>525</sup> led by the Mahmoudiyah Poultry Association,<sup>526</sup> is an initiative to re-establish a self-sufficient poultry industry in Yusifiyah.<sup>527</sup> However, current market conditions have hindered the plant's ability to operate at a profit, and field reports indicate that the facility is currently closed.<sup>528</sup>

This quarter, SIGIR conducted an inspection of the ESF-funded Basrah Modern Slaughterhouse. For more information, see Section 3 of this Report.

Also this quarter, the area PRT and U.S. military in Falluja assisted local farmers in producing, harvesting, and selling hybrid seed corn to government purchasers, who pay according to prices set by the GOI. Corn not sold to the GOI has been sold in the local market at a premium price because of its high quality and significantly higher yields than local varieties.<sup>529</sup> In all, 13,200 pounds of the hybrid seed were distributed to 400 Iraqi farmers, and a U.S. company plans to sell this hybrid seed, Monsanto's DeKalb brand corn, in Falluja and to showcase it to distributors throughout Anbar province in the near future.<sup>530</sup> The GOI has traditionally maintained exclusive control over the importation of grains for agricultural use.<sup>531</sup>

Beekeeping has become a more prominent niche in the Iraqi agriculture sector. The United States continues to fund programs to encourage small businesses, particularly for Iraqi women in the industry. This quarter, the Kerbala PRT worked with the area Agricultural Community College to train 20 local women in the practice of beekeeping, providing them the necessary equipment to begin their businesses.<sup>532</sup> The program is financed through the PRT Quick Response Fund to provide women, most of them widows, with the means to become economically independent.<sup>533</sup>

In Thi-Qar province, the PRT reported that the area beekeeper association, founded in 2005, has expanded to 400 members who produce 5 tons of honey annually.<sup>534</sup> Demand throughout Iraq for honey is high, and with beekeeping one of Iraq's few agricultural activities not dominated by the state,<sup>535</sup> such programs have proven successful in providing farmers and entrepreneurs with extra sources of income. For the findings of SIGIR's recent assessment of the U.S.-funded beekeeping program in Thi-Qar province, see Section 3 of this Report.

## Microfinance and Banking Services

This quarter, USAID reported that its *Tijara* Provincial Economic Growth program hosted business development training events as part of its work to encourage private-sector development. The program provided approximately \$4.4 million in grants to nine Iraqi microfinance institutions for

Beekeeping is one of Iraq's few agricultural activities not dominated by the state.

The manner in which the GOI develops regulations is opaque and prone to arbitrary use.

loan capital, which in turn disbursed 17,489 loans, worth \$40.8 million.<sup>536</sup> Total outstanding micro-loans made by Iraqi institutions are reported at 58,852, worth approximately \$82.3 million.<sup>537</sup>

*Tijara* also supported Iraq's financial services industry by providing technical assistance to nine private banks in establishing small and medium enterprise (SME) lending units at 34 branches in Iraq. The SME's advanced 353 loans this quarter worth roughly \$7.0 million. *Tijara* also provided technical assistance to the Iraq Company for Bank Guarantees (ICBG) to reduce collateral risk through a loan guarantee of 75%. This quarter, the ICBG guaranteed 236 loans, worth \$2.7 million. USAID reported that *Tijara* provided \$3.0 million in loan capital and substantial technical assistance to the Iraq Company for Financing SMEs (ICF-SME), which in turn supported 192 loans worth \$4.2 million this quarter. Private banks conducting SME lending in Iraq reported a total of 1,572 loans outstanding, worth \$31.6 million.<sup>538</sup>

In February 2010, Asiaticell, a Kurdish-owned, Qatari-managed mobile-phone operator, announced that it had entered into an agreement with AMWAL—a consortium of Iraqi banks, both state-owned and private—to provide customers the ability to use their mobile phones to make money transfers, check account balances, and engage in other banking activities.<sup>539</sup> The confluence of banking and telecommunications is increasingly common in countries with high demand for banking services that cannot be met through an underdeveloped financial sector.<sup>540</sup> AMWAL is supported through an \$8.9 million program, run by the Task Force for Business and Stability Operations, to develop a modern, internationally competitive banking sector that connects Iraq to the global financial community.<sup>541</sup>

### Commercial Law and Regulation

Business in Iraq continues to suffer from a lack of clear commercial and civil code to govern business practices and to enforce contracts, cross-border trading, land ownership, taxes, and property

registration.<sup>542</sup> According to a USDA guide recently published for U.S. firms seeking to export to Iraq, the potential rewards of doing business in Iraq must continue to be weighed against significant challenges, such as legal and political uncertainties.<sup>543</sup> For example, Iraqi law requires that regulations on duties be published and made publicly available, but the manner in which the GOI develops regulations, according to the guide, is opaque and prone to arbitrary use.<sup>544</sup>

According to U.S. Embassy-Baghdad, the GOI has done little this quarter to further streamline its regulatory framework or improve upon and expand its commercial code, though the U.S. government continues to encourage it to do so and expects more progress once the outcome of the recent election is settled.<sup>545</sup> The most recent significant commercial legislation to pass the CoR was the 2006 Investment Law No. 13, which established the Iraqi National Investment Commission as the sole “one-stop-shop” for foreign companies seeking logistical support, business process support, and introductions into the Iraq marketplace.<sup>546</sup> An amendment to Law No. 13, which passed the CoR in November 2009, loosened restrictions on land ownership by foreign firms for housing projects;<sup>547</sup> however, other types of investments remain ineligible, and no steps have been taken to implement the amendment since its passage.<sup>548</sup>

### Foreign Direct Investment

Notwithstanding the aforementioned difficulties, the international business community appears increasingly confident about investing in Iraq,<sup>549</sup> especially in more secure areas, such as the Kurdistan Region. Steel manufacturer ArcelorMittal announced in March that it had signed a memorandum of understanding (MOU) with Turkish partner firm Dayen to build a steel mill in Sulaymaniyah province that could eventually achieve production of half a million tons annually.<sup>550</sup> The joint venture is estimated to cost between \$100 million and \$130 million, with construction

set to begin later this year.<sup>551</sup> Other business deals recently made public by the GOI include the signing of an MOU with an Australian company by the Najaf Provincial Investment Commission for several large projects in the province, including

construction of 35,000 housing units, a date factory, and a cement factory.<sup>552</sup> Such investment deals are in addition to the energy-related negotiations and contracts discussed in the Infrastructure subsection of this Report. ♦