

SIGIR OBSERVATIONS

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SECTION

1

SUSTAINING PROGRESS IN A TIME OF TRANSITION

April marks the eighth anniversary of the fall of Baghdad. With a new Iraqi government still taking shape, overall violence levels down significantly from 2007 highs, and a booming oil industry fueling economic growth, the U.S. program is working to secure the hard-won gains achieved since 2003.¹ The events of this quarter underscore the tenuous nature of those gains. Iraq is still insecure, the current government is unsettled, and leading parliamentarians are speculating on the possibility of early elections.

Assassinations of security personnel continued to rise during the past three months, with senior police officials regularly targeted. Two of the most important Government of Iraq (GOI) ministries—Defense and Interior—still lack permanent leaders, with those ministries led by Prime Minister Nuri al-Maliki on an acting basis, a far from ideal circumstance. In the Kurdistan Region, simmering discontent boiled over into lethal violence, leading the Kurdistan Regional Government (KRG) to prohibit unauthorized protests in Sulaymaniyah and causing its prime minister to threaten resignation. Important legislation remains stalled in the Council of Representatives (CoR), perhaps for more than procedural reasons. And the inadequate provision of public services, especially electric power, has been the subject of public demonstrations this quarter.

The first months of 2011 demonstrated the governing coalition's fragility. Prime Minister al-Maliki's loose alliance, woven together last year to secure a second term in office, began to fray. Three developments underscore the ruling coalition's weakness:

- former Prime Minister Ayad Allawi's refusal to serve as chairman of the National Council of Higher Policies (NCHP), a body proposed

largely to mollify him and permit Prime Minister al-Maliki to form a government

- the fracturing of Allawi's al-Iraqiya bloc, as several prominent members formed a breakaway party in the wake of Allawi's refusal to accept the new post
- the reemergence of Muqtada al-Sadr as a political force, particularly evidenced by his threat to reactivate the lethal Jaish al-Mahdi militia and resume violence if any new agreement allows U.S. troops to stay in Iraq beyond December 2011

As the GOI reacts to these roiling developments, the United States continues to carry out planning for several crucial transitions that must occur before the end of the year, when, pursuant to the existing U.S.-Iraq Security Agreement, U.S. military forces are scheduled to depart Iraq.

As of March 31, 2011, U.S. Forces-Iraq (USF-I) reported that it had 45,601 troops stationed in the country.² The Department of State (DoS) is planning to augment the number of persons it has under Chief of Mission authority from the current 8,000 to approximately 17,000.³ The most significant near-term challenge confronting the Embassy is ensuring the effective transfer of remaining reconstruction and relief activities from the Department of Defense (DoD).

U.S. Transition Plans

These four key transitions will reshape the U.S. reconstruction mission during the remainder of 2011:

- **Terminating all Provincial Reconstruction Teams (PRTs).** DoS plans to close the 14 remaining PRTs by September.⁴
- **Establishing consulates and embassy branch offices (EBOs).** Contingent on funding, DoS plans to establish two permanent consulates (Erbil and Basrah) and two temporary EBOs (Mosul and Kirkuk) by 2012. Together, they would comprise U.S. Embassy-Baghdad's provincial presence and host approximately 3,600 DoS personnel, contractors, and support personnel.⁵
- **Transitioning police training from DoD to DoS.** On October 1, DoS's Bureau of International

The most significant near-term challenge confronting the Embassy is ensuring the effective transfer of remaining reconstruction and relief activities from the Department of Defense.

Narcotics and Law Enforcement Affairs (INL) will assume full responsibility for training Iraqi police. The size and scope of INL's mission will be significantly smaller than DoD's, with plans for it to reach about half of Iraq's 300,000 police officers.⁶

- **Office of Security Cooperation-Iraq (OSC-I).** On October 1, 2011, the newly established OSC-I will take over continuing management of the U.S. military's relationship with the GOI. Staffed primarily by DoD personnel, OSC-I will operate under Chief of Mission authority from five locations across Iraq with responsibilities including oversight of Foreign Military Sales cases, joint military exercises, and outreach to the Iraqi military.

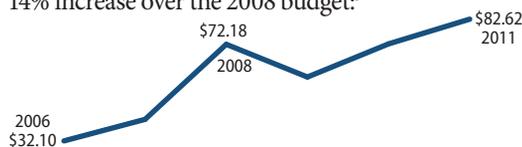
U.S. Funding

Since 2003, the United States has appropriated or otherwise made available \$61.45 billion for Iraq reconstruction efforts, primarily from five major funds: the Iraq Security Forces Fund (ISFF), the Economic Support Fund (ESF), the Iraq Relief and Reconstruction Fund (IRRF), the International Narcotics Control and Law Enforcement (INCLE) account, and the Commander's Emergency Response Program (CERP).⁷ Of these total appropriations, \$50.08 billion has been expended.

To put those billions in perspective, the United States has spent an average of \$17 million per day over the past eight years on the Iraq reconstruction effort.⁸ For more on U.S. reconstruction funding, see Section 2 of this Report.

Iraqi Funding

On February 20 the CoR approved the 2011 GOI budget. This \$82.6 billion budget appropriates \$56.9 billion for GOI operating costs and \$25.7 billion for capital expenditures. It estimates annual revenues at \$69.2 billion, resulting in a projected deficit of \$13.4 billion. The 2011 budget represents a 157% increase over the GOI's 2006 budget and a 14% increase over the 2008 budget.⁹



The 2011 budget assumes an average price per barrel of oil of \$76.50, a 22% increase from the \$62.50 price assumed for the 2010 budget, but 32% lower than the price for Kirkuk crude oil on April 1 (\$111.93). The Minister of Finance told SIGIR in February that he expects this year's projected deficit to be covered by the difference between the price of oil on the world market and the lower assumption contained in the budget.¹⁰

GOVERNANCE

More than a year has passed since the last parliamentary elections and more than four months since Prime Minister al-Maliki secured another term, but crucial high-level government posts remain unfilled. Foremost among them are the Ministries of Defense (MOD) and Interior (MOI) and the three vice-presidencies. In addition, the proposed NCHP has not formed and appears to be stillborn. In February, former Prime Minister Allawi, for whom the NCHP was created in the "December deal," said he would refuse to lead it. The CoR did confirm new ministers at Electricity, Trade, and Planning and stepped up its oversight responsibilities, summoning for questioning several high-ranking GOI officials.

The State of Iraq's Democracy

SIGIR recently met with several U.S. and GOI officials who observed that the democratic institutions established by the Iraqi Constitution of 2005 appear to be gaining acceptance within Iraqi society. But other prominent GOI officials told SIGIR they were profoundly worried about their country's future stability because of these serious concerns:¹¹

- Iraq's ministries lack experienced technocrats and administrators.
- Ministries still struggle to deliver essential services.
- The gap between a wealthy elite and the impoverished masses has grown.
- Public corruption remains pervasive.

Crucial high-level government posts remain unfilled.

In an April meeting with SIGIR, the Council of Ministers (CoM) Secretary General pointed to political instability as the toughest challenge facing the new government.¹² This quarter saw significant defections from both Prime Minister al-Maliki’s State of Law (SoL) bloc and former Prime Minister Allawi’s al-Iraqiya list. For example, in February, Jafar al-Sadr, the winner of the second-most votes on Maliki’s SoL list, resigned from the CoR, criticizing parliament as corrupt and unable to deliver basic services to the Iraqi people. Several weeks later, Safia al-Souhail, arguably Iraq’s most prominent female parliamentarian, announced her resignation from SoL, claiming that she was increasingly marginalized within the bloc and that it had devolved into an autocracy. Madame al-Souhail stated that she would continue serving in the CoR as a liberal independent and advocate for women’s rights.¹³

In early March, eight CoR members from al-Iraqiya split to form the new “White Iraqiya” party, citing Allawi’s ineffectiveness as a political leader and the need for a stronger parliamentary opposition to the governing coalition. The new opposition party is led by Hassan al-Allawi (no relation) and includes the prominent anticorruption activist Aliya Nassif.¹⁴

A Season of Protests

Throughout this quarter, Iraqi citizens conducted public, and occasionally violent, demonstrations in major urban centers, including Baghdad, Sulaymaniyah, Falluja, Basrah, Mosul, Kirkuk, and Kut. Iraqi Security Forces (ISF) units forcibly broke up some of these gatherings, resulting in many deaths and hundreds of injuries. In mid-April, the GOI, citing traffic problems and complaints by local business owners, banned all street protests in Baghdad, restricting demonstrations there to three soccer stadiums. Demonstrations have also been banned in Mosul.¹⁵

In a troubling development, large and violent protests occurred in the long-tranquil Kurdish city of Sulaymaniyah. More than 50 days of frequently



Young protester in Falluja whose sign reads: “No Sunni and no Shia anymore; I’m a pure Iraqi. And anyone who promotes sectarianism is worse than Qaddafi—Sons of Falluja.” (PRT photo)

violent demonstrations occurred there since February. Protesters denounced the political bloc comprising Iraqi President Jalal Talabani’s Patriotic Union of Kurdistan (PUK) and Massoud Barzani’s Kurdistan Democratic Party (KDP), which long have dominated the region. The demonstrators demanded early elections, seeking to end the PUK-KDP control. As of April 23, 10 Kurdish protesters had died in this year’s demonstrations.¹⁶

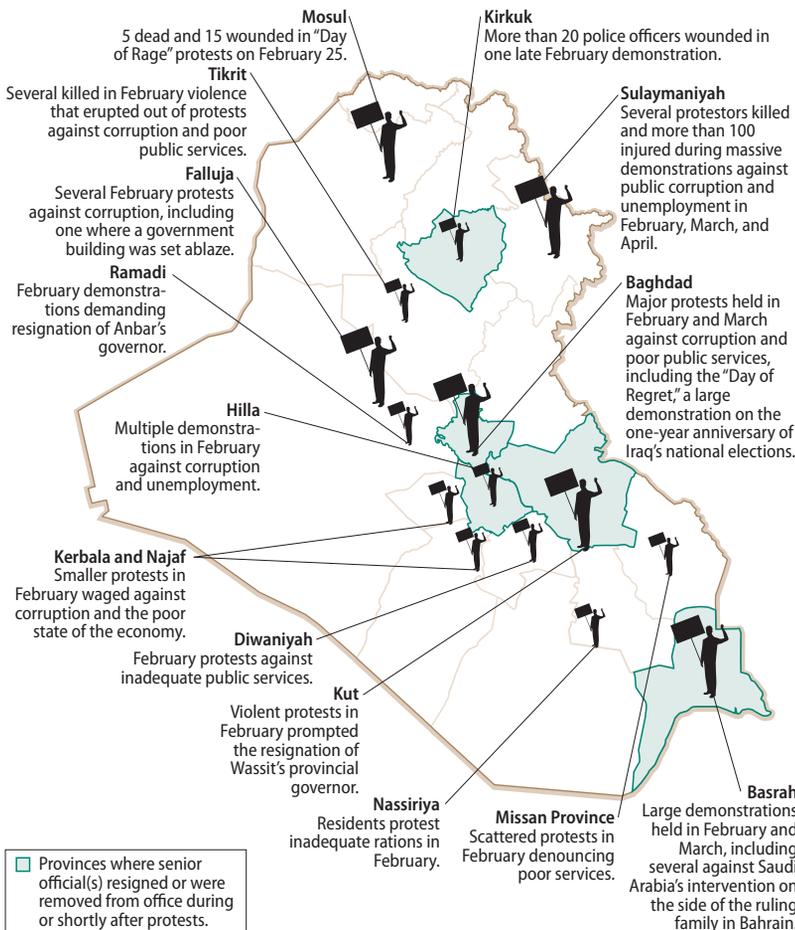
Figure 1.1 shows the location of some of this quarter’s significant protests.¹⁷

Continuing Discontent over Public Services

Echoing dissent in other Middle Eastern countries this winter, Iraqi protests coalesced around collective anger over poor government services, rampant public corruption, and a lack of jobs. Many took to the streets because of frequent electricity shortages—a grievance that will become all the more aggravated as summer approaches. Despite rising demand, Iraq’s supply of electricity has remained almost flat since autumn 2009. Nationally, the government grid supplied about 56% of estimated demand this quarter, though regional differences abound, with the Kurdistan Region being far better off than the southern provinces of Babylon, Najaf, and Qadissiya.¹⁸

Iraqi protests coalesced around collective anger over poor government services, rampant public corruption, and a lack of jobs.

FIGURE 1.1
SELECTED IRAQI POLITICAL PROTESTS, 2/2011–4/2011



Note: The graphic above is not meant to be a comprehensive tally of all demonstrations that occurred this quarter.

Source: SIGIR analysis of GOI and U.S. government documents and open-source information in Arabic and English.

In late January, Deputy Prime Minister (DPM) for Energy Affairs Hussein al-Shahristani told SIGIR that the previous government's biggest failure in energy policy was not implementing the large electricity-sector contracts, which caused Iraq to lose 18–24 months of progress. Moreover, he noted that the GOI's performance to date in rehabilitating Iraq's electricity infrastructure has been unsatisfactory, estimating that it will take until the end of 2013 to produce enough electricity to satisfy demand.

DPM al-Shahristani added that, in an effort to ameliorate anticipated summer shortages,

the Ministry of Electricity (MOE) had advanced several short-term projects that could add about 1,500 megawatts (MW) of generation capacity, and it may increase electricity importation from Iran.¹⁹ The MOE announced in March an emergency \$6.25 billion plan to add an additional 5,000 MW of generating capacity to the grid by summer 2012.²⁰

Unemployment

Widespread unemployment also motivated many protesters. In a mid-April meeting with SIGIR, the CoM Secretary General pointed to the severe unemployment problem (estimated to be as high as 30%) as the most daunting economic challenge facing Iraq.²¹ He emphasized that the private sector must produce new jobs and hoped that foreign direct investment would play a larger role in creating new job opportunities. His sentiments were echoed by the KRG Prime Minister, who told SIGIR that Iraq's bloated public sector simply could not afford to hire more employees and that growing the private sector is the only path to increasing employment.²²

Corruption and More Calls for Reform

From Ayatollah Ali al-Sistani, who denounced corruption in a January 2011 meeting with President Talabani, to the street protesters of February and March, the problem of public corruption had a wide-ranging impact on Iraqi society this quarter. A recent survey conducted by an Iraqi media organization found that 27.8% of Arab Iraqis and 37.9% of Kurdish Iraqis cited the need to combat corruption as their top priority.²³

Effective solutions remain elusive. Iraq's anticorruption institutions continue to be hampered by myriad factors, including political interference, judicial inaction, inexperienced staff, and legal uncertainty.

In February, Iraq's chief anticorruption official, Judge Raheem al-Ugaili, detailed the extent of the corruption problem during a particularly frank meeting with SIGIR. He emphasized that certain officials are effectively immune from prosecution because of the positions they hold or the powerful allies they have cultivated. The highest levels of the

GOI, he said, operate in complete secrecy, spending public money without proper oversight. When asked by SIGIR if he could change one thing about Iraq, Judge Raheem said that he would enhance governmental transparency and increase the ability of law enforcement institutions to monitor the affairs of all GOI officials—no matter what their rank or their relationship to influential Iraqis.²⁴

Judge Raheem described the Commission of Integrity (COI), which he leads, as a young agency (the Coalition Provisional Authority established it in 2004), lacking the tools needed to fight corruption. Even his 2007 appointment as Commissioner has yet to be taken up for confirmation by the CoR. But he expressed satisfaction at the COI's institutional growth, with 450 investigators now on board—a record high.

The judge observed that well-publicized media reports of alleged official misdeeds had increased pressure on the government. However, Judge Raheem cautioned that elements within the CoM continue to interfere with the freedom of the press and to harass or close down media outlets (as seen this quarter in the Kurdistan Region).²⁵

While the COI is investigating allegations of corruption levied against low-level public employees, Judge Raheem declared that two major impediments have prevented him from pursuing cases against high-ranking GOI officials:²⁶

- **Judicial fear or compromise.** Some investigative judges are unwilling to pursue cases against high-ranking GOI officials, effectively precluding the COI from moving forward with cases against senior officials.
- **Article 136(b) of the Iraqi Criminal Procedure Code.** This provision allows ministers to block legal action against their subordinates. In 2010, ministers invoked 136(b) at least 178 times.

On a positive note, in mid-April, the CoR passed a bill repealing Article 136(b), which will become law once it is signed by President Talabani and published in the Official Gazette.²⁷ It was repealed once

before, but because it was not properly published, the GOI ignored the repeal.

GOI Response to Demonstrations

Cognizant of recent conflict across the Middle East, the GOI moved quickly to address protester demands. Responses included:²⁸

- Prime Minister al-Maliki's "100-day" order to ministers directing them to make rapid progress toward institutional improvement
- the CoR debating a series of pay cuts for a wide range of GOI officials
- the Speaker of the CoR suggesting that early national and provincial elections are a possibility
- the CoM authorizing suspending the implementation of a new tariff regime that would have raised prices on most imported goods

On the provincial level, the demonstrations appeared to force similarly immediate responses. The governors of Basrah and Babylon resigned shortly after the first signs of significant unrest in their provinces, while the governors of Wassit and Tameem were removed by their Provincial Councils.²⁹

The highest levels of the GOI, he said, operate in complete secrecy, spending public money without proper oversight.

SECURITY

Recent Violence

At least 487 Iraqis were killed in apparent acts of terrorist violence between January 1 and March 31, 2011, including 147 ISF personnel.³⁰ A DoS Travel Warning, dated April 12, 2011, reaffirmed that, despite marked security improvements of recent years, terrorist attacks remain an ever-present danger, cautioning that "no region should be considered safe from dangerous conditions."³¹ Tragically underscoring the validity of this advisory, on April 18 two suicide bombers detonated their explosives-laden vehicles outside one of the entrances to the International Zone, reportedly killing at least nine and wounding many others.³²

In one of the most brutal attacks on a GOI facility in recent months, insurgents stormed Salah Al-Din's Provincial Council headquarters in Tikrit on March 29, murdering at least 58 people, including 3 council members. Suicide bombers also targeted Shia religious pilgrims in a series of large attacks earlier this quarter. Figure 1.2 shows this quarter's major security incidents.³³

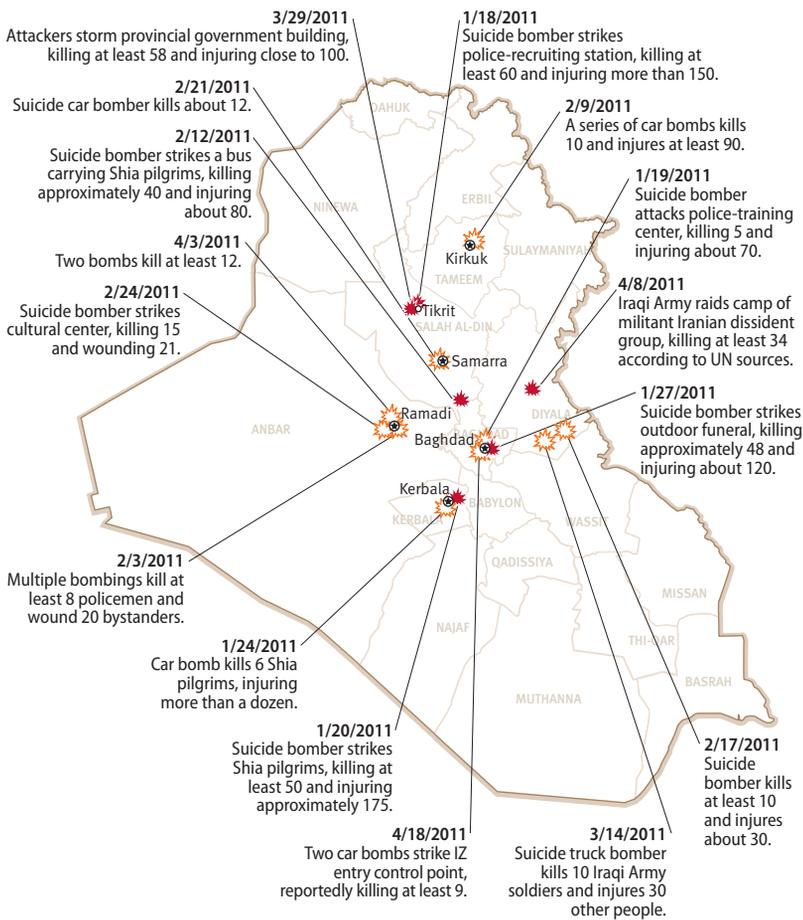
In recent months, the campaign of intimidation and assassination targeting senior GOI officials appeared to gain ground. On April 21, the head of the CoR's Integrity Committee survived an assassination attempt, escaping unharmed from three

gunmen who attacked him as he was leaving for work. Figure 1.3 presents information on attacks carried out against senior civilian and military officials between August 2010 and March 2011. Reacting to this trend, almost 200 CoR members signed a petition this quarter demanding the government provide them with armored vehicles.³⁴ For a list of recent incidents of targeted violence, see the Security section of this Report.

Future of U.S. Military Presence in Iraq

During an April visit with U.S. troops in Baghdad, Secretary Gates again opened the door to the possibility that some U.S. forces might remain in Iraq after December. But the Secretary stated that, while there is an "interest in having a continuing presence" on the part of some Iraqi leaders, the GOI would have to take the initiative and request

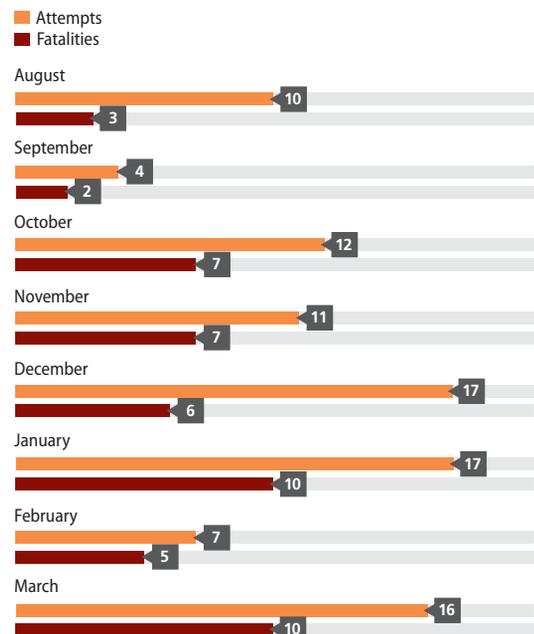
FIGURE 1.2
SIGNIFICANT SECURITY INCIDENTS, 1/18/2011-4/18/2011



Note: Does not include casualties linked to recent demonstrations.

Source: SIGIR analysis of GOI and U.S. government documents and open-source information in Arabic and English.

FIGURE 1.3
ASSASSINATIONS, ATTEMPTS VS. FATALITIES, 8/2010-3/2011



Note: May not capture all attempted assassinations and fatalities during the specified time period.

Source: SIGIR analysis of open-source documents in Arabic and English, 8/2010-3/2011.

that U.S. troops remain beyond their scheduled departure date of December 31, 2011.³⁵

Some GOI officials have expressed to SIGIR their openness to such a continued presence. In a February meeting with the Inspector General, DPM for Economic Affairs Rowsch Shaways, a Kurd, spoke of his hope that at least some U.S. troops would remain beyond the deadline. He said this hope was shared by many GOI ministers. A statement recently issued by the Prime Minister's office, however, appeared to reject Gates's offer and contravene Shaways's desires by stating that the GOI remains opposed to extending the U.S. military mission in Iraq beyond December 2011.³⁶

Shortly after Secretary Gates made his public comments, thousands of supporters of Shia cleric Muqtada al-Sadr marched in Baghdad calling for an end to the U.S. presence in Iraq. In a statement read by a spokesman to his followers, Sadr threatened to resume armed resistance if the United States kept troops in country after December 2011. His party currently controls 40 seats in the CoR and 6 ministries, providing him significant leverage in internal GOI debates about the future of the U.S. military presence in Iraq.³⁷

ISF Capability Gaps

In January meetings with SIGIR, Embassy, USF-I, and ISF officials focused on three main areas of concern that could potentially affect security in Iraq once U.S. forces leave:³⁸

- **Disputed northern territories.** Embassy officials emphasized the need for a continued monitoring presence in northern Iraq to prevent Arab-Kurd disputes from erupting into armed clashes. Control of Kirkuk and the surrounding towns remains in severe dispute between the KRG and the central government in Baghdad. Located outside the Kurdistan Region in Tameem province and sitting atop vast oil reserves, the city is inhabited by Kurds, Arabs, and Turkmen. Joint patrols combining USF-I, ISF, and Kurdish *Peshmerga* elements have maintained a presence along the



Secretary of Defense Gates meets with KRG President Barzani in April 2011. (DoD photo)

Shaways spoke of his hope that at least some U.S. troops would remain beyond the deadline. He said this hope was shared by many GOI ministers.

so-called "Green Line," helping to preserve a fragile peace.

- **External defense.** Previewing comments made by Secretary Gates in his February testimony before the Senate Armed Services Committee, U.S. officials stated to SIGIR in January that the ISF's ability to guard against foreign threats is still maturing and that Iraq will be unable to control its own airspace for several years. In particular, the ISF's still-developing logistics, maintenance, and intelligence capabilities limit its ability to guard Iraq's borders.
- **Counterterrorism.** While acknowledging that the ISF's counterterrorism forces have made substantial gains in recent years, U.S. officials expressed concern about the ability of these forces to operate independently in the absence of U.S. advisors and logistics and intelligence support. Senior MOI and MOD generals stressed to SIGIR that U.S. intelligence assets have been essential to maintaining the security gains made since 2008. They expressed concern that these gains may be endangered as the U.S. draws down its presence, including intelligence resources, presenting regional powers with an opportunity to interfere in Iraq's internal affairs.

U.S. Support for the ISF

Weapons and training provided by the United States are and will remain integral to the development of the ISF, regardless of when the last U.S. soldier departs Iraq. As part of its ongoing effort to



Iraqi Army officers plan a live-fire exercise. (DoD photo)

acquire modern military equipment and facilities, the GOI has signed more than 374 Foreign Military Sales (FMS) cases with DoD (nearly 72% of FMS expenses are funded by the GOI, and the remainder by the United States).³⁹ However, ISF officials with whom SIGIR met this quarter voiced concerns that some U.S. and GOI personnel managing these transactions were not working well together and that Iraqi procedures were being ignored.

With respect to monitoring FMS cases, on the Iraqi side, the MOI Inspector General stressed that his office, the Board of Supreme Audit (BSA), and the COI should have oversight of these transactions from their inception so as to detect problems at an early stage.⁴⁰ The CoM Secretary General added that the current vacancies at the MOD and MOI are also slowing down the process because all FMS paperwork has to go through the acting minister, who is also the prime minister.⁴¹

Beginning in October, INL will assume complete responsibility for training Iraqi police units. No longer focusing on basic skills, INL's police program will concentrate on mentoring, building management capacities, and developing a culture of respect for democratic policing norms.

In several meetings with SIGIR, ISF and Embassy officials both recognized the serious challenges that INL will face as it takes over from USF-I later this year. According to GOI and U.S. officials involved in the police-advisory effort, these challenges are made more difficult by the lack of a permanent Minister of Interior to provide guidance and direction on the GOI side.⁴²

Major General Jassam, the MOI's Director General for Training, stated that INL's priorities should be fundamentally different from those of USF-I. The training program's focus should be on improving policing skills to combat criminal gangs and maintain the peace. General Jassam commented favorably on USF-I's ability to learn from its mistakes and cultivate close working relationships with MOI officials, emphasizing the critical need for INL personnel to develop similar bonds with their Iraqi counterparts.⁴³

Senior INL officials told SIGIR that the new Police Development Program (PDP) will not replicate the size or scope of USF-I's training mission. At its peak, USF-I had 167 separate sites dedicated in whole or in part to police training, with civilian contract advisors supplemented by more than 5,000 uniformed personnel. In contrast, INL will likely have three main bases (Camp Shield in Baghdad and locations in Basrah and Erbil) and additional secondary training sites staffed by a total of 198 core personnel (52 DoS employees and 146 contractors). INL will conduct hands-on mentoring in 10 provinces and will have no training presence in Dahuk, Diyala, Wassit, Missan, Babylon, Thi-Qar, Muthanna, and Qadissiya. Moreover, the program will not have the personnel needed to penetrate to the district and sub-district levels.⁴⁴

INL's chief PDP challenges will be:⁴⁵

- obtaining sufficient funds from the Congress to purchase equipment and execute the program in a timely manner
- hiring qualified personnel capable of conducting in-depth assessments of police units
- transporting staff throughout Iraq without the significant assistance now provided by USF-I
- resolving office- and training-space issues at locations that may have a substantial U.S. military presence for most of 2011
- effectively delivering training and monitoring results without embedding with Iraqi units and accompanying them on operations

The new Police Development Program will not replicate the size or scope of USF-I's training mission.



Iraqi police officers practice fingerprinting techniques under the direction of U.S. civilian trainers attached to USF-I. (DoD photo)

RULE OF LAW

In two meetings with SIGIR this quarter, Iraq’s leading jurist, Chief Justice Medhat al-Mahmoud, provided a *tour d’horizon* of the rule of law in his country, sharing his observations on key issues.⁴⁶

- **Security.** Having lost more than 40 judges and court officers to assassination since 2003, the Chief Justice stressed the urgent need to improve judicial security. In the absence of adequate protections, many judges are subjected to intimidation, producing a chilling effect throughout the entire judiciary. While conceding that the security situation for judicial personnel had improved somewhat, he noted that most judges still lack armored cars, weapons permits, and a sufficient number of bodyguards. According to the Chief Justice, the MOI has been obstructing judges’ applications for weapon permits for several years. Armored cars are a particularly important requirement because of the insurgents’ propensity for assassinating GOI officials as they drive to and from their offices. In his budget request for 2011, the Chief Justice requested additional funds for

security, but the final budget did not contain his desired appropriations.

- **Training.** In most circumstances, the investigative judges (IJs) and their staffs are responsible for investigating criminal activity—not the police. In recent years, the Chief Justice has hired additional judicial investigators to assist the IJs, but they lack the necessary training to be effective. Chief Justice Medhat cited the need for the IJs and their investigators to receive forensics training and assistance in using the latest investigative technologies.
- **Independence.** While somewhat isolated from the recent changes in the CoM and CoR, the Chief Justice acknowledged that the principle of judicial independence is not uniformly accepted by all actors within the GOI. He stated that preserving the independence of the judiciary remains a constant struggle, but praised the Iraqi media for publishing and airing many stories supporting the notion of an independent, apolitical judicial establishment.
- **Corruption.** To combat public corruption, the Chief Justice suggested that all senior GOI officials—the prime minister, the CoM, and the CoR—declare annually and in detail how their offices spent their budgets. He added that it is currently impossible to determine how many of the offices—including the prime minister’s—spend their annual appropriations.

He stated that preserving the independence of the judiciary remains a constant struggle.

An additional concern raised by Chief Justice Medhat in January (amplified by the MOI Inspector General in April) is the lack of a clear national policy delineating the different agencies’ investigative authorities. Currently, U.S. advisors provide extensive investigative training to MOI personnel, even though Iraqi law—in keeping with traditional European civil law practice—places most investigative responsibilities with the IJs.

This de facto bifurcation of investigative powers has led to significant confusion and duplication of effort. Moreover, according to the MOI IG, multiple departments within the MOI often conduct

overlapping investigations because there are no internal policies delineating spheres of responsibility.

To ameliorate this problem, the MOI IG suggested that Iraq may eventually arrive at a compromise solution, with MOI police conducting initial investigations and then passing the file to the IJs for further review, but stated that such a reform would “take several years” to implement.⁴⁷

Chief Justice Medhat also explained his controversial January legal opinion, which some within the GOI perceived as limiting the autonomy of Iraq’s independent agencies (such as the COI). He argued that the media improperly interpreted his ruling, stating that it did not strip any agency of its independence. Chief Justice Medhat maintains that his decision clarified which agencies fell under the oversight of the CoM or the CoR. He went on to say that his decision was intended to galvanize the CoR to passing new legislation governing agencies that still operate under orders issued by the Coalition Provisional Authority in 2003–2004.⁴⁸

ECONOMY

The International Monetary Fund (IMF) and GOI both project that Iraq’s gross domestic product will grow by at least 12% this year, making it one of the world’s fastest growing economies. Iraq’s recent economic growth is led by Iraq’s booming oil sector.⁴⁹

Oil Sector

This quarter, Iraq reached post-2003 production and export highs, with crude oil production averaging 2.54 million barrels per day (MBPD) and exports averaging 2.18 MBPD.⁵⁰ The days of easily obtained increases in export volume, however, appear to be coming to an end for now. Embassy officials cautioned that insufficient pipeline capacities and inadequate oil storage facilities will make major export increases unlikely in the near term, at least until the \$733 million expansion of al-Basrah Oil Terminal comes on line in 2012.⁵¹



A major effort is underway to increase the export capacity of al-Basrah Oil Terminal. (USACE photo)

Since 2003, Iraqi oil revenue has been deposited in the Development Fund for Iraq (DFI). An account in the Federal Reserve Bank of New York, the DFI shelters Iraq’s oil revenue from international creditors’ claims. The DFI, however, is scheduled to terminate on June 30, 2011, when Iraq’s Committee of Financial Experts (COFE) will assume responsibility for overseeing the oil revenue account. The UN-backed protection provided to the DFI against creditor claims also expires June 30, leading Embassy officials to note that Iraq—like any other sovereign country—may soon have to defend itself against lawsuits in foreign forums.⁵² When the immunity lapses, GOI officials expect that Iraq will be sued by some creditors holding outstanding claims. BSA President Dr. Abdul Bassit Turki al-Sae’ed, who heads COFE, stated to SIGIR that there is a significant risk that Kuwait will eventually be one of the countries to take legal action, wryly commenting: “We can’t change history.”⁵³

In December 2010, Iraq took another step toward fully rejoining the community of nations when the UN Security Council (UNSC) passed three resolutions lifting a series of sanctions dating from the Ba’athist era. Embassy officials stated that U.S. support for these resolutions constituted an example of U.S. diplomatic influence, noting that the United States is able to work on Iraq’s behalf in international bodies where the reach of other powers is, at best, circumscribed.⁵⁴ Notwithstanding the passage of these resolutions, several matters remain under UNSC Chapter VII supervision,

Embassy officials cautioned that insufficient pipeline capacities and inadequate oil storage facilities will make major export increases unlikely in the near term.



Ferris wheel in central Baghdad park.

including compensating Kuwait for damages inflicted by Iraq during its 1990 invasion. Resolving these outstanding issues will be a major challenge for U.S. and Iraqi diplomats in the years to come.

Macroeconomic Developments: Progress and Challenges

U.S. and GOI officials who briefed SIGIR this quarter on the state of Iraq's economic development noted several positive trends that augur well for continued growth:⁵⁵

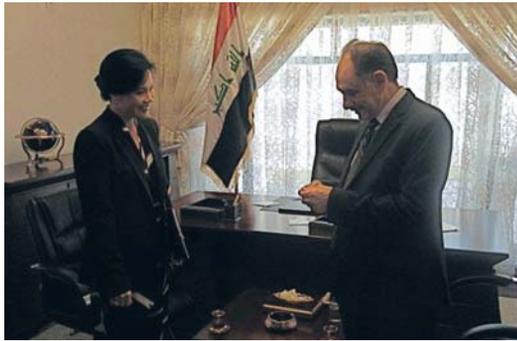
- **IMF support.** According to the Chairman of the Trade Bank of Iraq, the conditions imposed by Iraq's two Stand-By Arrangements with the IMF have improved fiscal prudence.
- **Currency stability.** Inflation has remained largely in check since 2003. Several GOI officials involved in economic policy making noted that despite the prolonged delay in forming a new government, price stability was the rule rather than the exception in 2010.
- **Uninterrupted government functions.** Embassy officials observed that the GOI continued to perform during 2010 despite the prolonged period of political uncertainty following the March elections.
- **Private-sector activity.** Although Iraq's private sector was all but destroyed under the Ba'athist regime, U.S. officials noted that entrepreneurial activity appears to be on the rise.

As February's attack on Iraq's main refinery at Baiji made clear, maintaining security remains

a prerequisite for continued economic progress. But several other factors limit Iraq's economic development:⁵⁶

- **Archaic laws.** Many of Iraq's current commercial laws and regulations reflect Ba'athist, state-centric biases, making opening a new business a costly and lengthy process. Of 183 countries ranked by the World Bank in terms of the ease of doing business there, Iraq comes in 166th place overall, and last among countries in the Middle East.
- **Poor public services.** U.S. and GOI officials were unanimous in their opinion that electricity shortages deter investors from committing to Iraq for the long term. DPM for Services Salih al-Mutlaq stressed to SIGIR the need to improve the GOI's capacity to provide clean water and reliable power for all Iraqis.
- **Inefficient state-owned enterprises (SOEs).** According to Embassy officials, Iraq's SOEs employ more than 600,000 people, making any sudden and dramatic changes in their operations potentially destabilizing. With assistance from the UN, the GOI has embarked on a long-term restructuring plan for 176 SOEs, which will take more than 20 years. Reliance on outdated technologies and practices makes it uncertain whether these enterprises can be successfully transformed into profit-making businesses.
- **Isolation from the global marketplace.** U.S. diplomats told SIGIR that it will be years before Iraq is able to join the World Trade Organization, citing the anticipated difficulties in enacting the necessary legal and financial reforms required for accession.
- **Tight credit.** Because it lacks a stable revenue base and an internationally recognized sovereign risk rating, Iraq is unable to borrow funds at a reasonable cost from overseas via public-debt offerings. This increases the already-profound degree to which the GOI depends on current oil revenue to finance its operations. According to Embassy officials, these financing challenges may preclude the GOI from funding

U.S. and GOI officials were unanimous in their opinion that electricity shortages deter investors.



SIGIR Deputy Inspector General meets with Deputy Prime Minister for Services Salih al-Mutlaq.

essential improvements to its aging hydrocarbon infrastructure.

Embassy officials are monitoring four key economic areas this year—modernization of the oil industry, declining agricultural yields, continued electricity shortages, and SOE restructuring—stating that the degree of progress Iraq makes on these issues will largely determine its near-term economic prospects.

SIGIR OVERSIGHT

Investigations

Since 2003, SIGIR’s investigative work has resulted in 31 arrests, 56 indictments, and 50 convictions, with more than \$144 million in fines, forfeitures, recoveries, and restitution payments. In April, the Council of Inspectors General on Integrity and Efficiency (CIGIE) announced that SIGIR’s Investigations Directorate had passed its mandated peer review, which was conducted by the Tennessee Valley Authority’s Office of Inspector General (TVA OIG). TVA OIG also singled out three best practices as worthy of recognition—the SIGIR Prosecutorial Initiative (SIGPRO), the SIGIR International Criminal Enforcement and Prosecution Team (INTERCEPT), and SIGIR’s Forensic Evaluation, Research, Recovery, and Enforcement Team (FERRET).

TVA OIG singled out three best practices as worthy of recognition.

This quarter, SIGIR investigators, working in close collaboration with other federal law enforcement agencies, achieved several notable results, including:

- On January 25, a federal judge sentenced Dorothy Ellis, a former senior employee of a U.S. military contractor, to more than three years imprisonment for participating in a conspiracy to pay \$360,000 in bribes to U.S. Army contracting officials in exchange for her company receiving preferential treatment in the bidding process.
- Four days later, a federal judge in California sentenced Marine Corps Captain Eric Schmidt to six years in prison for his role in a plot to skim about \$1.7 million from U.S. government contracts awarded under the Iraqi First Program. While stationed in Iraq in 2008, Schmidt conspired with his wife and an Iraqi company to purchase fewer, and more inferior, materials than required by the contracts, skimming the difference in costs for himself. Janet Schmidt, his wife, was subsequently sentenced to one year of home confinement.
- On February 8, U.S. Army Major Kevin Schrock pled guilty to money laundering charges. He admitted that he stole funds intended for humanitarian or reconstruction purposes in Iraq and then deposited them into his own bank accounts, laundering more than \$47,000 of the stolen funds by breaking the currency into a series of small deposits. Under the terms of his guilty plea, Schrock will pay back to the U.S. government all of the laundered funds. His sentencing is scheduled for June.
- In late February, Richard Razo pled guilty to wire fraud and conspiracy to commit wire fraud in connection with crimes committed during his time in Iraq as a private contractor and DoS official. Razo fraudulently provided Iraqi contractors with confidential bidding information for U.S.-funded Iraq reconstruction projects in exchange for up to 10% of the face value of the fraudulently obtained contracts. While in Iraq as a private citizen in 2005–2006, he received

more than \$93,000 in illicit wire transfers and cash from an Iraqi construction firm. During his 2008 service with DoS in Basrah, Razo helped steer \$2.7 million in contracts to Iraqi firms in exchange for promised, but unpaid, payments totaling approximately \$144,000.

- On March 1, a federal jury convicted Eddie Pressley, a former U.S. Army Major, and his wife, Eurica Pressley, on all counts of a 22-count indictment in connection with a bribery and money-laundering scheme related to defense contracts awarded in support of the U.S. effort in Iraq. The Pressleys received approximately \$2.9 million in bribe payments and prepared false invoices that were designed to justify the bribes as payment for non-existent consulting services. Sentencing is scheduled for June.
- On March 25, retired U.S. Army National Guard Lieutenant Colonel David Pfluger pled guilty to conspiracy, accepting gratuities, and converting property of another to his own use while serving as a public official. Pfluger admitted to abusing his status as the “Mayor” of a Forward Operating Base to enrich himself by accepting cash and gifts from contractors in exchange for awarding them contracts and special privileges.
- On March 28, a judge sentenced Mariam Mendoza Steinbuch, a former U.S. Marine Corps staff sergeant, to five years probation and ordered her to pay \$25,000 in restitution. She had pled guilty to accepting a \$25,000 bribe in exchange for awarding numerous contracts to a Lebanon-based company while serving in Fal-luja as a contracting specialist in 2006.

For a detailed synopsis of SIGIR’s recent investigative achievements, see Section 5 of this Report.

SIGIR Prosecutorial Initiative

In late 2009, as part of an innovative effort to handle its expanding caseload, SIGIR hired three former Department of Justice (DoJ) prosecutors, detailing them back to DoJ’s Criminal Division to prosecute fraud cases developed by SIGIR



Mercedes seized from Marine Corps Captain Eric Schmidt.

investigators. In addition to managing cases, SIGPRO prosecutors have also proffered novel arguments that set significant legal precedents. In one recent matter, SIGPRO attorneys successfully argued that violations of the federal conflict-of-interest statute are subject to the extraterritorial jurisdiction of the United States. Consequently, there is now broader judicial authority to prosecute such offenses when they occur in places like Iraq and Afghanistan. In a second case, a federal judge in Texas accepted a SIGPRO attorney’s argument that the Wartime Suspension of Limitations Act operated to suspend the statute of limitations on a reconstruction-related crime during the pendency of the war in Iraq. After this decision, the defendant pled guilty.⁵⁷

Audits

This quarter, SIGIR issued six audit reports. To date, SIGIR has published 188 audits. This quarter’s audits reviewed:

- **Quick Response Fund (QRF).** DoS established the QRF to fund local projects promoting economic and social development. In Iraq, the U.S. Agency for International Development (USAID) managed \$153 million of these monies and DoS managed \$103 million. This audit concluded that DoS has improved its management controls over its component of the program since SIGIR’s January 2009 report on the QRF. Nevertheless, SIGIR found that DoS still has not addressed accountability issues—particularly in assuring that

SIGPRO prosecutors have also proffered novel arguments that set significant legal precedents.

it has documentation on project outcomes and the use of QRF funds—leaving projects vulnerable to fraud, waste, and abuse. By contrast, the audit found that USAID had good management controls over its part of the program, including detailed information and financial documents showing how its grant money was used.

- **Iraq Relief and Reconstruction Fund 2 (IRRF 2).** SIGIR's review of the status of the \$18.45 billion IRRF 2 determined that, by the end of FY 2010, agencies had expended \$17.26 billion but still had about \$145.25 million in obligations for orders or contracts that required future payment. In addition, SIGIR found that agencies had not obligated about \$402.46 million, and that the Office of Management and Budget had not obligated funds totaling \$26.33 million. The failure to obligate these monies means that these nearly \$429 million in unobligated funds could be canceled at the end of FY 2013 and returned to the Treasury's General Fund.
- **USAID Oversight of a Contractor's Management of the Community Action Program III.** Notwithstanding the Cooperative Housing Foundation International (CHF) self-report that it had exceeded USAID's target level for 17 of 23 indicators for the Community Action Program, this audit determined that USAID did not require CHF to track key performance metrics, including the number of communities seeking funds or progress in assisting internally displaced persons. Because of security conditions and insufficient personnel, USAID relied on CHF, other contractors, external auditors, and PRTs for information on program implementation and results. Finally, while USAID requires that CHF projects be sustainable, SIGIR found that completed projects' files do not contain concrete sustainment plans, increasing the likelihood that some projects may not be maintained after CHF and USAID leave.
- **USAID Responsiveness to Previous SIGIR Audit Recommendations.** The first in a planned series, this report found that USAID has implemented all but two of SIGIR's recommendations and has a sound process to track and monitor their implementation of SIGIR recommendations. Subsequent reports in this series will review the progress of DoD and DoS in responding to SIGIR recommendations.
- **U.S. Army Corps of Engineers (USACE) Gulf Region District (GRD) Management of Security Contractors.** This audit determined that GRD's process for adjusting its Aegis security contract's requirements appeared reasonable and responsive to changes in reconstruction activities. Since SIGIR's 2009 report on the Aegis security contracts, the number of USACE's active projects, and the number of Aegis's security personnel services in Iraq, have declined. Moreover, USACE's active projects and security requirements are projected to decline much further by July 2011. SIGIR found that GRD monitors how it uses Aegis's security teams and provides appropriate information to Aegis so the company can determine the number and composition of security personnel needed to meet contract requirements. GRD also monitors the utilization of the security teams to ensure that it adjusts the contract's requirements to reflect changes in its reconstruction activities.
- **USACE Recommendations on Completing or Canceling Projects.** SIGIR examined USACE's decisions to recommend completing or canceling 20 sampled projects concluding that USACE used the criteria it established to arrive at its recommendations. USACE is no longer involved in transferring projects directly to the GOI since a November 2009 agreement between the Embassy and the GOI to formalize the process to transfer completed projects to the Iraqi government. ♦

QUICK FACTS

\$ Reconstruction Funding

Cumulative Funding

\$ Billion

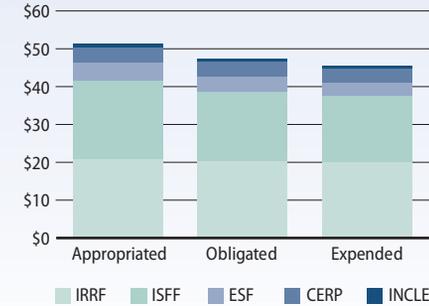


Recent Funding

FY 2011 U.S. Funding	2011 Iraqi Capital Budget	2011 International Commitments
\$3.37 B	\$25.70 B	\$471 M

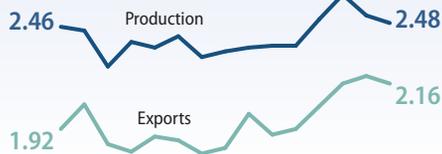
Major U.S. Funds

\$ Billion



Oil

MBPD, by Month (1/2010–3/2011)



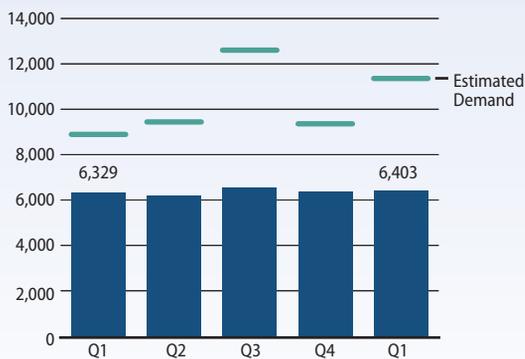
Average Price per Barrel, by week (1/2010–3/2011)



Electricity

Supply vs. Demand (1/1/2010–3/31/2011)

MW



Security

Average Daily Incidents, by week (10/2009–3/2011)



Persons Killed (1/1/2011–3/31/2011)

