

SIGIR OBSERVATIONS

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1

IRAQ 2012: PORTENTS AND POSSIBILITIES

After nearly nine years, the U.S. military mission in Iraq came to an end on December 19, 2011, with the departure of the last U.S. Forces-Iraq (USF-I) personnel on December 19, 2011. The military's withdrawal completed a multiyear transition process that saw the Department of State (DoS) assume a plethora of new responsibilities. Today, DoS's expanded role in Iraq transcends the traditional boundaries of diplomacy and development assistance, forcing it to manage a sprawling mission of unprecedented size and unrivaled complexity amid a still-volatile security environment.

The Iraq the U.S. military left behind is an ethnically and religiously diverse democracy, with one of the world's fastest growing economies, fueled by a reemerging oil sector and fed by growing foreign investment. But serious problems persist. Just hours after the last U.S. troops crossed the Kuwaiti border, a new political crisis erupted when a criminal court in Baghdad issued an arrest warrant for Vice President Tariq al-Hashemi, a Sunni, in connection with his alleged involvement in political assassinations—charges that al-Hashemi quickly and publicly denied.

Prime Minister Nuri al-Maliki, a Shia, has demanded that al-Hashemi return from the Kurdistan Region (where he is currently sheltering) to face justice in a Baghdad courtroom, a proposal that the Vice President refused, asserting that any trial in Baghdad would be politically compromised. Almost at the same time as the al-Hashemi allegations, the Prime Minister sought to have one of his Deputy Prime Ministers, Salih al-Mutlaq, also a Sunni, removed by the Council of Representatives (CoR).¹

These political eruptions portend what may be a very difficult year, as the Government of Iraq (GOI) faces an array of interconnected challenges,

each of which potentially could undermine the country's stability:

- **Governance.** The Iraqi Constitution left ambiguous the precise contours of the relationship between the federal government and its constituent parts. Exacerbating this legal uncertainty is the lack of an accepted power-sharing *modus vivendi* based on mutual consent among the major political blocs. These issues surfaced this quarter when the Sunni provinces of Salah Al-Din and Anbar and the heterogeneous province of Diyala sought greater autonomy from Baghdad by seeking region status, just as the Shia province of Basrah has done in years past. Although the crisis has abated, the federalism questions inherent in apportioning power between Baghdad and the provinces remain unresolved.²
- **Security.** While the total number of Iraqis killed in 2011—2,645—is down about 1,000 from the preceding year, this quarter's mass-casualty attacks, many of which targeted Shia communities, stand as a stark reminder of the country's still dangerous security situation.³ Despite recent indications suggesting that some insurgent groups, such as the Iranian-backed Shia militia Assaib Ahl al-Haq (or "League of the Righteous") may be laying down their arms to join the political

Just hours after the last U.S. troops crossed the Kuwaiti border, a new political crisis erupted.



At Andrews Air Force Base on December 20, President Barack Obama greets General Lloyd Austin III, the last USF-I commander, upon his arrival from Iraq. (White House photo)



On December 2, USF-I returned Victory Base Complex, its former command center in Iraq, to the GOI. The base was located at al-Faw Palace, which had been built for Saddam Hussein and his family. (Aerial support provided by Embassy Air Operations)

Striking a balance between reconciliation and accountability remains one of the GOI's most vexing challenges.

process, others, including al-Qaeda-affiliated Sunni groups, remain committed to using violence to achieve their goals. Striking a balance between reconciliation and accountability remains one of the GOI's most vexing challenges.

- **Economy.** The GOI appears to be on the verge of enacting a \$100.1 billion budget for 2012, its largest ever. Iraq's economy still depends overwhelmingly on its hydrocarbon sector, and the GOI's nascent efforts at economic diversification remain paltry. High unemployment (estimated at 15%–30%) burdens the economy, with public-sector jobs often the only ones available. Further, the dominant role played by state spending increases the potential risk of inflation, a problem that Iraq has largely managed to avoid since 2003.⁴
- **Corruption.** As this Report's "Focus on Corruption" amply demonstrates, the problem of public corruption remains one of the GOI's foremost challenges. Iraq's anticorruption officials are still regularly targeted by insurgents. This quarter, at least 2 judges were assassinated and 32 anticorruption officials were killed, illustrating the lethal operating environment faced daily by Iraq's rule-of-law institutions.⁵

U.S. RECONSTRUCTION PRESENCE, FUNDING, AND OVERSIGHT

U.S. Embassy-Baghdad

Ambassador James F. Jeffrey leads the U.S. mission in Iraq—the largest U.S. diplomatic post in the world—with a staff of almost 14,000 people (mostly contractors), including:⁶

- about 2,000 personnel charged with implementing the U.S. Agency for International Development (USAID) mission, of whom all but about 30 are contractors or grantees
- approximately 4,400 personnel performing tasks relating to the security-assistance mission of the new Office of Security Cooperation-Iraq (OSC-I)
- a planned 115 advisors and 593 management and support personnel for DoS's Police Development Program (PDP)

Several thousand security and life-support contractors working under Chief of Mission (COM) authority support these and other U.S. operations, but the precise number is difficult to determine because of discrepancies in reported data.

DoS Police Development Program

On January 10, 2012, Deputy Secretary of State Thomas Nides told the Inspector General that DoS would use about \$500 million from FY 2012 appropriations to implement the PDP—\$387 million less than the Administration's FY 2012 request.⁷ The change in funding, which Secretary Nides deemed appropriate, followed an October 28, 2011, SIGIR audit that questioned the planning for the PDP.⁸

This quarter, the Ministry of Interior (MOI) noted it remains reluctant to make a long-term commitment to the PDP. In a mid-November meeting with the Inspector General, MOI Principal Deputy Minister Adnan al-Asadi stated that the MOI would "test" the PDP in 2012 and then

decide whether to continue with the program. However, in mid-January, INL reported to SIGIR that al-Asadi had assured U.S. officials of MOI's support for the program.⁹

This quarter, the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) reported that the three PDP hubs in Baghdad, Basrah, and Erbil were mission capable and that the 91 PDP advisors on the ground had conducted more than 400 meetings with MOI officials. INL stated that it can provide personal security details to transport PDP advisors "as security conditions permit." While the security situation in Erbil is largely permissive, lethal attacks still occur with some frequency in Baghdad and Basrah, making it difficult for PDP advisors to visit MOI locations.¹⁰

Office of Security Cooperation-Iraq

OSC-I manages security cooperation efforts in support of the GOI, including military-to-military ties, the U.S. Foreign Military Sales (FMS) program, and funds made available through the Foreign Military Financing program. Operating out of 10 sites, OSC-I is currently staffed with 149 military and 7 civilian personnel. OSC-I is expected to support up to 763 Security Assistance Team members. Its mission is supported by several thousand contractors, providing a variety of services.¹¹

This quarter, the Defense Security Cooperation Agency notified the Congress of a possible \$2.3 billion FMS sale of 18 F-16 aircraft to Iraq. If consummated, this deal would eventually bring to 36 the number of F-16s in the Iraqi Air Force. As of December 31, 2011, the 196 ongoing Iraqi-funded FMS cases (not including the second tranche of F-16s) were valued at about \$7.8 billion. In addition, there were an additional 225 "pseudo-FMS" cases funded through the Iraq Security Forces Fund (U.S. funds) valued at approximately \$2.5 billion.¹²

OSC-I had planned to work in tandem with the North Atlantic Treaty Organization (NATO) Training Mission-Iraq (NTM-I). NTM-I's primary focus was to have been on professionalizing the Iraqi Security Forces (ISF). But negotiations

between NATO and the GOI to extend its mission broke down in December over the issue of legal protections for NTM-I personnel, causing NTM-I to withdraw from Iraq. To fill some of the gaps left by NTM-I's departure, OSC-I is working with the Ministry of Defense (MOD) on a variety of military-professionalization initiatives, including developing doctrine and improving the curriculum at its military schools. For more on OSC-I operations, see Section 3 of this Report.¹³

Reconstruction Funding

From FY 2003 through FY 2011, the United States had appropriated or otherwise made available \$61.83 billion for Iraq reconstruction efforts, primarily through five major funds.¹⁴ The Congress provided additional U.S. reconstruction funding in the Consolidated Appropriations Act, 2012 (P.L. 112-74), but the specific amount of FY 2012 funding for Iraq cannot yet be determined. For further details, see Section 2 of this Report.

SIGIR Oversight Challenges

On January 4, 2012, DoS declined to provide SIGIR with information on activities it conducted pursuant to the U.S.-Iraq Strategic Framework Agreement (SFA). This refusal came almost two years to the day after DoS responded to a similar query with 12 pages of information on SFA-related activities. With the withdrawal of the U.S. military from Iraq, the SFA is now the primary pact governing the ongoing U.S. assistance program. But despite the centrality of the SFA to U.S.-Iraqi ties, DoS stated that "activities under the SFA fall under the purview of numerous other [U.S. government] Inspector Generals [*sic*]. This does not fall under the purview of SIGIR's reconstruction mandate." As of mid-January, no other U.S. inspector general has publicly disclosed any plans to review SFA-related initiatives.¹⁵

DoS declined to provide SIGIR with information on DoS activities conducted pursuant to the U.S.-Iraq Strategic Framework Agreement.

GOVERNANCE

Stirrings of Regionalism

Iraq's Region Formation Law (Regions Law) provides that any province or group of provinces may choose to form a semi-autonomous federal region via popular referendum. But, before such a vote may occur, one-third of the Provincial Council members (or one-tenth of the voters) in the relevant provinces must submit a request to hold a referendum. If a simple majority of voters approves the measure in the referendum, a region is formed.¹⁶

This quarter, several provinces revived the issue of region formation, potentially further complicating their relations with Baghdad:

- **Salah Al-Din.** In late October, the Provincial Council issued a statement purporting to declare the overwhelmingly Sunni province to be an administrative and economic region. This move toward regionalism came as the GOI ordered the arrest of hundreds of prominent Sunnis in the

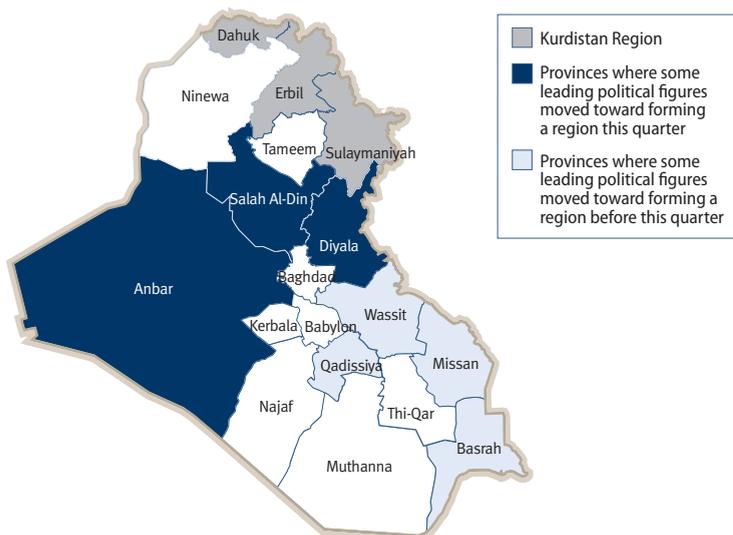
province, accusing them of ties to the outlawed Ba'ath Party.

- **Anbar.** In late November, a Provincial Council member announced that about half of the members had agreed to move toward transforming the province into a region.
- **Diyala.** In December, the Provincial Council voted to declare the province a region unilaterally, setting off demonstrations opposing such a step in many of the ethnically diverse province's Shia areas.

Prime Minister al-Maliki believes that Iraq's national structure is not ready for additional semi-autonomous federal regions. Instead, he has been exploring various options to devolve some powers to the provincial governments. Previous regionalism movements arose in the Shia south. For example, in 2008, officials in the oil-rich province of Basrah made a serious push toward establishing a region. Their efforts failed, and subsequent attempts to transform Basrah into a region have also foundered. By the end of the quarter, efforts toward forming regions in other provinces appeared to have stalled, at least for the moment.¹⁷ Thus, as of mid-January, the Kurdistan Region (comprising Dahuk, Sulaymaniyah, and Erbil provinces) remains Iraq's only federal region. Figure 1.1 shows the provinces that have made at least some move toward obtaining region status.¹⁸

Prime Minister al-Maliki believes that Iraq's national structure is not ready for additional semi-autonomous federal regions

FIGURE 1.1
REGIONALISM IN IRAQ



Note: The map is not intended to indicate uniformity of opinion in any province. This quarter, some politicians in Ninewa and Thi-Qar also spoke in favor of obtaining greater autonomy from Baghdad.

Source: SIGIR analysis of open-source documents in Arabic and English, 2008–2012.

The GOI after the U.S. Withdrawal

The mid-December issuance of an arrest warrant for Vice President al-Hashemi came shortly after the Prime Minister had asked the CoR to vote to remove Deputy Prime Minister al-Mutlaq. The vote was not held because members of al-Iraqiya bloc walked out of the CoR protesting, among other things, the Prime Minister's opposition to regionalism movements in Salah Al-Din and Diyala. When the CoR reconvened in early January, al-Iraqiya continued its boycott. These events, occurring as they did against the backdrop of the mass arrests of several hundred alleged Ba'athists in October,

underscored the unresolved tensions between the Shia-led government and significant elements of Iraq's Sunni Arab minority.¹⁹

In an effort to resolve this crisis, President Jalal Talabani proposed a national conference that would bring together all the major blocs for negotiations. As of mid-January, preparations for this conference were proceeding. Figure 1.2 highlights statements made by the key players in this controversy.²⁰

New Reports on Quality of Life in Iraq

On January 9, 2012, Gallup released a new poll on how Iraqis perceive their quality of life. Based on face-to-face interviews with 1,000 adults, Gallup found that the percentage of Iraqis who rate their lives poorly enough to be considered as “suffering” rose from 14% in October 2010 to 25% in September 2011.²¹

The results of a 2011 survey conducted for the GOI Ministry of Planning and Development Co-operation illustrate some of the reasons why many Iraqis perceive their quality of life as being low. The Iraq Knowledge Network (IKN) survey found widespread dissatisfaction with essential services, especially the provision of electric power. Of the more than 28,000 households surveyed, 35% of the respondents stated that improving the electricity situation should be the GOI's top priority—a higher number of responses than for any other service, including security (27%).²² Section 4 presents these surveys' findings in greater detail.

Electricity

A reliable power supply is essential for sustainable economic growth in Iraq. This quarter's total electricity supply on the national grid averaged about 7,434 megawatts (MW). This represents a 17% increase from the same quarter in 2010.²³

Iraq increased its reliance on power imported from Iran this quarter with the completion of a fourth transmission line connecting the two countries. Together, these four lines can provide about 17% of the power supply available on the national grid controlled by the Ministry of Electricity (MOE).

FIGURE 1.2
PROMINENT IRAQI POLITICAL LEADERS' COMMENTS ON ALLEGATIONS MADE AGAINST VICE PRESIDENT TARIQ AL-HASHEMI



Coalition Affiliation:

Kurdistan Alliance
 State of Law coalition
 Al-Iraqiya bloc
 Iraqi National Alliance

Sources: Iraq for All News, “Al-Hashemi Is Innocent and His Case Began while Maliki Was Away,” 1/9/2012, <http://iraq4allnews.dk/ShowNews.php?id=27990>, accessed 1/23/2012; Radio Sawa, “Al-Maliki Denies Any Association with the Hashemi Case during an Interview with al-Hurrah Station,” 1/12/2012, http://www.radiosawa.com/arabic_news.aspx?id=8072602&cid=2, accessed 1/23/2012; GOI, CoR, press release, “The U.S. Vice President Calls the Speaker of the Council of Representatives Nujaifi To Discuss Recent Political Development in the Iraqi Field” 12/21/2011, <http://parliament.iq>, accessed 1/23/2012; Al-Ahram International North America Inc., “Ayad Allawi: al-Maliki Creates Evidence To Arrest al-Hashemi” 12/20/2011, <http://gate.ahram.org>, accessed 1/23/2012; Dar al-Hayat, “al-Hakim Establishes Five Rules To Get Out of the Crises and Maliki's Accord to a Government of Majority,” 12/31/2011, <http://international.daralhayat.com/internationalarticle/345240>, accessed 1/23/2012.



A Baghdad traffic circle. (Aerial support provided by Embassy Air Operations)

The lack of permanent ministers has lengthened the time it takes for the security ministries to make decisions.

Still, according to the IKN survey results, the average Iraqi household receives only 7.6 hours of power each day from the public grid (including the separate grid in the Kurdistan Region).²⁴ To address some of this shortfall, the MOE signed a number of contracts this quarter, including a deal valued at almost \$1.2 billion with the China Machinery Engineering Corporation to build a 1,260 MW thermal power plant in Salah Al-Din province. The MOE also finalized a contract with South Korea's Hyundai Corporation to build an even larger combustion-turbine plant in Basrah province.²⁵

SECURITY

USF-I's departure was the final step in a deliberate and gradual repositioning of forces that began with the signing of the U.S.-Iraq Security Agreement in November 2008. U.S. troops had not conducted regular patrols in Iraqi cities and towns since June 2009 and ended active combat operations in August 2010, turning over responsibilities to the ISF each step of the way. Thus, as Principal Deputy Minister of Interior al-Asadi noted in his November meeting with the Inspector General, the

ISF has been taking the lead in securing most of Iraq—albeit with support from USF-I—for more than two years.

GOI Security Ministries

This quarter, the operations of both the MOD and MOI continued to be run on an interim basis by officials appointed by Prime Minister al-Maliki. One of several unresolved issues left over from the March 2010 election, the lack of permanent ministers has lengthened the time it takes for the security ministries to make decisions on certain matters, especially those involving purchases of foreign-made systems. As of mid-January, Sa'adoun al-Dulaimi manages the MOD while Principal Deputy Minister al-Asadi oversees the MOI.²⁶

MOD and MOI personnel continued to be targeted with disturbing regularity in 2011. For the year, about 40% of Iraqis killed were ISF members, including 609 Iraqi police personnel and 458 soldiers.²⁷

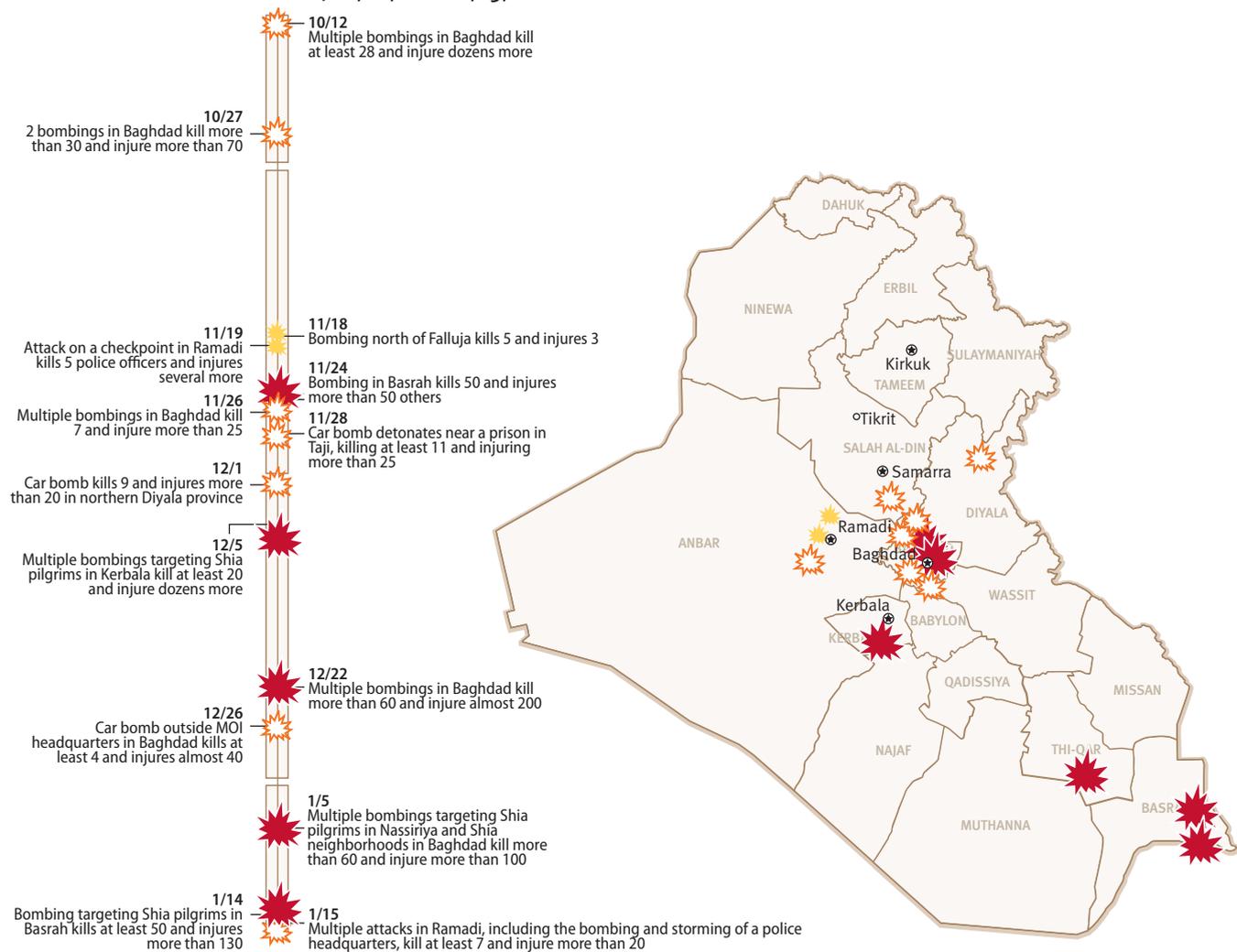
Major Security Incidents This Quarter

On December 22, 2011, and again on January 5, 2012, insurgents launched a series of mass-casualty attacks. The December 22 incidents killed more than 60 people and injured more than 200. The January 5 attacks targeted mostly Shia neighborhoods in Baghdad and Shia pilgrims traveling toward the holy city of Kerbala. The attacks killed at least 67 people and injured well more than 100. Shia pilgrims were again targeted on January 14, when a bombing in Basrah killed at least 50 people.



Iraqi Army personnel drive U.S.-built M1 Abrams tanks through the parade grounds near the Crossed Swords monument in the International Zone, January 2012. (GOI photo)

FIGURE 1.3
SIGNIFICANT SECURITY INCIDENTS, 10/12/2011–1/15/2012



Note: All casualty data based on best-available information at time of publication.

Source: SIGIR analysis of open-source documents in Arabic and English, 10/2011–1/2012.

Figure 1.3 displays information on some of this quarter’s major terrorist attacks.²⁸

Assassinations

In late November, a bomb exploded near the CoR building inside the International Zone, killing one person and injuring at least two others, including a member of the CoR. (As of mid-January, the GOI investigation into the attack on the CoR had not been completed, but initial reports suggested that the bomb’s target was either the Prime Minister or the CoR Speaker.) On December 1, the Minister

of the Environment escaped unharmed when an improvised-explosive device (IED) detonated near the car in which he was traveling. In early January, Minister of Finance (and former Deputy Prime Minister) Rafi al-Eissawi escaped unharmed when an IED detonated near his convoy.

Overall, at least 23 senior GOI officials were assassinated between October 16, 2011, and January 14, 2012, down from about 40 killed from mid-July to mid-October 2011. For additional details on recent assassinations, see Section 4 of this Report.²⁹

In early January, Minister of Finance Rafi al-Eissawi escaped unharmed when an IED detonated near his convoy.

President of Iraq on U.S. Reconstruction Legacy and the Future of Iraq

On November 15, 2011, the Inspector General met with Iraqi President Jalal Talabani at his residence in Baghdad to discuss the impact of the U.S. reconstruction program and the future of U.S.-Iraq relations. An enduring presence on the Iraqi political scene for more than 40 years, the 78-year-old Kurd has served as President of Iraq since he was elected to that post by the Iraqi National Assembly in April 2005. President Talabani has figured significantly in almost all aspects of Iraq's political affairs since 2003. In a wide-ranging discussion with the Inspector General, President Talabani discussed:³⁰

- **Security.** The GOI's foremost priority in 2012 will continue to be domestic security. President Talabani said he expects insurgent groups—in particular, ex-Ba'athists—to test the ISF now that all U.S. troops have departed Iraq. He predicted that U.S.-trained ISF would weather these challenges, adding that the withdrawal of U.S. forces would, in some instances, encourage Iraqi soldiers to operate with fewer inhibitions against terrorists and anti-government forces.
- **National Development Plan.** The President expressed frustration with the slow implementation of Iraq's *National Development Plan (2010–2014)* (NDP). The \$186 billion NDP, which was drafted with assistance from the United States and United Nations, outlines development priorities in various economic sectors, including agriculture, energy, and infrastructure. But, according to President Talabani, the GOI has made little progress in implementing it, and the need to move forward with these development objectives is second only to security in terms of national priorities. He stated that rapid progress in moving forward may be possible because Chinese, South Korean, Japanese, and Russian

firms have expressed serious interest in investing in NDP-related projects.

- **Legacy of U.S.-led intervention.** President Talabani discussed several positive effects of the U.S.-led assault that toppled the Ba'athist regime in 2003. These included the successful holding of multiple national elections, regarded by most observers as free and fair, and the introduction of many elements of a free-market economy. The President cited the multiplicity of parties that have participated in Iraq's post-2003 parliamentary elections as perhaps the best example of the strength of Iraqi democracy. He added that Iraq has provided inspiration for the regional uprisings commonly referred to as the "Arab Spring." He also praised the burgeoning free press that has arisen since 2003, noting there are now so many daily newspapers that he "only has time to read the headlines."
- **U.S. reconstruction program.** The President cited the failure to control widespread looting in Baghdad in the immediate aftermath of Saddam Hussein's fall as one of the major factors negatively affecting the perception of the U.S. reconstruction efforts that followed. President Talabani said that he had specifically warned very senior U.S. leaders during a secure video-teleconference shortly before the invasion that looting could be the most serious problem the United States would face in Iraq after Saddam was toppled. President Talabani also complained that U.S. officials often undertook projects without consulting local Iraqi leaders. According to President Talabani, this failure to coordinate U.S. reconstruction efforts with indigenous needs and capacities resulted in many failed projects.
- **Economic reform.** Although Iraq's economy has grown significantly since 2003, the President noted multiple areas where reform is still needed. He



The Inspector General meets with President Jalal Talabani, November 15, 2011.

advocated reducing the burdensome regulations that continue to stifle entrepreneurship in much of Iraq. He added that Iraq's public sector needs to be reduced in size, emphasizing that having at least 6 million state employees was costly and inefficient.

- **Disputed territories.** Describing the ongoing dispute among Kurds, Arabs, and Turkmen over control of Kirkuk as a "very difficult problem" that will "not be easy to solve," the President stated that only the passage of time will allow the parties to resolve their differences and achieve a solution. He said that the first step in the process should be reaching a national consensus on all provincial boundaries—not just the border between Tameem (Kirkuk) and the Kurdistan Region. He added that a census alone will not be sufficient to resolve these issues because of the former regime's efforts at "Arabizing" Kirkuk and its environs by evicting Turkmen and Kurds from their homes and resettling Arabs there. President Talabani de-emphasized the importance of oil to the Kirkuk problem, noting that the new discoveries in both northern and southern Iraq have made Kirkuk's oil less important to both the GOI and KRG. However, President Talabani acknowledged that the Arabs residing in Tameem know no other home and that their needs must be taken into account as negotiations for control of Kirkuk continue.

ECONOMY

In a joint press conference on December 12 with Prime Minister al-Maliki, President Barack Obama noted that “in the coming years, it’s estimated that Iraq’s economy will grow even faster than China’s or India’s.” According to one preliminary report, foreign commercial activity in Iraq during 2011 surged to about \$70 billion from just over \$42 billion in 2010.³¹ After years of hesitating because of concerns about the uncertain security situation, aging infrastructure, and complex bureaucracy, U.S. companies are gradually taking steps to enter this growing market, as evidenced by this quarter’s Baghdad Trade Fair, which featured more than 80 U.S. participants—the largest number from any country.³² The Iraqi economy remains dependent on its hydrocarbon sector, with crude oil exports accounting for more than 95% of its export earnings and 90% of government income in 2011.³³ Thus, at least for the near term, Iraq’s economic development will be inextricably intertwined with both the exigencies of domestic Iraqi politics and the vicissitudes of the global oil market.

Oil Production and Export Levels

The Common Seawater Supply Project (CSSP), stepped up efforts to capture more natural gas, and the ongoing infrastructure improvements to port facilities are all crucial to increasing the amount of oil and gas Iraq can harness from the major southern fields. While oil production rose somewhat in 2011, the GOI missed its ambitious annual production target. For 2011, production averaged 2.54 million barrels per day (MBPD), 7% higher than in 2010, but 8% lower than the GOI’s projection of 2.75 MBPD. This quarter, oil production averaged 2.51 MBPD, 2% lower than the previous quarter. Iraq’s exports in October and November averaged 2.14 MBPD, about 2% less than last quarter’s average.³⁴



U.S. Ambassador James F. Jeffrey at the Baghdad Trade Fair, November 2011. (DoS photo)

ExxonMobil Deal with the KRG

International oil companies operating in Iraq’s southern oil fields have long been reluctant to enter pacts with the Kurdistan Regional Government (KRG). Engendering this reluctance has been the GOI’s oft-repeated threat to bar any company working in the Kurdistan Region from also working in the southern 15 provinces, home to several of the world’s largest fields. The GOI’s position is based on its reading of the Iraqi Constitution, which it maintains provides the central government with control over Iraq’s hydrocarbon resources. Consequently, until this quarter, smaller foreign firms have predominated among the more than 40 oil companies working in the Kurdistan Region, as the major international oil giants—most with extant interests or future ambitions in the southern fields—have shied away.

All this changed in November when ExxonMobil announced that it had signed six production-sharing agreements with the KRG. Shortly thereafter, the Ministry of Oil banned ExxonMobil from participating in Iraq’s upcoming fourth licensing auction for the rights to explore 12 new oil and gas blocks, which is currently scheduled for later this year. As of mid-January, it remained

U.S. companies are gradually taking steps to enter this growing market, as evidenced by this quarter’s Baghdad Trade Fair, which featured more than 80 U.S. participants.

uncertain what effect the KRG-ExxonMobil agreements would have on the company’s involvement in the planned multibillion-dollar CSSP, which would pump water into the southern fields to raise oil-recovery rates.³⁵

GOI Budget for 2012

This quarter, the CoM approved a draft budget of \$100.1 billion for 2012. The CoM’s draft, which requires CoR approval to become law, calls for \$31.8 billion in new capital spending (a 24% increase from 2011) and proposes \$68.3 billion for operating expenses, including salaries and food subsidies (a 20% increase from 2011).³⁶

Two crucial assumptions underpin the CoM draft: the price of oil remaining above \$85 per barrel and exports averaging 2.625 MBPD, or almost a half million barrels per day above the average export level achieved for the first 11 months of 2011. Figure 1.4 shows the size of the GOI’s budgets and the price of oil since 2005.³⁷ For more on the CoM 2012 draft budget, see Section 4.

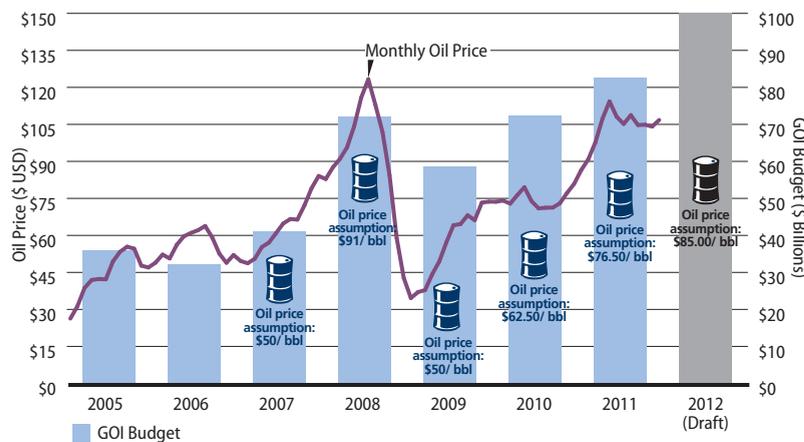
Iraq Releases Information about Oil Payments

The GOI released its first Extractive Industries Transparency Initiative (EITI) report on January 9, 2012. The EITI is an international coalition of countries that have pledged to adhere to a set of common standards governing the transparent use of wealth derived from the extraction and sale of natural resources, such as oil and gas. Iraq’s EITI report disclosed detailed information about the \$41 billion in revenue it received from oil and gas exports in 2009.³⁸

CORRUPTION AND THE RULE OF LAW

It is difficult to quantify the effect of public corruption on both the quality of life within Iraq and the international perception of the country. But those perceptions, which affect investment, remain dim. This quarter, the World Bank released its “Doing Business 2012” survey, ranking Iraq 164 of 183 nations listed in the category “Ease of Doing Business”—four spots lower than Afghanistan.³⁹

FIGURE 1.4
MONTHLY OIL PRICE, GOI BUDGET, AND OIL PRICE ASSUMPTIONS, 2005–2012



Sources: “GOI Budget” (as approved by TNA and written into law December 2005); U.S. Treasury, responses to SIGIR data calls, 1/4/2008, 4/9/2009, 4/10/2009, 2/25/2010, 4/12/2011, and 1/10/2012; GOI, “Cabinet of Ministers,” www.cabinet.iq, accessed 10/14/2009; GOI, CoR, “Federal Public Budget Law for the Fiscal Year 2010,” 1/27/2010, Article 2 and Annex Schedule B; GOI, Presidential Council, “Federal Public Budget Law for the Fiscal Year 2010,” 2/10/2010; IMF, Report No. 10/72, “Iraq: Staff Report for the 2009 Article IV Consultation and Request for Stand-By Arrangement,” 3/16/2010; GOI, CoR, “Federal Public Budget Law for the Fiscal Year 2011,” 2/23/2011; GOI, CoM, “Council Of Ministers Approved Draft Law of the GOI Federal Budget for 2012 Financial Year,” 1/9/2012, Schedule C.



New single-point mooring facilities being installed off al-Faw Peninsula are expected to start increasing Iraq’s crude oil export capacity in 2012. (Leighton Offshore photo)

Attacks on Judges and Anticorruption Officials

Attacks on Higher Judicial Council (HJC) personnel increased this quarter. In mid-October, a judge working on terrorism cases in Ninewa province was assassinated, the first in a spate of attacks against HJC officials this quarter. During an eight-day period in mid-December, three more attacks targeted judges in Anbar, Baghdad, and Tameem provinces.

Meeting with the Inspector General shortly after the killing of the Ninewa judge, Chief Justice Medhat al-Mahmoud stated that upgrading judicial security would remain his top priority in 2012. Foreshadowing the circumstances of the December attacks—all three of which struck judges in their cars—Chief Justice Medhat noted that judges were especially vulnerable when traveling to and from their workplaces. He added that he was still trying to obtain weapon permits from the MOI for HJC personnel-security details, but expressed doubt that any progress on this issue was imminent.⁴⁰ The Inspector General raised this issue with Principal Deputy Minister al-Asadi, who now leads the MOI, and he promised to take action on the matter.⁴¹

In the largest attack on GOI anticorruption officials since the fall of Saddam Hussein, a car bomb detonated outside a Commission of Integrity (COI) office in eastern Baghdad on December 22, killing 32 COI personnel in the deadliest attack ever on Iraq’s chief anticorruption agency.⁴²

Commission of Integrity

On November 1, SIGIR met with the new COI acting Commissioner, Judge Alla’a Jwad Hameed. He informed SIGIR that he had frozen the COI’s investigatory work while he conducted an internal review of its operations. As of early January, however, this freeze appeared to have come to at least a partial end, with COI personnel informing SIGIR that the new acting Commissioner had decided to go forward with investigations on a case-by-case basis.



Aftermath of attack on COI facility in Baghdad, December 22, 2011. (GOI photo)

Prime Minister al-Maliki appointed Judge Alla’a as acting Commissioner in September after his predecessor, Judge Raheem al-Ugaili resigned, citing interference with his work by senior GOI officials “with strong political connections [who had] become more powerful than even the law or Constitution.”⁴³ For more on the myriad challenges facing GOI and U.S. anticorruption efforts, see the Insert to this Report and the “Focus on Corruption” feature in Section 4.

Status of the Repeal of Article 136(b) of the Iraqi Criminal Procedure Code

In April 2011, the CoR repealed Article 136(b), which had allowed ministers to shield their subordinates from legal action. Subsequently, the CoM appealed the measure that revoked Article 136(b) on the grounds that the bill originated in the CoR and not in the CoM. As of early January, the appeal was still pending before Iraq’s highest constitutional court. If the appeal succeeds, Article 136(b) could, once again, be the law of the land.⁴⁴

A car bomb detonated outside a COI office in eastern Baghdad on December 22, killing 32 COI personnel in the deadliest attack ever on Iraq’s chief anticorruption agency.

SIGIR OVERSIGHT

SIGIR Operations in 2012

The Consolidated Appropriations Act, 2012, provides SIGIR with \$19.5 million for FY 2012 to “sustain [its] current level of operations.” SIGIR and the Office of Management and Budget had submitted a request that included a planned draw-down through December 2012, but the conference committee did “not support the proposed draw-down” and directed that “SIGIR should continue to exercise oversight over the assistance programs in Iraq, including the support costs associated with programs funded under the International Narcotics Control and Law Enforcement heading.” The conference committee report also directed “the Secretary of State to cooperate with the Office of

Inspector General for the Department of State and SIGIR, including requests from the SIGIR for information and documentation involving operations in support of foreign assistance programs.”⁴⁵

Audits

Since 2004, SIGIR has issued 206 audit reports, 5 of which were issued this quarter:

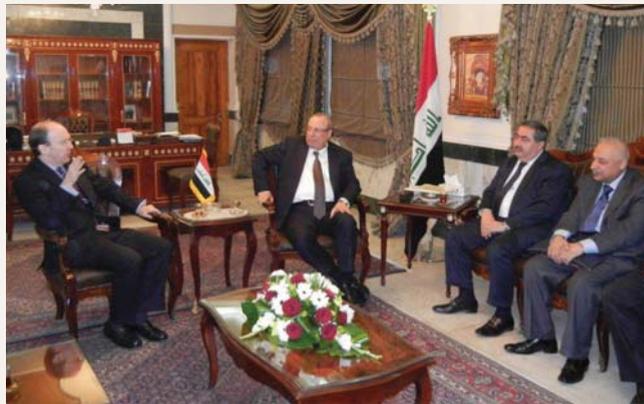
- **DoD oversight of the DFI.** SIGIR’s fourth major Development Fund for Iraq (DFI) report found that DoD could provide documentation supporting only about \$1 billion of the approximately \$3 billion in DFI funds made available to it by the GOI for making payments on contracts the Coalition Provisional Authority (CPA) awarded prior to its dissolution.
- **DFI funds returned to the Central Bank of Iraq.** This report addressed a letter from

SIGIR’s fourth major DFI report found that DoD could provide documentation supporting only about \$1 billion of the approximately \$3 billion in DFI funds made available to it by the GOI.

The Inspector General Briefs GOI Officials on SIGIR Oversight of the DFI

On November 14, 2011, the Inspector General briefed the GOI’s High Committee on the Restoration of Iraqi Funds on SIGIR’s oversight of the DFI. Iraq’s oil revenues have been deposited in the DFI since its creation by the United Nations in May 2003. Formed in 2011, the High Committee is chaired by Deputy Prime Minister for Economic Affairs Rowsch Shaways and includes representatives from the Office of the Prime Minister, the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Justice, and the CBI, among others. Its mission is to obtain a complete accounting for all Iraqi funds deposited in DFI accounts at the FRBNY. The High Committee also seeks to restore to the GOI any unspent DFI funds still under U.S. control.⁴⁶

In response to the High Committee’s questions, the Inspector General stated that the CPA controlled about \$20.7 billion in DFI funds, most of which was provided to the interim Iraqi ministries for salaries, pensions, and operating costs or used to finance reconstruction projects. He added that, of this \$20.7 billion in DFI funds, \$10.2 billion was flown to Baghdad, and \$5.8 billion was expended by electronic funds transfers from FRBNY.⁴⁷



The Inspector General meets with members of the High Committee on the Restoration of Iraqi Funds, November 14, 2011.

The Inspector General briefed the High Committee on SIGIR’s third major DFI audit, published in October 2011, which accounted for almost all of the \$6.6 billion that the CPA controlled when it dissolved on June 28, 2004. Contrary to some media reports, the Inspector General told the High Committee that this money was neither lost nor stolen. Later this year, the Inspector General will confer with members of the High Committee to discuss the results of two more DFI audits, one of which was released this quarter.⁴⁸

Prime Minister al-Maliki that stated the GOI could not locate records supporting a previous SIGIR report that \$13.1 million from the DFI was returned to the Central Bank of Iraq (CBI) in March 2009. SIGIR determined that the funds in question were transferred to a Federal Reserve Bank of New York (FRBNY) account under the control of the GOI on March 3, 2009. The documents supporting this transfer included an instruction sheet that the FRBNY stated it received from a GOI Ministry of Finance official detailing the process for returning the funds to the ministry. In addition, SIGIR found a wire transfer form showing that the U.S. Army Corps of Engineers (USACE) followed this procedure and transferred the funds to the CBI-DFI account at the FRBNY. In a January 12 meeting with Prime Minister al-Maliki that was conducted after the conclusion of all audit work, SIGIR was informed that, following its investigation into the matter, the CBI had located the deposit and confirmed that the \$13.1 million had been deposited in the proper account.

- Status of SIGIR audit recommendations to DoD.** In 2011, SIGIR published audits on actions taken by USAID and DoS in response to SIGIR audit recommendations. The purpose of this audit, the third in the series, was to determine whether DoD addressed the 37 remaining open recommendations made primarily to the Secretary of Defense and other senior DoD officials. Based on information provided to it by DoD and data contained in other SIGIR audits, SIGIR closed 32 recommendations and will continue to track the remaining 5. DoD has a tracking system in place, and the DoD Inspector General will track all open and future SIGIR recommendations to DoD.
- Contracts terminated by the U.S. Army Corps of Engineers.** This report examined the 55 contracts USACE terminated from June 2008 through April 2011 to determine if these terminations resulted in wasted funds. SIGIR could not determine if there was waste in 22 of the 55

terminations because of either missing or incomplete contract files. Out of the remaining 33 terminated contracts, SIGIR determined that 10 resulted in waste of approximately \$3.8 million and 8 had waste in amounts that were indeterminate. SIGIR did not find that any waste occurred in the 15 other terminated contracts. SIGIR concluded that better planning and coordination could have avoided much of the waste. The waste found by this audit, however, occurred in such a small number of projects that it does not indicate systemic problems in USACE.

- DoS process to provide project information to the GOI.** This letter report addressed the DoS process for providing information on completed and transferred reconstruction projects to the GOI. In a previous report, SIGIR found that each U.S. agency was using its own procedures for turning over completed projects to the GOI and, consequently, the GOI did not have complete information on what the U.S. government had provided to it. This report concluded that the GOI is still receiving only a partial inventory of all completed and transferred reconstruction projects because DoS, which is now responsible for providing all such data, uses a narrowly focused definition of what constitutes a reconstruction project and obtains its project information from a database that contains incomplete and inaccurate information.

Investigations

Since 2004, SIGIR investigative work has resulted in 70 indictments, 61 convictions, and more than \$175 million in fines, forfeitures, and other monetary penalties. As a result of SIGIR investigations, 7 defendants are awaiting trial, and an additional 16 defendants are awaiting sentencing. This quarter, significant investigative accomplishments included:

- On October 20, the former president and CEO of New Jersey-based international engineering consulting company Louis Berger Group, Inc., surrendered to face a six-count indictment alleging he led a scheme to intentionally overbill

The former president and CEO of Louis Berger Group, Inc., surrendered to face a six-count indictment alleging he led a scheme to intentionally overbill the U.S. government.

the U.S. government in connection with hundreds of millions of dollars in overseas reconstruction contracts over a nearly 20-year period. The indictment charges him with one count of conspiring to defraud USAID and five counts of making false claims in connection with those billings. The conspiracy charge carries a maximum penalty of 10 years in prison, and the false-claims charges each carry a maximum penalty of 5 years in prison. In 2010, two other corporate officers of the company pled guilty to defrauding the government in a related matter.

- On October 21, a former U.S. Army sergeant was placed in a pre-trial diversion program as a result of a one-count indictment charging the former sergeant with receiving more than \$12,000 in stolen cash from Iraq. The cash was intended for an Iraqi contractor who never picked it up. The funds were then stolen by a co-conspirator, concealed in a stuffed animal, and sent through the U.S. postal system to the former Army sergeant in California.
- On November 10, a retired U.S. Army sergeant working as a DoS contractor pled guilty to conspiring to steal DoS equipment, including a truck and a generator, and sell them on the Iraqi black market. The contractor faces up to 5 years in prison and a maximum fine of \$250,000. He has already agreed to pay \$12,000 in restitution to the U.S. government.
- On December 9, a former USACE employee was sentenced to 1 year and 8 months in prison and 3 years of supervised release for conspiring to receive bribes from Iraqi contractors involved in U.S.-funded reconstruction efforts. He admitted to using his official position to conspire with Iraqi contractors to accept cash bribes in exchange for recommending that USACE approve contracts and other requests for payment submitted by the contractors.
- On December 13, a retired U.S. Army major was sentenced to 2 years in prison and 3 years of supervised release and ordered to pay \$400,000

in restitution for engaging in monetary transactions connected to unlawful activity. He received four wire transfers of approximately \$100,000 each from a contractor involved in fraudulently obtaining U.S. government contracts to provide bottled water to troops serving in Iraq.

- On December 21, a U.S. contractor was sentenced to 3 months confinement followed by 2 years of supervised release for lying to federal agents during the course of an investigation. The agents were investigating a fraud scheme involving the theft and resale of generators in Iraq to various entities, including the U.S. government. When he was initially interviewed in Iraq, he denied any involvement in the fraud scheme. The investigation demonstrated that he had in fact signed fraudulent U.S. documents and received money on several occasions for his part in the scheme.
- On January 5, another former U.S. Army major and contracting official was sentenced to 12 years in prison and 3 years of supervised release for his participation in a wide-ranging bribery and money-laundering scheme related to DoD contracts awarded in support of the Iraq war. In addition, he was ordered to forfeit \$21 million and several automobiles and parcels of real estate. His wife was also convicted for her participation in this scheme and is awaiting sentencing. The major and his wife are 2 of 17 people convicted as a result of this investigation.
- On January 19, a former DoS employee was sentenced to 2 years and 9 months in prison and 2 years of supervised release for wire fraud and wire-fraud conspiracy for fraudulently providing Iraqi contractors with confidential bidding information. He was also ordered to pay \$106,820 in restitution.

At the end of January, SIGIR had 90 open investigations. For more details on SIGIR's recent investigative accomplishments, see Section 5 of this Report.

A former U.S. Army major and contracting official was sentenced to 12 years in prison for his participation in a wide-ranging bribery and money-laundering scheme.

Lessons Learned

In December, SIGIR released its sixth lessons learned report, summarizing the key findings of its Inspections Directorate's 170 project assessments. Conducted between 2005 and 2010, these real-time reports on U.S.-funded reconstruction projects illustrated the profound difficulties inherent in conducting reconstruction under fire. SIGIR found at least some deficiencies at 94 of the 170 projects it reviewed. These problems usually resulted from poor planning, a lack of robust U.S. government oversight, and the uncertain security environment that prevailed throughout much of Iraq during that time period.

This spring, SIGIR plans to issue the first in a three-volume series of new reports assessing the value of the U.S. reconstruction effort. Whereas previous reports have looked at specific projects, types of projects, or funding sources, the first report in this series will focus on the human cost of the U.S. reconstruction program. The second report will summarize the views of former DoD, DoS, and USAID leaders involved in reconstruction regarding the effectiveness of the U.S. effort. The third and final report will take a comprehensive look at one area—the Rusafa Political District in Baghdad—and examine all of the U.S.-supported reconstruction efforts there to determine their collective effectiveness.

REFORMING THE U.S. APPROACH TO STABILIZATION AND RECONSTRUCTION OPERATIONS

Bureau of Conflict and Stabilization Operations

This quarter, DoS announced the establishment of the new Bureau of Conflict and Stabilization Operations (CSO). President Obama announced his intention to nominate Ambassador Frederick (“Rick”) Barton to head it. CSO will subsume the Office of the Coordinator for Reconstruction and Stabilization, which had struggled to gain its footing within the Department since its creation in 2004. CSO represents DoS's latest attempt at creating an integrated management structure to lead U.S. stabilization and reconstruction operations.

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Civilian Security, Democracy, and Human Rights

CSO will be supervised by the Under Secretary for Civilian Security, Democracy, and Human Rights. The Under Secretary will also supervise INL; the Bureau of Counterterrorism; the Bureau of Population, Refugees, and Migration; and several smaller offices.

U.S. Office for Contingency Operations

Taking the concept of reorganization one step further to its logical culmination, on December 14, 2011, Representatives Russ Carnahan (D-MO), Dan Burton (R-IN), Gerald Connolly (D-VA), Renee Ellmers (R-NC), Walter Jones (R-NC), and Peter Welch (D-VT) introduced the Contingency Operations Oversight and Interagency Enhancement Act of 2011. This bill would establish a United States Office for Contingency Operations (USOCO), which would be responsible

USOCO would combine existing offices from DoS, USAID, DoD, and other federal agencies involved in stabilization and reconstruction operations.

for planning and executing overseas stabilization and reconstruction operations. Unlike CSO, which is essentially yet another in a long line of DoS internal reorganizations, USOCO would combine existing offices from DoS, USAID, DoD, and other federal agencies involved in stabilization and reconstruction operations. Oversight would be provided by a newly created Inspector General, who would have jurisdiction over USOCO and certain other activities of the federal government. The bill was referred to the Committee on Foreign Affairs in addition to the Committees on Armed Services and Oversight and Government Reform.

In his December 7 appearance before the House Subcommittee on National Security,

Homeland Defense, and Foreign Operations of the House Committee on Oversight and Government Reform, the Inspector General testified on the current state of oversight in Iraq and on ways to improve contingency oversight in the future. The Inspector General supported the idea of a standing Special Inspector General for stabilization and reconstruction operations, as recommended in the final report of the Commission on Wartime Contracting for Iraq and Afghanistan. He noted that the advantages of such an entity would include continuous oversight from the inception of such operations, as well as cross-jurisdictional oversight, similar to the authorities SIGIR possesses. ♦

QUICK FACTS

\$ Reconstruction Funding

Cumulative Funding
\$ Billions

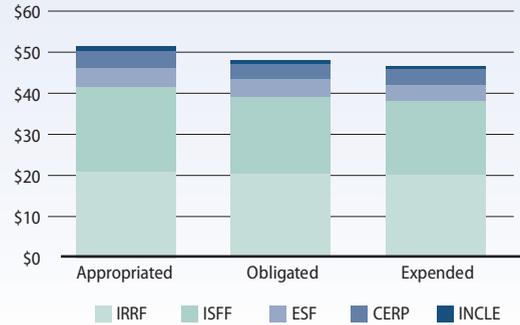


Recent Funding

FY 2011 U.S. Funding	2011 Iraqi Capital Budget	2011 International Commitments
\$3.71 B	\$25.70 B	\$471 M

Major U.S. Funds

\$ Billions



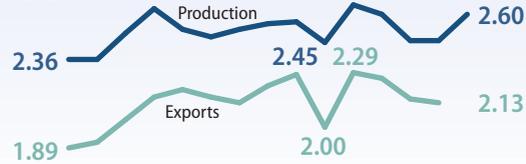
Total Oil Receipts, by Quarter (10/2010–12/2011)

\$ Billions



Crude Oil Production and Exports, by Month (10/2010–12/2011)

MBPD



Security

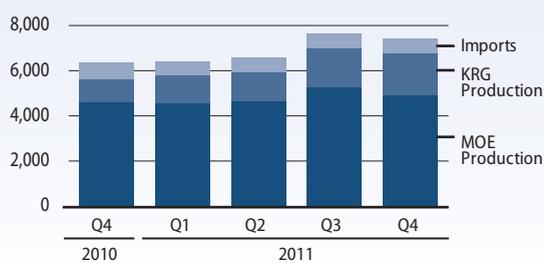
Average Daily Security Incidents, by Week (10/2010–12/2011)



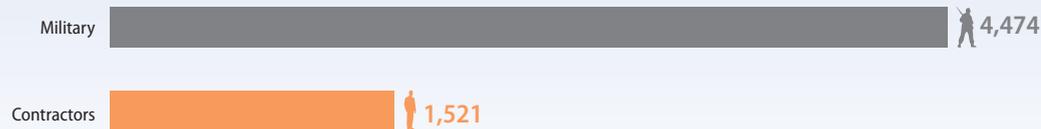
Electricity

Electricity Supply, by Quarter (10/2010–12/2011)

MW



U.S. Deaths (2003–2011)



Note: Contractor number represents personnel working under contract for the U.S. government who died as a result of both combat and non-combat incidents. U.S. military figures are through January 9, 2012. For the sources of this information, see the last page of the endnotes section.