

# DEVELOPMENTS IN IRAQ

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## OVERVIEW

The results of two surveys, both taken in 2011 before the final drawdown of U.S. troops, portray a relatively high level of discontent among the people of Iraq. One survey found that 25% of the 1,000 Iraqis interviewed in September considered themselves to be “suffering” (as opposed to “thriving” or “struggling”), up from 14% less than a year earlier (see Figure 4.1). According to Gallup, the percentage of Iraqis who rate their lives this poorly is among the highest in the Middle East and North Africa region. The percentage who said they were “thriving”—just 7%—is among the lowest in the region. The number of Iraqis who reported experiencing stress during much of the day preceding their survey doubled between June 2008 and September 2011, rising from 34% to 70%. The percentage experiencing anger increased from 38% to 60% over the same period.<sup>210</sup>

Earlier in the year, a more comprehensive survey of the 28,875 Iraqi households provided additional details on specific areas of concern. The Iraq Knowledge Network (IKN) survey is part of a socioeconomic monitoring system being developed by the Iraqi Ministry of Planning and Development Cooperation (MoPDC). Its aim is to provide reliable data for planning and improving government services. Partial results of the survey were released in December and included the following:<sup>211</sup>

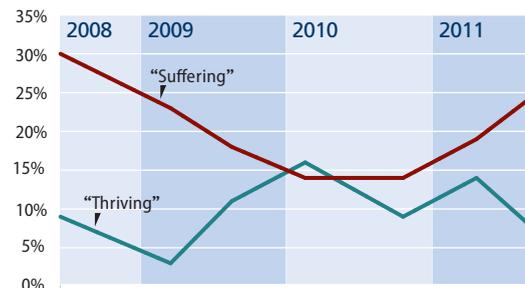
- Almost 8 out of 10 households rated electricity service as “bad” or “very bad,” and 6 out of 10 rated their sanitation facilities in one of those categories.
- 57% of adults (age 15 and older) said they were neither working nor looking for work.
- More than half felt that corruption had become more prevalent in the previous two years.

A different type of survey, this one conducted in 2011 by New York-based consulting firm Mercer, rated the quality of living and personal safety

in 221 cities around the world. Baghdad ranked last in both categories. The survey weighed the political, social, and economic environment along with housing, schools, public services, health care, and climate in determining its calculation, describing the Iraqi capital as “the world’s

The percentage of Iraqis who rate their lives this poorly is among the highest in the Middle East and North Africa region.

FIGURE 4.1  
PERCENTAGES OF IRAQIS WHO SAY THEY ARE “SUFFERING” OR “THRIVING”



Note: Survey was taken of Iraqi adults (age 15 and older).

Source: Stafford Nichols, Gallup, “‘Suffering’ in Iraq Highest Since 2008,” 1/9/2012, [www.gallup.com/poll/151940/Suffering-Iraq-Highest-2008.aspx](http://www.gallup.com/poll/151940/Suffering-Iraq-Highest-2008.aspx), accessed 1/12/2011.



Bridges over the Tigris River in Baghdad. (Aerial support provided by Embassy Air Operations)



More than 80 U.S. companies and organizations participated in the Baghdad International Trade Fair during the first 10 days of November. (U.S. Embassy-Baghdad photo)

least safe city.”<sup>212</sup> Table 4.1 shows how selected Middle East cities fared in the survey.

Despite such survey results, there have also been optimistic signs in Iraq:

- Production of crude oil and generation of electric power both increased to record levels this past year.
- Government revenues from oil exports have been higher than expected.
- The agreement between the Ministry of Oil and Royal Dutch Shell to form a joint venture that will capture currently flared natural gas has finally been signed.
- Foreign commercial investment has been on the rise.
- For the first time in two decades, U.S. companies exhibited at the Baghdad International Trade Fair.
- Deaths from violence are down (but have by no means ended).

President Obama said, “Iraq faces great challenges, but today reflects the impressive progress that Iraqis have made.”

At a joint press conference with Prime Minister al-Maliki on December 12, President Obama said, “Iraq faces great challenges, but today reflects the impressive progress that Iraqis have made. Millions have cast their ballots—some risking or giving their lives—to vote in free elections. The Prime

TABLE 4.1

**MERCER 2011 SURVEY RANKINGS, BAGHDAD VS. SELECTED CITIES**

**Quality of Living**

RANKING	CITY	COUNTRY
1	Vienna	Austria
29	Honolulu <sup>a</sup>	United States
74	Dubai <sup>b</sup>	United Arab Emirates
126	Amman	Jordan
135	Cairo	Egypt
157	Riyadh	Saudi Arabia
170	Beirut	Lebanon
179	Damascus	Syria
187	Tehran	Iran
<b>221</b>	<b>Baghdad</b>	<b>Iraq</b>

<sup>a</sup> Highest-ranking U.S. city

<sup>b</sup> Highest-ranking Middle East city

**Personal Safety**

RANKING	CITY	COUNTRY
1	Luxembourg	Luxembourg
23	Abu Dhabi <sup>a</sup>	United Arab Emirates
39	Dubai	United Arab Emirates
53	Chicago <sup>b</sup>	United States
123	Amman	Jordan
145	Riyadh	Saudi Arabia
176	Cairo	Egypt
191	Damascus	Syria
203	Beirut	Lebanon
<b>221</b>	<b>Baghdad</b>	<b>Iraq</b>

<sup>a</sup> Highest-ranking Middle East city

<sup>b</sup> Highest-ranking U.S. city

Sources: Mercer, press releases, “2011 Quality of Living Worldwide City Rankings—Mercer Survey,” 11/29/2011, [www.mercer.com/press-releases/quality-of-living-report-2011](http://www.mercer.com/press-releases/quality-of-living-report-2011), accessed 1/4/2012, and Mercer, “Mercer 2011 Quality of Living Survey Highlights—Defining ‘Quality of Living,’” [www.mercer.com/articles/quality-of-living-definition-1436405](http://www.mercer.com/articles/quality-of-living-definition-1436405), accessed 12/1/2011.

Minister leads Iraq’s most inclusive government yet. Iraqis are working to build institutions that are efficient and independent and transparent.”<sup>213</sup>

This section of the Quarterly Report reviews what has been happening in Iraq during this period of fundamental change. ♦

## SECURITY

At a December 15 ceremony honoring the sacrifices made by U.S. military forces ahead of their departure, U.S. Secretary of Defense Leon Panetta said of the United States' continuing commitment: "Iraq will be tested in the days ahead—by terrorism, by those who would seek to divide, by economic and social issues, by the demands of democracy itself. Challenges remain, but the [United States] will be there to stand with the Iraqi people as they navigate those challenges to build a stronger and more prosperous nation."<sup>214</sup>

### Recent Violence

While about 6,000 U.S. military and civilian personnel and contractors were killed in Iraq during Operation Iraqi Freedom and Operation New Dawn,<sup>215</sup> more than 100,000 Iraqis are estimated to have been killed during that same, almost nine-year period.<sup>216</sup> Iraq's death toll from violence in 2011, however, fell sharply from previous years, with nearly 1,000 fewer people killed than in either 2009 or 2010. Figures compiled by the GOI show that 2,645 Iraqis were killed in attacks in 2011—1,578 Iraqi civilians, 609 police personnel, and 458 soldiers—and more than 4,400 Iraqis reportedly were wounded in the violence. The number of Iraqis killed in December 2011 (155) marked one of the lowest monthly tolls since 2003.<sup>217</sup>

Notwithstanding the substantial decrease in fatalities last year, December 22, 2011, was one of the bloodiest days in Baghdad during the past three years. In all, 31 incidents, including 21 improvised explosive device (IED) attacks, left more than 60 Iraqis dead and over 200 injured. In the deadliest incident, a suicide bomb attack against a Commission of Integrity building in Baghdad killed at least 32 people. That attack, reminiscent of past strikes against government complexes, reportedly involved



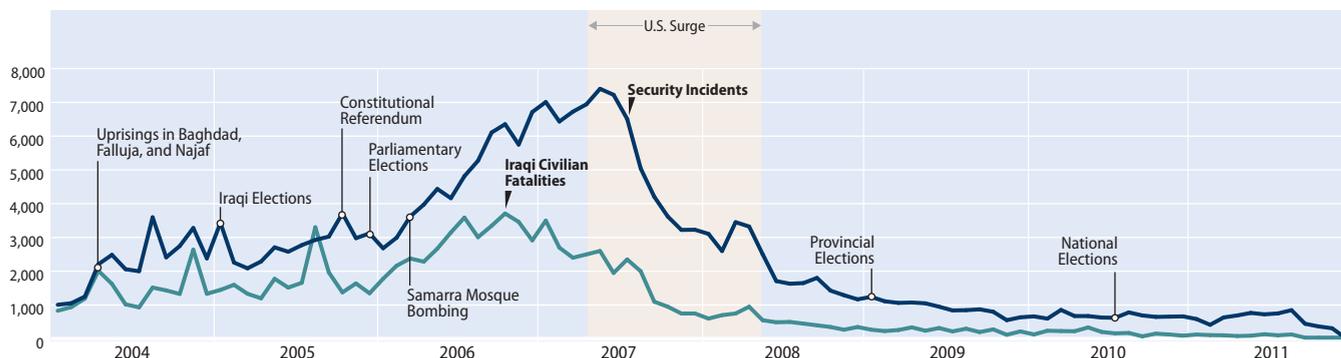
"The Day of Commitment and Kept-Promise Ceremony," honoring U.S. and Coalition forces, in al-Faw Palace at Camp Victory on December 1, 2011.

both a suicide car bomber and gunmen who later stormed the building.<sup>218</sup> Attacks in other areas of Iraq continued as well:<sup>219</sup>

- October 12—multiple attacks on police in Baghdad killed more than 25 police personnel and wounded more than 52.
- October 27—twin roadside bombs in Baghdad's Urr neighborhood killed 36 and wounded 78.
- November 24—three motorcycle bombs at a market in Basrah killed 18 people and wounded more than 50.
- December 1—attacks in Iraq's diverse ethnoreligious province of Diyala killed 18 people.
- December 5—a car bomb targeting Shia pilgrims killed 16 people and wounded 45 others.
- December 25—an attack on a police checkpoint in Anbar killed six police personnel.
- January 5—a wave of attacks in mainly Shia districts of Baghdad killed at least 29 people and wounded dozens; a suicide bomber targeting Shia pilgrims in southern Iraq killed at least 30 people and wounded 70 others.
- January 9—two car bombs in Baghdad killed at least 15 people and wounded 52.

Iraq's death toll from violence in 2011 fell sharply from previous years.

FIGURE 4.2  
MONTHLY SECURITY INCIDENTS AND CIVILIAN FATALITIES, 1/2004–12/2011



Note: Data not audited. Totals for December 2011 include data through December 6. "U.S. Surge" denotes period when at least 150,000 U.S. troops were in Iraq.

Sources: USF-I, responses to SIGIR data calls, 1/4/2011, 4/12/2011, 7/1/2011, 10/5/2011, and 1/3/2012; Brookings Institution, *Iraq Index*, 6/30/2010, pp. 3–4.

- January 14—a suicide attack on Shia pilgrims at the conclusion of Arbayeen commemorations near Basrah killed at least 53 people.
- January 15—an attack on a GOI facility in Ramadi killed at least 4 people and injured more than 15.
- January 16—a car bomb targeting displaced members of a tiny Kurdish sect near Mosul killed seven people.

For a timeline of security incidents and civilian fatalities since January 2004, see Figure 4.2.

### Attacks on Infrastructure

On December 13, explosions damaged three parallel pipelines carrying crude oil from Iraq's al-Rumaila field to a storage facility at al-Zubair. The explosions shut down al-Rumaila South field—which produces about half of al-Rumaila's 1.4 million barrels per day (MBPD)—for just over 24 hours. Two days later, a Ministry of Oil official announced that 80% of the lost output had been restored and that full production would resume by midday on December 15. No injuries were reported, and oil exports were said to be uninterrupted because large quantities of crude were already in storage tanks waiting to be loaded aboard a departing tanker. Welding teams cut out and replaced about 40 yards of damaged pipeline before pumping resumed.<sup>220</sup>

One week before the pipeline attack, four towers on a power transmission line in Diyala were downed by sabotage, resulting in the temporary loss of up to 400 megawatts (MW) of power. For more information, see the Electricity subsection of this Report.

### Assassinations

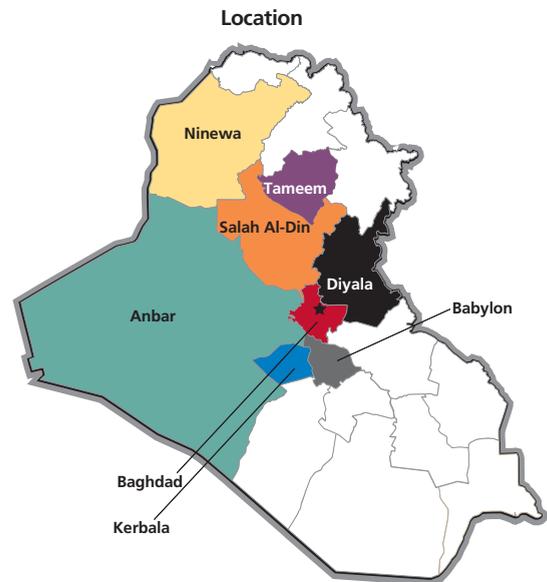
Targeted killings of civilian and military GOI officials also continued, with at least 23 assassinations from October 15, 2011, to January 14, 2012. This is down from the almost 40 assassinations that occurred during a similar three-month period from mid-July to mid-October. Some high-profile assassination attempts this quarter were unsuccessful, as the Ministers of Finance, Science and Technology, and the Environment all survived IED attacks.<sup>221</sup> Figure 4.3 summarizes the recent attempted acts of apparent targeted violence. Many of those killed were security officials. For the monthly totals of Iraqi Police and Iraqi Army personnel killed and wounded this quarter, see Figure 4.4.

Over the last several years, Awakening/Sons of Iraq (SOI)-affiliated personnel and their family members have been targeted for assassination. This quarter, at least 91 were killed and 54 wounded in a series of violent attacks (see Figure 4.4).<sup>222</sup> The SOI program began as a U.S.-funded

The Ministers of Finance, Science and Technology, and the Environment all survived IED attacks.

**FIGURE 4.3**  
**SELECTED ACTS OF APPARENT TARGETED VIOLENCE, 10/16/2011–1/10/2012**  
**Security Officials**

TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT
MOI official	●	10/15		Killed
MOI lieutenant colonel	●	10/19		Unharmd; driver injured
Iraqi Army colonel	●	10/20		Killed
ISF general	●	10/27		Injured
Intelligence official	●	11/1		Unharmd
Iraqi police senior commander	●	11/12		Killed
Iraqi Police chief	●	11/17		Killed; three bodyguards injured
Iraqi police colonel	●	11/26		Injured; daughter killed
Kurdish Asaesh official	●	11/27		Injured; wife injured
Iraqi police lieutenant colonel	●	11/27		Killed; two bodyguards killed
Iraqi Army general	●	12/3		Killed; wife killed
Iraqi police general	●	12/5		Unharmd, at least one person injured
Ministry of National Security official	●	12/7		Injured
Intelligence official	●	12/8		Killed
Iraqi police colonel	●	12/14		Injured
Iraqi Army lieutenant colonel	●	12/15		Injured
Retired intelligence official	●	12/16		Injured
Kurdish Asaesh official	●	12/18		Killed
Civil defense director	●	1/2		Killed
Iraqi police lieutenant colonel	●	1/10		Killed; two bodyguards killed



	IED/VBIED
	Gunfire
	Gunmen ambushed convoy
	Gunmen attacked residence
	Gunmen attacked vehicle with silenced weapons
	Gunmen attacked with silenced weapons
	Gunmen attacked vehicle
	Residence bombed
	Sticky bomb attached to vehicle

**Note:** This table provides examples of assassinations, attempted assassinations, and other small-scale acts of violence that appear to have been aimed at specific persons or groups this quarter. It does not purport to be all-inclusive, nor presume to imply the attackers' respective motives.

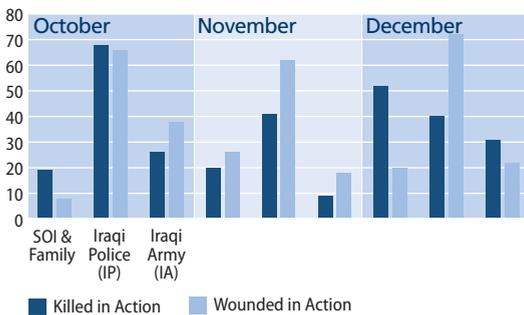
**Source:** SIGIR analysis of open-source documents in Arabic and English, 10/2011–1/2012.

Non-Security Officials

TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT	TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT
Local council official	●	10/16	☀	Injured; three others injured	Senior GOI official(s)	●	11/28	☀	At least one person killed; another injured
Judge	●	10/19	🔫🚗	Killed; driver killed	Ministry of Oil official	●	11/29	🔫	Injured
Ministry of Oil official	●	10/23	☀	Injured; driver killed	Minister of the Environment	●	12/1	☀	One bodyguard injured
Bar Association chairman	●	10/24	🔫	Unharmmed	Prosecutor	●	12/7	☀🚗	Killed
Mayor	●	10/25	🔫	Killed	Railroad director	●	12/7	☀🚗	Injured
Representative of Ayatollah al-Sistani	●	10/25	🔫🏠	Injured; son injured; two relatives killed	North Oil Company official	●	12/7	☀🚗	Killed
CoR employee	●	11/2	🔫	Killed	Ministry of Education IG official	●	12/11	☀	Killed
Anbar Governor	●	11/7	☀	Official unharmmed; three bodyguards injured	HJC officials	●	12/13	🔫🚗	Killed; several other HJC officials killed and injured
Mayor	●	11/8	☀	Unharmmed	Judge	●	12/17	🔫🚗	Injured
Mayor	●	11/9	🔫🏠	Unharmmed	Judge	●	12/18	☀🏠	Unharmmed; three others injured
Head of journalist association	●	11/14	🔫	Injured	Judge	●	12/21	☀🚗	Killed; several others injured
Human rights activist	●	11/20	☀	Killed	Central Bank of Iraq official	●	12/22	☀	Unharmmed; several others injured
Telecom company director	●	11/20	🔫	Killed	Minister of Science and Technology	●	12/25	☀	Unharmmed; two bodyguards injured
Professor	●	11/20	🔫	Killed	Passport official	●	12/29	☀🏠	Unharmmed
Youth and sports official	●	11/21	☀🚗	Killed; companion injured	Mayor	●	12/30	☀🏠	Injured; at least one other person injured
CoM official	●	11/26	🔫	Killed	Minister of Finance	●	1/1	☀	Unharmmed; several injuries reported
Mayor	●	11/26	🔫🏠	Injured; bodyguard killed					

Continued in next column

**FIGURE 4.4**  
**SOI & FAMILY, IRAQI POLICE, AND IRAQI ARMY CASUALTIES, 10/2011–12/2011**



Source: GOI, MOI, information provided to SIGIR, 1/22/2012.

effort to pay former (mostly Sunni) insurgents to support the U.S. military and Iraqi Security Forces (ISF) in providing security services in their communities. Many SOI members were drawn from the ranks of the *Sahwa* (or “Awakening”) movement, which turned against al-Qaeda-backed terrorists beginning in late 2006 and early 2007. The GOI assumed full responsibility for the program in April 2009.

## Iraqi Security Forces

Still focusing primarily on internal security operations, the ISF remains a largely light-infantry force, albeit with an increasing number of mechanized units. This quarter, both the Ministry of Defense (MOD) and Ministry of Interior (MOI) continued to be run by the Prime Minister. As of December 31, 2011, the number of ISF personnel under his control totaled more than 933,000.<sup>223</sup> For breakdown, by service, see Table 4.2.

Figure 4.5 shows Iraq’s MOD force strength in relationship to the military forces of other nations.

### Ministry of Defense

According to the Chief of the U.S. Office of Security Cooperation-Iraq (OSC-I), the Iraqi Army (IA) continues to play a significant role in domestic security operations, and this affects its development

**FIGURE 4.5**  
**ACTIVE MEMBERS OF MILITARY, AS OF 2011, IRAQ VS. OTHER COUNTRIES**  
Number of Personnel (Ranking)



Sources: GlobalFirepower.com, “Active Military Manpower by Country,” [www.globalfirepower.com/active-military-manpower.asp](http://www.globalfirepower.com/active-military-manpower.asp), accessed 12/12/2011; GOI, MOI IG, information provided to SIGIR, 10/10/2011.

**TABLE 4.2**  
**IRAQI SECURITY FORCES, AS OF 12/31/2011**

SERVICE	ASSIGNED PERSONNEL	
<b>Ministry of Defense</b>	Iraqi Army	200,000
	Training and Support	68,000
	Air Force	5,053
	Navy	3,650
	Army Air Corps	2,400
	<b>Total MOD</b>	<b>279,103</b>
<b>Ministry of Interior</b>	Iraqi Police	325,000
	Facilities Protection Service	95,000
	Training and Support	89,800
	Department of Border Enforcement	60,000
	Iraqi Federal Police	45,000
	Oil Police	35,000
<b>Total MOI</b>	<b>649,800</b>	
<b>Counter-Terrorism Force</b>	<b>4,200</b>	
<b>Total</b>	<b>933,103</b>	

Note: Numbers affected by rounding. Assigned numbers illustrate payroll data; they do not reflect present-for-duty totals.

Source: GOI, MOI IG, information provided to SIGIR, 1/12/2012.

as an external defense force. The IA has been unable to dedicate adequate time to train for conventional combat. Almost nine years after the U.S. entry into Iraq, the IA, while capable of conducting counterterrorism and counterinsurgency

The IA has been unable to dedicate adequate time to train for conventional combat.

operations, possesses limited ability to defend the nation against foreign threats.<sup>224</sup>

Moreover, the continued need for IA troops in Iraq's cities and towns illustrates the still-significant challenges faced by MOI police forces in providing for domestic security in the 15 provinces outside the Kurdistan Region. The OSC-I Chief reported that the MOI is currently evaluating the security situation on a province-by-province basis, with the intention of assuming all security responsibilities from the MOD in at least three provinces in the near future. But although the MOI may assume total responsibility for security in long-tranquil provinces, such as Muthanna, IA forces will likely remain present in more volatile provinces throughout 2012.<sup>225</sup>

See Figure 4.6 for a comparison of Iraq's defense spending with that of other nations.

FIGURE 4.6  
**DEFENSE SPENDING BUDGETS,  
 IRAQ VS. OTHER COUNTRIES**  
 \$ Billions (Ranking)



Source: GlobalFirepower.com, "Defense Spending Budgets by Country," [www.globalfirepower.com/defense-spending-budget.asp](http://www.globalfirepower.com/defense-spending-budget.asp), accessed 12/15/2011.



Iraq celebrates its Army Day on January 6, 2012. (GOI photo)

### Ministry of Interior

In late 2011, Prime Minister al-Maliki gave MOI Senior Deputy Minister Adnan al-Asadi, who manages the day-to-day affairs of the ministry on behalf of the Prime Minister, the legal authority to reorganize certain aspects of the MOI's internal operations. In a mid-November meeting with the Inspector General, al-Asadi reported that he had fired several high-ranking officials on the grounds that they were either corrupt or ineffective. Among those replaced were the Director General for the MOI's Baghdad operations, the head of a key administrative department, and 90% of the judges who serve on the special MOI courts that adjudicate cases concerning police misconduct. He added that he also replaced, or plans to replace, several other directors general and senior staff members. Commenting on the wide-ranging nature of these swiftly implemented changes, al-Asadi stated that "sometimes you need a sword in Iraq to achieve justice."<sup>226</sup> ♦

Al-Asadi stated that "sometimes you need a sword in Iraq to achieve justice."

## GOVERNANCE

Shortly after the final U.S. military contingent left Iraq in mid-December 2011, a political crisis erupted when an arrest warrant was issued for Vice President Tariq al-Hashemi, a member of the al-Iraqiya bloc and a prominent Sunni Arab. Al-Hashemi stands accused of complicity in assassinations allegedly conducted by his bodyguards, who implicated him in their televised statements. This controversy came at the end of a quarter that also saw Shia-Sunni tensions flare over the mass arrests of alleged Ba'athists by the Government of Iraq (GOI) and the moves made by several provinces toward greater autonomy from Baghdad.<sup>227</sup> For more on all of these issues, see Section 1 of this Report.

### The Erbil Agreement: One Year On

This quarter marked the first anniversary of the so-called Erbil Agreement, which ended the nine-month post-election standoff between Prime Minister Nuri al-Maliki's State of Law Coalition and its main rival, former Prime Minister Ayad Allawi's al-Iraqiya bloc. The Erbil Agreement secured a second term in office for Prime Minister al-Maliki, despite his coalition winning two fewer seats than al-Iraqiya in the March 2010 Council

of Representatives (CoR) elections. The agreement also provided for the formation of a National Council for Higher Policies (NCHP), a high-level policy body with unspecified powers over economic and security matters. The presumed leader of the NCHP was to have been Allawi. But little progress has been made on forming the NCHP, and this quarter several GOI officials told SIGIR that they doubted whether it would ever be formed.<sup>228</sup>

Under the presumed terms of the non-public Erbil Agreement, a Sunni drawn from an al-Iraqiya-approved list of candidates is to lead the MOD, and a State of Law-allied Shia official is to lead the MOI. As of mid-January, however, both ministries remained without permanent leaders because of persistent disagreements between State of Law and al-Iraqiya over proposed candidates.<sup>229</sup>

Although the MOD and MOI continue to conduct regular operations, the lack of permanent ministers has slowed some ministry functions. In November, the Chief of OSC-I, General Robert Caslen, informed SIGIR that MOI and MOD budget execution has been delayed because decisions on major contracts must be made by the Prime Minister. Describing the process as challenging, General Caslen cited some of the problems with the GOI's purchase of U.S.-built naval patrol craft as an example of how the

Although the MOD and MOI continue to conduct regular operations, the lack of permanent ministers has slowed some ministry functions.



On November 21, Iraqi television showed 22 alleged insurgents, who had been arrested in 2007, confessing their role in the killing of more than 3,000 Iraqis during the peak of sectarian strife in Iraq. As shown at left, family members of the victims attended and interrupted the news conference. (Al-Iraqiya TV)

absence of a Minister of Defense has affected the MOD's modernization efforts.<sup>230</sup>

## Council of Ministers

In early December, the Council of Ministers approved a \$100.1 billion budget for 2012, which is about 21% higher than Iraq's 2011 budget.

In early December, the Council of Ministers (CoM) approved a \$100.1 billion budget for 2012, which still must be discussed and approved by the CoR before it becomes law. The CoM draft budget is about 21% higher than Iraq's 2011 budget of \$82.6 billion.<sup>231</sup> For more on the draft budget for 2012, see the Economy subsection of this Report.

## Council of Representatives

In early December, the CoR held its first reading of the CoM's draft budget for 2012. As of mid-January, the CoR is still considering the CoM draft, and a final vote has not yet been held. In addition, the CoR passed several laws this quarter, including some that dealt with changes to the statutes governing the operations of various ministries. The CoR also continued to consider long-pending hydrocarbon legislation this quarter, and reports suggested that some progress was made on reconciling the differences between the Kurdistan Region and the federal government. Table 4.3 shows the laws passed by the CoR in 2011, as of mid-December.<sup>232</sup>

## Report by the UN Special Representative

On December 6, the new United Nations (UN) Special Representative to the Secretary General (SRSG), Martin Kobler, of Germany, issued his first report to the Secretary General on political and security developments in Iraq. The SRSG offered these insights:<sup>233</sup>

- There has been "little progress" in resolving Iraq's outstanding issues with Kuwait.

TABLE 4.3

### LAWS PASSED BY THE CoR AND PUBLISHED IN THE *OFFICIAL GAZETTE*, 1/1/2011–12/15/2011

Vice Presidents
Iraq's federal budget law for FY 2011
Law canceling the ratification of the al-Ahdab oil field development and production contract
Law ratifying the modification of the crude oil pipeline agreement signed in August 27, 1973
Law canceling the former Revolutionary Command Council (RCC) decree number (349) of 1991
Law canceling the former RCC decree number (100) of 1995
Amendment to the criminal procedure code (23) of 1971
First amendment to the Private Investment Law in regards to the refinement of crude oil number (64) of 2007
Law ratifying the settlement of claims agreement between the GOI and the United States
Law ratifying documents concerning a Japanese loan
Law for the creation, merger, and modification of association of administrative organizations
Law of the Consultative Committee
Law canceling the former RCC decree number (133) of 1985
Law of the Mayors
Law of the Service and Retirement for the Internal Security Forces
Law canceling the former RCC decree number (96) of 1994
Law canceling the former RCC decree number (800) of 1989
Law ratifying the Arabian agreement to facilitate the transfer of Arabian Cultural Productions between the GOI and the Arabian Organization of Education, Culture, and Sciences
Law ratifying the cooperation agreement between the GOI and the International Organization for Migration
Law of the Higher Institute for the Diagnosis of Infertility and Fertility Technology
Journalists' Rights Law
Salary and Benefits for the Three Presidencies Law
Ministry of Education Law
Law canceling the former RCC decrees number (427) of 1991 and number (293) of 1992
Illiteracy Eradication Law
Ministry of Sports and Youth Law
Law of the Board of Supreme Audits
Law of the Commission of Integrity
Law of the Iraqi Housing Fund
Law canceling the former RCC decree number (55) of 1999
Law canceling Iraq's reservation on article (9) of the agreement to eliminate all kinds of discrimination against women listed in law (66) of 1986
Law of the Ministry of Trade
Law of the Ministry of Industry and Minerals
Amendment to the Iraqi Supreme Criminal Court Law

Source: CoR, [www.parliament.iq](http://www.parliament.iq), accessed 12/16/2011.

- In his consultations, “particularly with Kurdish interlocutors, [he] sensed a growing discontent at delays in fully implementing the Kurdish-Arab agenda” concerning the resolution of the disputed internal boundaries.
- Prime Minister al-Maliki had asked the UN Assistance Mission-Iraq (UNAMI) to continue to work with the GOI and the Kurdistan Regional Government (KRG) to resolve Kurdish-Arab issues, including control of the ethnically diverse city of Kirkuk.
- UNAMI’s near-term focus will be on working to improve the situation of women and young people and improving Iraq’s approach to water management and environmental protection.
- The Office of the UN High Commissioner for Refugees (UNHCR) has prepared a contingency plan to address any mass movement into Iraq of Syrian refugees fleeing the unrest in their homeland.

displaced, including more than 467,000 individuals residing in 382 settlements for internally displaced persons (IDPs) throughout the country. DoS’s Bureau of Population, Refugees and Migration (PRM) reported that Baghdad and Ninewa provinces continue to host the largest concentrations of IDP populations and have the largest number of returns. More than 177,300 Iraqi refugees were registered with UNHCR in the region as of the end of November 2011; an unknown additional number of Iraqi refugees were unregistered.<sup>234</sup>

Since 2008, a total of 775,770 refugees and IDPs have returned to their areas of origin, including 170,670 IDPs and 60,120 refugees during January–November 2011.<sup>235</sup> For total refugee and IDP returns, by month, during the last three years, see Figure 4.7. For details on PRM and USAID activities to support refugees and IDPs, see Section 3 of this Report.

The Office of the UN High Commissioner for Refugees prepared a contingency plan to address any mass movement into Iraq of Syrian refugees.

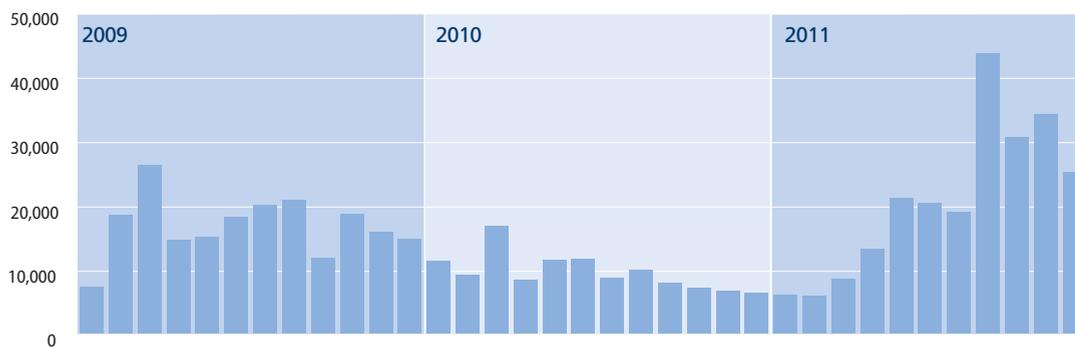
## Refugees and Internally Displaced Persons

According to the UNHCR, nearly 1.2 million Iraqis who were displaced in the wake of the 2006 Samarra Mosque bombing remain internally

### Interim Solution on Camp Ashraf

On December 25, SRSG Kobler signed a memorandum of understanding (MOU) with the GOI outlining the next steps in resolving the fate of the Iranians residing at Camp Ashraf. Under the terms of the MOU, the approximately 3,400 persons affiliated with the Mujaheddin-e Khalq (MEK, or People’s Mujaheddin Organization of

FIGURE 4.7  
TOTAL REFUGEE AND IDP RETURNS, BY MONTH, 1/2009–11/2011



Note: Beginning in 2010, the Ministry of Displacement and Migration increased assistance to refugee and IDP families and eliminated the need for returning refugees to provide a PDS card number.

Sources: UNHCR, *Monthly Statistical Update on Return*—October 2009, September 2010, August 2011, and November 2011.



Aerial view of Camp Ashraf. (Courtesy of [www.campashraf.org](http://www.campashraf.org))

Iran) will be moved from Camp Ashraf to what was once Camp Liberty, a former U.S. military base near Baghdad International Airport. The GOI has agreed to ensure their safety and security and pledged that none of those relocated would be forcibly repatriated to Iran. The UN will conduct around-the-clock monitoring at the former Camp Liberty, and UNHCR will process these individuals for refugee status with the goal of finding countries that will accept them. Those wishing to return voluntarily to Iran, as several hundred have already done, will be able to do so. As of the end of December, the UN was in discussions with the GOI about relocating the first 400 residents of Camp Ashraf to the Camp Liberty site.<sup>236</sup>

Iraq's reliance on electricity generated in Iran increased in December.

## Public Services

### Electricity

From the beginning of 2004 to the third quarter of 2009—with significant support from the international community, including about \$5 billion in expenditures by the United States—Iraq was able to increase its national electricity supply by more than 80%. Thereafter, through the middle of 2011, supply remained relatively flat before spiking upward during the second half of the year. This quarter's total supply on the grid averaged 178,407 megawatt-hours (MWh) per day, or about 7,434 megawatts (MW)—a 3% decrease from last quarter, but a 17% increase from the same quarter in 2010. Almost three-fourths of the 1,094 MW supply increase over the past year can be attributed to the expansion of production capacity in the Kurdistan Region.<sup>237</sup> As shown in Figure 4.8, power-plant output typically drops during the last quarter of the year as generating units are taken out of service for routine maintenance.

### Imports from Iran

Iraq's reliance on electricity generated in Iran increased in December with the completion of a 400-kilovolt transmission line connecting Iran's Karkheh Dam to al-Amarah in Missan province. As shown in Figure 4.9, four tie lines now transmit

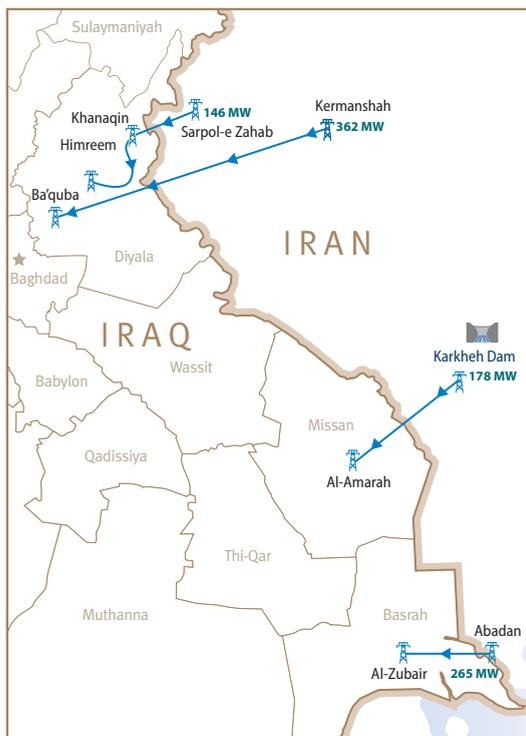
FIGURE 4.8  
AVERAGE IRAQI ELECTRICITY SUPPLY, BY QUARTER, 1/2004–12/2011  
MW



Sources: IFAO/ESD, *Electric Daily Performance Reports*, 6/1/2006–6/30/2011; DoS, *Iraq Status Reports*, 10/25/2006, slide 11, and 5/9/2007, slide 11; U.S. Embassy-Baghdad, response to SIGIR data call, 1/22/2012.

power from Iran to Iraq, and they are capable of delivering as much as 1,000 MW,<sup>238</sup> which is about 17% of the total power supply entering the grid controlled by the Ministry of Electricity (MOE).<sup>239</sup> On December 6, four towers on the line connecting Kermanshah to Diyala were toppled by an act of sabotage, resulting in the temporary loss of up to 400 MW of power. One police officer was killed and two others were wounded during the incident.<sup>240</sup> The MOE reported that it was able to rebuild the towers and restore power transmission in three days.<sup>241</sup>

**FIGURE 4.9**  
**ELECTRICITY TRANSMISSION LINES FROM IRAN TO IRAQ**



**Note:** Routes of transmission lines are approximate. The supply (in MW) shown for each line is the average amount transmitted in December 2011 on those days when the line was in service.

**Sources:** Based on GOI, NMC, press release, "Electricity Completes Linking New Line To Import of Power from Iran," 12/5/2011, <http://nmc.gov.iq/ArticleShow.aspx?ID=2887>, accessed 12/6/2011; GOI, MOE, and Parsons Brinckerhoff, *Iraq Electricity Masterplan*, 12/2010, Vol. 4, "Transmission Planning," p. 29; U.S. Embassy-Baghdad, response to SIGIR data call, 1/22/2012.

## New Data on Supply-Demand Gap

According to MOE data for 2011, the electricity supply available on the MOE and KRG grids meets roughly 60% of the estimated demand of all end users in Iraq.<sup>242</sup> Recently released data from the 2011 Iraq Knowledge Network survey suggests that the situation is worse for residential users. Of the 28,875 households that were surveyed, 98% said they are connected to a public network. On average, however, the government-run networks provide households with only 7.6 hours of electricity per day. Just 1% of households said they receive more than 20 hours of electricity per day from the public network, while 82% said they receive 10 hours or less.<sup>243</sup>

Also according to the IKN survey, 9 out of 10 Iraqi households supplement the public supply through the use of household and neighborhood generators. When power from private generators is included, survey respondents said they receive an average of 14.6 hours of electricity per day.<sup>244</sup> This implies that Iraqi households get almost half the power they use from the often-makeshift private market.

Figure 4.10 shows the survey results broken down by province. On average, households in Dahuk, Sulaymaniyah, and Basrah receive the most hours of power per day from all sources, while households in Ninewa, Tameem, Salah Al-Din, Wassit, Babylon, and Missan receive the least. The figure also compares the survey results with the MOE's supply-demand data for the period when the survey was taken.

In all, electricity is the worst-rated service in Iraq, according to the IKN. Almost 80% of the surveyed households rated electricity service as "bad" or "very bad." About 35% of the households said that electricity should be the GOI's top priority for improvement. In comparison, 27% said that security should be the top priority.<sup>245</sup>

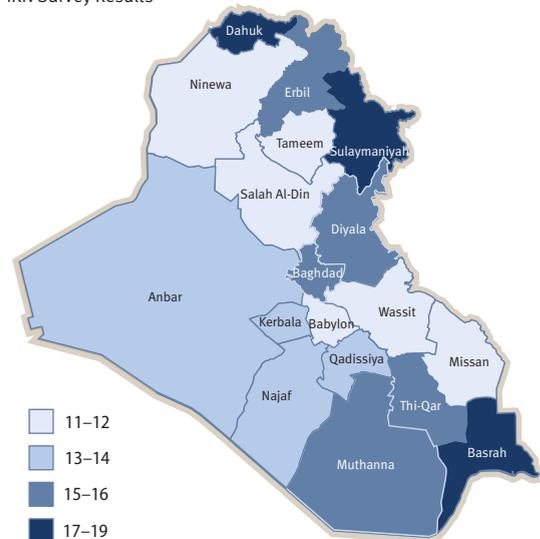
Electricity is the worst-rated service in Iraq.

## Ministry of Electricity's Budget

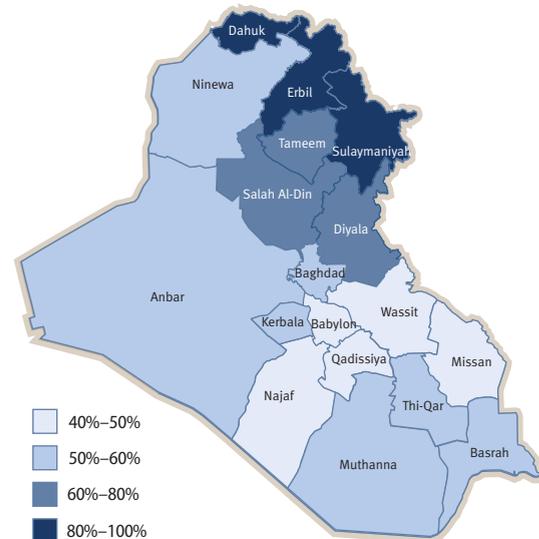
Reflecting the need for improved electricity services in Iraq, the draft 2012 GOI budget that the CoM approved calls for a \$1.3 billion increase

FIGURE 4.10  
 AVAILABILITY OF ELECTRIC POWER TO MEET DEMAND, BY PROVINCE

Hours of Power Received by Average Household  
 Each Day from Both Public and Private Sources  
 IKN Survey Results



Load Served by Public Grid as a Percentage of Estimated Demand  
 MOE Data



Note: Both sets of data are from the first quarter of 2011.

Sources: UN, IAU, and GOI, COSIT, "Iraq Knowledge Network Survey: Essential Services Factsheet," 12/2011, [www.iauiraq.org/documents/1583/ServicesFactsheet-English.pdf](http://www.iauiraq.org/documents/1583/ServicesFactsheet-English.pdf), accessed 1/4/2012; ITAO/ESD, *Electric Daily Performance Reports*, 1/1/2011–3/31/2011.

in funding for the MOE, relative to the amount allocated to the ministry in the 2011 budget. Of the almost \$5.6 billion provided to the MOE in the CoM's draft 2012 budget, \$1.5 billion is for operating expenses and \$4.1 billion is for capital investments. While the CoM's proposed budget provides for a 21% increase in the overall GOI budget, the MOE would receive a 31% increase.<sup>246</sup>

#### New Power-generation Projects

Meanwhile, the MOE announced this quarter that it had signed contracts for construction or expansion of several combustion-turbine power plants:

- Hyundai was awarded a contract to build the 1,460 MW al-Rumaila power plant in Basrah, which will use five 292 MW turbines purchased in the "Mega Deal" with Siemens, and a separate contract to build the Kirkuk Taza plant in Tameem using another of those turbines.<sup>247</sup>

- A consortium of Iranian companies (Farab and Ameran-Ofugh) was contracted to install two additional 160 MW Siemens turbines at al-Sadr power plant in Baghdad's Sadr City, which will double that plant's current nameplate capacity to 640 MW. Another Iranian company, Iran Power & Water Equipment and Services Export Company (Sunir), installed the first two turbines at al-Sadr plant.<sup>248</sup>
- Sunir was awarded a contract to install two 160 MW Siemens units at the Dibis plant in Tameem.<sup>249</sup>
- Metka SA was contracted to construct the 1,250 MW Shatt al-Basrah plant, which will use ten 125 MW turbines from the GE "Mega Deal."<sup>250</sup>
- Alstom won a contract to build the 728 MW Mansuriya plant in Diyala, which will use four of that company's 182 MW turbines.<sup>251</sup>

In the largest contract announced this quarter, the MOE signed a deal with China Machinery Engineering Corporation (CMEC) to build a 1,260 MW thermal power plant near Samarra in Salah Al-Din at a total cost of almost \$1.2 billion, with completion scheduled before the end of 2015.<sup>252</sup>

## Water

About two-thirds of Iraqi households rely on the public water supply as their main source for drinking water, but a quarter of those users say they receive potable water less than two hours per day, and just 38% rate drinking water availability as “good” or “very good.” Salinity affects public drinking water networks, especially in the southeastern part of the country.<sup>253</sup>

Preparatory work is underway to launch Phase II of a \$20.4 million comprehensive hydrological survey of Iraq’s existing water resources. Phase I of the project, supported by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) and the European Union, was completed in July 2011, culminating in a presentation of existing available data. Phase II will use more advanced technical methods, including satellite imaging, to map deep aquifers and assess the extent of Iraq’s groundwater resources. Preliminary analysis of the Anbar desert indicates large fractures capable of carrying billions of cubic feet of water.<sup>254</sup>

The project is expected to provide both fresh and accurate data on the country’s water resources, supporting Iraq’s position as it begins negotiations with neighboring states on how to share water from the region’s two most important rivers, the Tigris and Euphrates, and how to ensure Iraq’s long-term water security. A U.S. decision not to participate in the project was unrelated to the Administration’s withdrawal of support for UNESCO projects because of the organization’s November 2011 vote to admit Palestine as a member. Agriculture accounts for the majority of Iraq’s freshwater demand, and hydrology experts believe that improved irrigation techniques and replacement of aging water distribution systems are key to preventing shortages.<sup>255</sup>

The Ministry of Water Resources signed a memorandum of understanding with the German-based Bauer Group in November 2011 to undertake a six-year project valued at \$2.5 billion to renovate the badly damaged Mosul Dam on the Tigris River. As Iraq’s largest dam—and the fourth largest in the Middle East—the structure plays an important role in managing Iraq’s water resources and contributing electricity to the national grid.<sup>256</sup> For more detail on the Mosul Dam, see SIGR Project Assessment Report PA-07-105.<sup>257</sup>

## Health Care

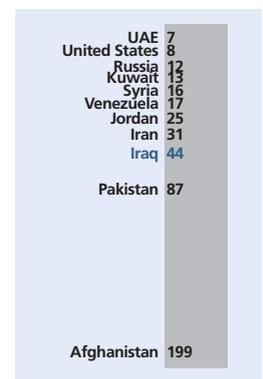
According to the 2011 IKN survey, 71% of Iraqis say they cannot afford to go to private hospitals or healthcare clinics for medical treatment. Instead, they turn to state-run medical facilities for treatment when ill, with about half of all Iraqis choosing a public hospital and almost a quarter opting to visit a government clinic. However, more than one-third of Iraq’s higher-income earners—those who can afford private health care—preferred the private-care option. In answer to another survey question nearly 3 in 10 of those surveyed believed that a shortage of doctors and female medical staff was a problem.<sup>258</sup>

World Health Organization statistics show that Iraq has made some improvement over the last decade in its rate of child mortality, but the country still lags behind many others in the region (see Figure 4.11).<sup>259</sup>

## Education

A five-year partnership between the Ministry of Higher Education and Oregon State University valued at about \$100 million moved forward this quarter with formal approval of the planning phase of a program to promote sustainable building design and engineering in Iraq. The ministry approved expenditures of around \$44 million to support the program, with the balance of funds coming from the university and a private foundation. The plan calls for construction of several materials testing laboratories on university campuses around Iraq in

FIGURE 4.11  
**CHILD MORTALITY RATE, IRAQ VS. OTHER COUNTRIES**  
Deaths per 1,000 Live Births



Note: Mortality rate is for children under 5 years of age.

Source: WHO, *World Health Statistics 2011*, p. 24, [www.who.int/gho/publications/world\\_health\\_statistics/EN\\_WHS2011\\_Full.pdf](http://www.who.int/gho/publications/world_health_statistics/EN_WHS2011_Full.pdf), accessed 12/12/2011.

71% of Iraqis say they cannot afford to go to private hospitals or healthcare clinics for medical treatment.

Iraqis comprised less than 0.1% of the international student population enrolled at U.S. colleges and universities in 2010–2011.

addition to the development of a university curriculum and research fellowships to promote knowledge of sustainable building design and engineering.<sup>260</sup>

The Baghdad Provincial Council has granted approval for the establishment of three international universities in the province—one based on British traditions and curricula, one on U.S., and one on Indian. A search for suitable land for the three institutions on the outskirts of the capital is underway.<sup>261</sup>

U.S. Embassy-Baghdad reported that 616 Iraqi students enrolled at U.S. institutions of higher education during the 2010–2011 academic year, up more than 45% from the previous school year. The number of Iraqi students taking intensive English-language programs and specialist post-graduate training programs also increased during the same period. Still, Iraqis comprised less than 0.1% of the 723,000-plus international student population enrolled at U.S. colleges and universities in 2010–2011.<sup>262</sup> ♦

## RULE OF LAW

In a meeting with the Inspector General on November 16, 2011, the Chief Justice of the Higher Judicial Council (HJC), Medhat al-Mahmoud, described continued development of the rule of law as the “cornerstone for the future of Iraq.” He advocated an expansive interpretation of the U.S.-Iraq Strategic Framework Agreement (SFA) so as to foster collaboration with the United States on a broad array of issues. In particular, he emphasized the need for Iraqi jurists to continue to work with U.S. judges, prosecutors, and law-enforcement officers, stressing the benefits that Iraq can derive from additional professional education initiatives.<sup>263</sup>

The Chief Justice noted successes and limitations of U.S. support for rule of law in Iraq. He identified judicial capacity-development programs that have provided lasting contributions. On the other hand, he described some U.S.-funded infrastructure reconstruction programs as marred by poor planning and a lack of coordination with the GOI. In commenting on the need to preserve and continue the positive contributions made by the United States in the rule-of-law sector, he remarked that if the U.S. and Iraqi governments do not heed the lessons of the recent past, “they will lose the future.”<sup>264</sup>

### Conviction of Iraqi Soldier for Killing U.S. Soldier

This quarter, a criminal court in Baghdad convicted an Iraqi Army soldier of killing a U.S. soldier in 2007. In rendering its decision, the court found the IA soldier’s defense—that his actions were justified because he alleged the U.S. soldier was firing on women and children—to be untenable. The IA soldier was sentenced to life in prison. This marked the first time that a member of the Iraqi military was convicted of killing a member of the U.S. military.<sup>265</sup>

### Persistent Challenges in the Judiciary

Chief Justice Medhat stated that he did not expect the security situation in Iraq to deteriorate significantly after the departure of the U.S. military, but noted that ameliorating the continued threats faced by HJC personnel will remain his top priority in 2012. As an example of the ongoing risks faced by Iraqi judges, he cited the mid-October assassination of a judge in Ninewa province whose docket focused on terrorism cases. He added that the threat level remains so elevated in cities such as Mosul and Ba’quba that the HJC deploys judges from Baghdad to these areas on a temporary basis to handle sensitive cases that could endanger local judges. In December, several judges were attacked in various locations in Iraq:<sup>266</sup>

- On December 13, gunmen fired on the convoy of the head judge of the Anbar appellate court near Falluja, wounding him and two other judges who were accompanying him. The attackers also killed two security personnel traveling with the convoy.
- On December 17, gunmen shot and injured a Baghdad-based judge as he was driving through the western part of the city.
- Four days later, a sticky bomb attached to the undercarriage of a Kirkuk judge’s vehicle detonated, killing the judge and one other person.

Reiterating concerns he shared with SIGIR in a May 2011 meeting, the Chief Justice described the continued lack of permits that would enable judges and their security detachments to procure and legally carry firearms as the main obstacle to improving judicial security. While the HJC has been reasonably successful in hardening facilities such as courthouses and housing complexes against terrorist assaults, judges and their families remain

The Chief Justice remarked that if the U.S. and Iraqi governments do not heed the lessons of the recent past, “they will lose the future.”



Higher Judicial Council complex in Baghdad.

vulnerable to attacks when they travel to and from work. Although some HJC personnel possess U.S.-provided weapons, the Chief Justice said that the HJC has been unable to acquire new weapons and the necessary permits from the MOI. In a subsequent meeting, MOI Senior Deputy Minister Adnan al-Asadi informed the Inspector General that the MOI has stopped issuing weapon permits for the moment because the previous Minister of Interior (who left office almost two years ago) followed lax procedures and issued too many permits, which he implied allowed some firearms to be provided to unqualified personnel.<sup>267</sup>

The second major challenge identified by the Chief Justice is the need for the HJC to modernize and automate its procedures. He stated that, while the HJC was making some progress in this area, it was still struggling to overcome the effects of decades of war and sanctions and continued to rely excessively on paper files and antiquated management processes. He noted that this was one area where U.S. and international support would remain important in the years to come.<sup>268</sup>

Chief Justice Medhat also discussed the continuing challenge of fighting corruption, which

he described as “pervasive.” In his opinion, while corruption exists at all levels of the GOI, it is worse among high-ranking officials and has seemingly become the norm in many ministries. He described the GOI’s anticorruption institutions—the Board of Supreme Audit (BSA), Commission of Integrity (COI), and inspectors general (IGs)—as critical elements in the fight against corruption, emphasizing the need for them to remain apolitical. Moreover, the Chief Justice stressed the need for the newer, U.S.-established agencies—the COI and IGs—to focus on professional development and training, noting that many of their personnel are still inexperienced when compared with long-serving BSA officials, many of whom have decades of auditing and oversight experience.<sup>269</sup>

The Chief Justice added that the HJC is attempting to employ innovative methods to combat corruption. For example, HJC officials in Baghdad regularly spot-check the performance of the nine investigative judges (IJs) who focus on corruption cases so that they can identify and resolve docket backlogs expeditiously. He also described a pilot program, which the HJC recently tested on a small scale in most provinces, that established joint HJC field offices staffed by an IJ, several judicial investigators, and a public prosecutor. The Chief Justice stated that the purpose of these offices was to allow citizens to report crimes directly to HJC civilian officials, circumventing the police, whom he described as prone to corruption in many cities. He noted that it was often easier for citizens to make sensitive allegations to civilian officials and described this program as one of the HJC’s most successful initiatives. However, he said that the HJC is finding it difficult to obtain the funding and logistical support to make this program permanent.<sup>270</sup>

## The COI’s Supporting Role

The HJC’s anticorruption efforts are inextricably intertwined with those of the COI. As of mid-January, Judge Alla’a Jwad Hameed continued to

The HJC was still struggling to overcome the effects of decades of war and sanctions and continued to rely excessively on paper files and antiquated management processes.

serve as acting COI Commissioner. In a meeting this quarter with SIGIR officials, Judge Alla'a stated that he is reviewing all COI operations—including active investigations and cooperation with U.S. law-enforcement agencies, such as SIGIR—and will announce the findings of his evaluation in the near future. Until then, he said, all COI activities are frozen.<sup>271</sup>

Judge Alla'a told SIGIR that he envisions the COI as “a supplement to the judiciary and the security agencies—not a replacement for them.” He also expressed a desire to receive training support from other countries and international agencies, stating that he hoped such programs would lead to the COI being accorded a greater degree of respect in the global law-enforcement community. In commenting on the new COI law, which was passed by the Council of Representatives in late September and subsequently published in the *Official Gazette*, Judge Alla'a stressed the importance of the yet-to-be-written internal COI regulations that will set forth how this law will be put into practice. He



Deputy Inspector General meets with the acting COI Commissioner, Judge Alla'a Jwad Hameed (at right), November 2011.

added that his legal staff is currently drafting such regulations.<sup>272</sup> For a detailed look at U.S. and GOI anticorruption efforts, see the “Focus on Corruption” at the end of Section 4. ♦

## ECONOMY

Several areas of uncertainty temper Iraq's promising economic outlook. Although the level of foreign commercial activity rose in 2011, potential foreign investors exercised enhanced caution as the ruling coalition government exhibited new strains and the last U.S. troops departed, turning over full responsibility for the country's security to Iraqi forces.<sup>273</sup> A high-profile standoff between Baghdad and the Kurdistan Region over control of the country's oil resources also heightened political tensions and unsettled international oil companies this quarter, but has injected a new sense of urgency to address the need to agree on national legislation regulating the hydrocarbon sector. Regionally, growing instability in neighboring Syria during the quarter raised questions about the fate of a key trading partner and the security of important northern trade routes.<sup>274</sup>

### Key Indicators

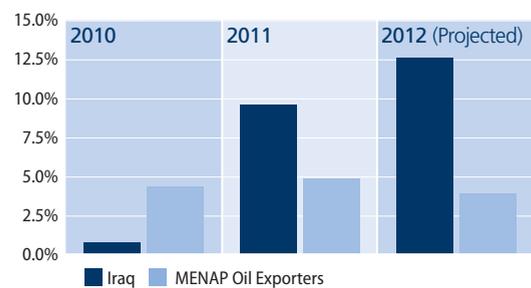
#### Oil Exports and Receipts

Crude oil continued to account for about 98% of Iraq's export earnings and around 95% of all government income in 2011.<sup>275</sup> This quarter, the GOI earned \$19.35 billion in receipts from the sale of crude oil, a drop of \$297 million over the previous quarter. But the combination of higher crude oil prices on global markets and increased export volume meant that Iraq's crude oil earnings for the entire year were \$75.42 billion, or 54% more than those registered for 2010.<sup>276</sup> Buoyed by higher-than-expected crude oil prices through much of 2011, Iraq's net foreign currency reserves rose from just under \$45 billion to \$58 billion during 2011.<sup>277</sup> However, there was evidence this quarter that inadequate crude oil export infrastructure may have prevented the country's earnings from being even higher than they were. In November,

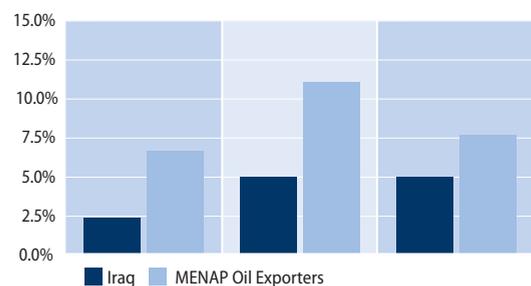
Iraq's crude oil earnings for the entire year were \$75.42 billion, or 54% more than those registered for 2010.

FIGURE 4.12  
GDP AND INFLATION, IRAQ VS.  
MENAP OIL-EXPORTING COUNTRIES

#### Real GDP, Annual Change



#### Inflation, Annual Change



Source: IMF, *World Economic and Financial Surveys: World Economic Outlook Database*, 9/2011, [www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx](http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx), accessed 12/21/2011.

the levels of crude held in storage tanks around the large southern oil fields grew at a greater rate than exports.<sup>278</sup>

#### Gross Domestic Product

Iraq's gross domestic product (GDP) grew at a projected rate of 9.6% in 2011, nearly twice the average for oil-exporting nations in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region and well above the 0.8% growth rate Iraq registered in 2010 (see Figure 4.12). The rise came as foreign business activity picked up and multibillion-dollar infrastructure and housing projects began to supplement rising crude oil production as significant contributors to economic

activity. The International Monetary Fund (IMF) expects Iraq's GDP growth to exceed 12% in 2012—more than three times that projected for the region's oil-exporting nations as a group.<sup>279</sup>

## Inflation

Year-on-year core inflation dropped in October to 6.9%, the second consecutive monthly decline and the first time since June 2011 that the figure fell below 7%. Improvement in the supply of basic items has reduced import costs and helped ease inflationary pressures. Declines in global commodity prices also helped reduce the rate, and a gradual slowing of the core inflation rate to the 6% range is expected for the medium term. However, if tariffs are imposed on imported goods to protect domestic industry and agriculture, their impact would likely mitigate the fall of consumer prices in 2012 and 2013. Regionally, Iraq's 2011 inflation rate remained well below the average for other oil-exporting countries in the region and is forecast to remain that way through 2012 even if a tariff regime is implemented.<sup>280</sup>

For a comparison of Iraq's core inflation indicators with those of the broader MENAP region, see Figure 4.12.

## Unemployment

Iraq's most recent official unemployment rate of 15.3% is from 2008 and was not updated in 2011, although unofficial estimates made during the course of the year and formal remarks by the Communications Minister in Istanbul in October placed the percentage of working-age jobless at closer to 30%. The 2011 IKN survey carried out in the first quarter of 2011 calculated unemployment at 8%; however, it defined "employed persons" very broadly—those who had worked at least one hour during the reference week. There were no developments this quarter to indicate a significant change in employment levels.<sup>281</sup>

For an overview of economic trends in Iraq since 2004, see Figure 4.13.

## Iraq Stock Exchange

After climbing much of the year on news of rising crude oil production and exports and the start of major infrastructure projects, the Iraq Stock Exchange (ISX) declined in November amid security concerns surrounding the imminent departure of the remaining U.S. military forces. However, the ISX index recovered during the final weeks of 2011, finishing the year nearly 34% ahead and up

The Iraq Stock Exchange declined in November amid security concerns surrounding the imminent departure of the remaining U.S. military forces.

FIGURE 4.14

### IRAQ STOCK EXCHANGE VS. S&P PAN ARAB COMPOSITE INDEX, 1/2010–12/2011



Note: The S&P Pan Arab indices include stocks from listed companies in the countries of Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE.

Sources: Standard & Poor's, "S&P Pan Arab-Indices," 12/2010, [www.standardandpoors.com](http://www.standardandpoors.com), accessed 10/4/2011; Standard & Poor's Indices Client Services, information provided to SIGIR, 4/7/2011, 7/18/2011, 10/3/2011, and 1/3/2012; Iraq Stock Exchange, "Indices," [www.isx-iq.net/isxportal/portal/sectorProfileContainer.html?sectorId=1](http://www.isx-iq.net/isxportal/portal/sectorProfileContainer.html?sectorId=1), accessed 1/4/2012.

FIGURE 4.13  
**THE IRAQI ECONOMY, 2004–2012**  
**Oil Price, Iraqi Oil Receipts, and GDP**

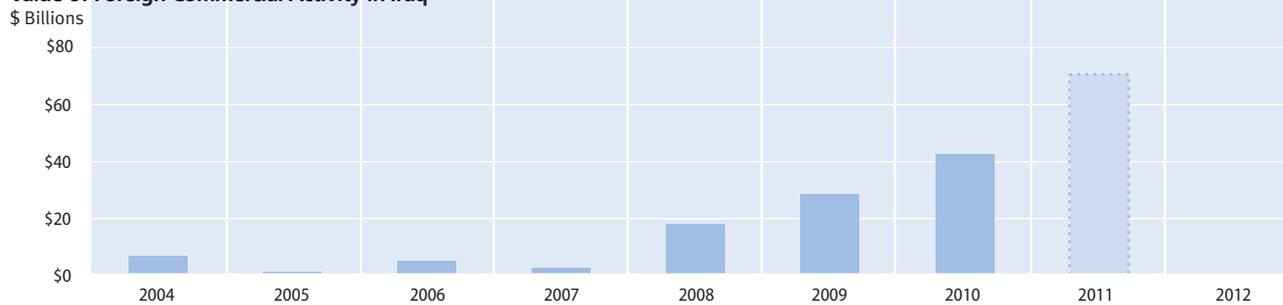


**Inflation in Iraq and the Middle East/North Africa**

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



**Value of Foreign Commercial Activity in Iraq**



**Note:** Data not audited. Numbers affected by rounding. All dollar values are in current prices. GDP figures for 2011 and 2012 are estimates. Value of foreign commercial activity in Iraq for 2011 is an estimate. GOI budget for 2012 is CoM draft.

**Sources:** 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; IMF, *World Economic and Financial Surveys: World Economic Outlook Database*, 9/2011, [www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx](http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx), accessed 1/12/2012; GOI, CBI, "Key Financial Indicators," 1/4/2012, [www.cbi.iq/documents/key%20financial.xls](http://www.cbi.iq/documents/key%20financial.xls), accessed 1/12/2012; Dunia Frontier Consultants, "Foreign Commercial Activity in Iraq: 2010 Year in Review," 2/2011, p. 17, and information provided to SIGIR, 1/17/2012; "GOI Budget" (as approved by TNA and written into law December 2005); GOI, CoM, [www.cabinet.iq](http://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.

37% for the past two years. The increase compared with an overall 3.9% drop in the S&P Pan Arab Composite Index since January 2010. Figure 4.14 compares the ISX with the S&P Pan Arab Composite Index in 2010 and 2011. Although very small, the Iraqi equities market performance can be read as a barometer of confidence and the long-term potential of the Iraqi economy. Of equal importance for the tiny Iraqi exchange, trading volume for the year more than doubled to \$809 million. (By comparison, trade volume on the New York Stock Exchange surpassed \$39 billion for a single day in April 2011.)<sup>282</sup>

## Debt

The GOI established a committee this quarter to deal with Iraq's public debt, most of which stems from the Saddam era. Estimated at between \$130 billion and \$140 billion in 2003, the government debt had fallen to \$92 billion in 2010 according to the CBI. About \$45 billion of this amount is eligible for debt-reduction negotiation under the same terms of the 2004 Paris Club agreement under which 19 nations, including the United States, wrote off 80% of outstanding debt. Among the remaining sovereign creditors, Arab neighbors—including Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates—are collectively still owed about \$40 billion. Iraq owes Poland \$850 million.<sup>283</sup>

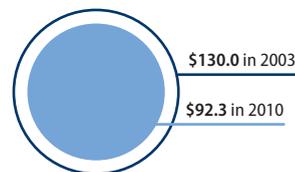
In addition to this debt, Iraq also owes war reparations stemming from Saddam's invasion of Kuwait in 1990. At the end of 2011, Iraq owed just over \$18 billion in reparations—mainly to Kuwait. Iraq uses 5% of its crude oil income to pay these reparations.<sup>284</sup> Figure 4.15 shows Iraq's liabilities.

## GOI Budget

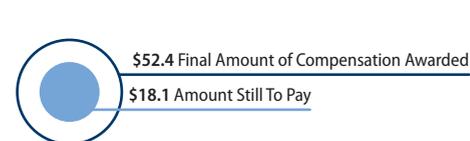
This quarter, the CoM approved a draft budget of \$100.1 billion, with a projected \$14.7 billion deficit for 2012. The budget is predicated on crude oil not falling below \$85 per barrel and the country's ability to export an average of 2.625 MBPD during the

FIGURE 4.15  
IRAQ'S LIABILITIES

External Debt, 2003 vs. 2010  
\$ Billions



War Reparations, as of October 2011  
\$ Billions



Note: Data not audited. Numbers affected by rounding.

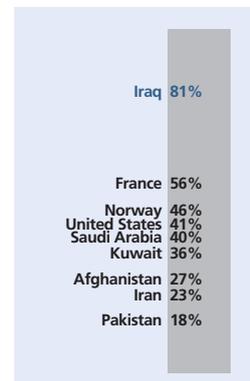
Sources: CBI, "Government Debt," [www.cbi.iq/index.php?pid=GovernmentSecurities](http://www.cbi.iq/index.php?pid=GovernmentSecurities), accessed 12/9/2011; United Nations Compensation Commission, "Status of Processing and Payment of Claims," [www.uncc.ch/status.htm](http://www.uncc.ch/status.htm), accessed 12/6/2011.

year. As shown in Table 4.4, the draft represents a 21% rise in projected spending over the 2011 budget, and it follows substantial increases both last year and in 2010. In 2009, the budget was set at \$58.61 billion.<sup>285</sup>

The CoM's 2012 draft budget, which requires CoR approval to become law, calls for \$31.8 billion of new capital spending—a 24% jump over 2011—which is likely to be put toward further rebuilding of the country's obsolete and rundown infrastructure. Proposed operational spending of \$68.3 billion for such recurrent items as government salaries, support for state-owned enterprises, and food subsidies is 20% higher than in 2011. The Ministries of Oil and Electricity have the largest capital budgets.<sup>286</sup>

Figure 4.16 compares 2012 projections for GOI expenditures as a percentage of GDP against those of other countries.

FIGURE 4.16  
GOVERNMENT EXPENDITURES AS A PERCENTAGE OF GDP, PROJECTED FOR 2012, IRAQ VS. OTHER COUNTRIES



Note: General government total expenditure consists of total expense and the net acquisition of non-financial assets.

Source: IMF, *World Economic and Financial Surveys: World Economic Outlook Database*, 9/2011, [www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx](http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx), accessed 12/12/2011.

## Oil and Gas

The most unexpected and potentially far-reaching event in the hydrocarbon sector this quarter was ExxonMobil's mid-November announcement that it had signed production-sharing agreements with the Kurdistan Regional Government (KRG) to develop six oil exploration blocks. ExxonMobil is one of the world's largest oil corporations and a leading player in the development of Iraq's southern oil fields. Its move effectively challenged existing GOI

TABLE 4.4  
COM-APPROVED DRAFT 2012 BUDGET VS. COR-APPROVED 2011 BUDGET  
\$ Millions

CATEGORY	OFFICE	COR-APPROVED FINAL 2011 BUDGET			COM-APPROVED DRAFT 2012 BUDGET			TOTAL ALLOCATION, CHANGE FROM 2011				
		OPERATING	CAPITAL	TOTAL	OPERATING	CAPITAL	TOTAL	-80%	-40%	0%	40%	80%
Presidency	Subtotal	78.2	10.1	88.3	91.5	9.5	101.0					
Council of Representatives	Council of Representatives	247.7	0.0	247.7	241.8	0.0	241.8					
	BSA/COI	86.0	3.5	89.5	108.1	5.4	113.6					
	Other	117.4	0.0	117.4	119.7	0.0	119.7					
	Subtotal	451.0	3.5	454.5	469.7	5.4	475.1					
Council of Ministers	Endowments	857.8	76.1	933.8	873.2	114.9	988.0					
	Prime Minister and Secretariat	425.7	57.9	483.6	772.8	44.0	816.8					
	Martyrs Foundation	276.8	196.2	472.9	278.2	47.9	326.1					
	Militia Disarm. and Integration	195.5	0.0	195.5	204.6	0.0	204.6					
	Iraqi National Intelligence Service	140.8	34.3	175.1	169.6	23.9	193.6					
	Joint Staff/National Security Council	66.7	1.3	68.0	62.5	0.9	63.4					
	Other	47.5	1.8	49.4	44.9	8.0	52.8					
	Subtotal	2,010.7	367.6	2,378.3	2,405.9	239.5	2,645.4					
Ministries	Finance	12,224.4	1,018.1	13,242.5	17,026.7	1,915.4	18,942.1					
	Oil	2,047.4	5,940.2	7,987.6	2,824.1	9,102.6	11,926.7					
	Interior	6,146.0	167.4	6,313.4	7,985.7	194.7	8,180.3					
	Education	6,096.6	384.6	6,481.2	6,498.5	388.9	6,887.4					
	Defense	5,674.4	170.9	5,845.3	5,915.1	119.7	6,034.8					
	Electricity	1,034.9	3,197.9	4,232.8	1,492.9	4,068.1	5,561.0					
	Health	3,993.5	897.4	4,891.0	4,223.9	628.2	4,852.1					
	Commerce	3,928.3	34.2	3,962.5	4,621.5	23.9	4,645.4					
	Higher Ed. and Scientific Research	1,858.5	342.0	2,200.5	2,232.8	418.8	2,651.6					
	Municipalities and Public Works	727.3	1,058.8	1,786.1	724.6	1,307.8	2,032.4					
	Water Resources	199.9	1,163.5	1,363.5	188.8	837.6	1,026.4					
	Housing and Construction	233.8	658.1	891.9	227.6	748.5	976.1					
	Agriculture	694.1	275.0	969.1	679.0	179.5	858.5					
	Transportation	189.2	285.2	474.4	200.4	574.4	774.8					
	Labor and Social Affairs	867.9	15.4	883.2	548.4	89.7	638.1					
	Youth and Sports	96.6	652.5	749.1	112.0	520.5	632.5					
	Industry and Minerals	33.0	551.0	584.0	28.2	478.6	506.9					
	Justice	382.5	11.5	394.0	384.4	7.8	392.2					
	Foreign Affairs	309.0	408.5	717.5	326.0	59.8	385.9					
	Culture	157.9	119.7	277.6	160.0	95.7	255.7					
	Communications	11.0	213.7	224.7	12.0	119.7	131.7					
	Planning and Dev. Cooperation	188.6	17.5	206.1	45.8	9.0	54.8					
	Other	350.3	46.6	396.9	401.0	37.1	438.1					
	Subtotal	47,445.2	17,629.7	65,074.9	56,859.5	21,925.9	78,785.4					
Independent Offices	General Mgmt. in the Provinces	424.4	3,944.1	4,368.5	409.7	6,243.3	6,653.0					
	Local Councils in the Provinces	200.1	0.0	200.1	199.1	0.0	199.1					
	Ind. High Electoral Commission	159.1	5.8	164.9	159.1	4.1	163.2					
	Other	55.4	0.0	55.4	56.2	2.1	58.3					
Subtotal	839.0	3,949.9	4,788.9	824.0	6,249.5	7,073.5						
HJC	Subtotal	263.1	14.7	277.8	239.2	12.0	251.2					
KRG	Subtotal	5,832.9	3,722.2	9,555.1	7,439.2	3,334.2	10,773.5					
Total		56,920.1	25,697.7	82,617.7	68,329.1	31,776.0	100,105.1					

Note: Data not audited. Numbers affected by rounding.

Sources: GOI, CoM, "Council of Ministers Approved Draft Law of the GOI Federal Budget for 2012 Financial Year," 1/9/2012, Schedule C; GOI, MOF, "2011 Iraq Budget Schedules," 5/16/2011.

policy that has prevented international oil companies from entering into agreements with both the KRG and GOI. Following the announcement, the Ministry of Oil said it would exclude ExxonMobil from participating in the fourth round of licensing for oil and gas exploration at 12 new sites scheduled for spring 2012. It was unclear how events would affect a planned multibillion-dollar Common Seawater Supply Project headed by ExxonMobil that would pump seawater from the Persian Gulf into Iraq's southern oil fields to boost well pressure, and with it, crude oil recovery rates.<sup>287</sup>

ExxonMobil's decision also forced Iraqis to confront a highly sensitive political issue with a new sense of urgency: where central government power ends and where regional government power begins. Although the Kurdistan Region is currently Iraq's only autonomous region, the outcome of this dispute could eventually affect actions by oil-rich provinces like Basrah, which have the right under Iraq's constitution to initiate a process for greater autonomy. The issue unfolded against the backdrop of the GOI's inability to pass national legislation that sets rules to govern the hydrocarbon sector. However, there are indications the ExxonMobil action could prod movement toward agreement as the CoR studies competing versions of proposed hydrocarbon legislation: one draft, dating from 2007, centralizes power within the GOI; the other devolves significant authority to regional governments.<sup>288</sup>

## Crude Oil Production

Crude oil production in 2011 averaged 2.54 MBPD, a rise of 7% over the daily average for 2010, but 8% below the GOI's projected figure for 2011 of 2.75 MBPD, made early in 2011. This quarter, production averaged 2.51 MBPD, 2% lower than the previous quarter. A drop in output from the southern fields caused in part by sabotage-related stoppages at the al-Rumaila field and export bottlenecks was offset slightly by production increases in the fields around Kirkuk in the north.<sup>289</sup>

Bottlenecks created by insufficient crude oil export capacity as well as a shortage of crude oil

storage capacity will likely continue to limit near-term increases in oil production. In November 2011, for example, crude oil exports from the large southern oil fields rose by more than 80,000 barrels per day (BPD), according to the State Oil Marketing Organization (SOMO); however, six times that amount was pumped into storage farms during the same period.<sup>290</sup> Crude oil production in the Kurdistan Region, not included in national GOI production statistics, was estimated to be about 250,000 BPD this quarter.<sup>291</sup>

Figure 4.17 compares current production in Iraq with that in selected other countries, and Figure 4.18 shows Iraq's crude oil production and export levels since 2003.

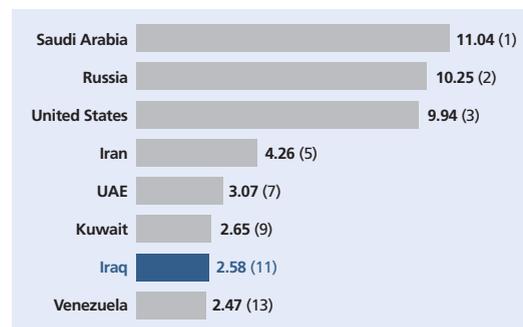
## Crude Oil Exports and Capacity Expansion

Crude oil exports for the first two months of the quarter averaged 2.14 MBPD, down almost 2% from the previous quarter's average of 2.18 MBPD. NEA-I data for December 2011 was not yet available; however, Ministry of Oil data for the full quarter also showed a 2% decline from the previous quarter. Export volume for the first two months of the quarter was about 11% above that of fourth quarter of 2010.<sup>292</sup>

A new single-point mooring (SPM) built by Leighton Offshore with 900,000 BPD of additional

The Ministry of Oil said it would exclude ExxonMobil from participating in the fourth round of licensing for oil and gas exploration at 12 new sites.

FIGURE 4.17  
**CRUDE OIL PRODUCTION, 2011 AVERAGE THROUGH 8/2011, IRAQ VS. OTHER COUNTRIES**  
MBPD (Ranking)



Source: EIA, "Total Oil Supply," 8/2011, [www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=50&pid=53&aid=1&id=all,&syid=2011&eyid=2011&freq=M&unit=TBPD](http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=50&pid=53&aid=1&id=all,&syid=2011&eyid=2011&freq=M&unit=TBPD), accessed 12/12/2011.

FIGURE 4.18  
**CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 10/2003–12/2011**  
 Million Barrels per Day



Note: Exports include crude oil from the Kurdistan Region; production figures do not.

Sources: NEA-I, responses to SIGIR data calls, 6/4/2010, 7/6/2010, 1/11/2011, 4/5/2011, 7/7/2011, 10/17/2011, and 1/6/2012.

export capacity is due to begin operating in early 2012 at al-Basrah Oil Terminal (ABOT). Two similar SPMs are scheduled to come on line over the next two years. Collectively, they are expected to expand export loading capacity by an additional 2.7 MBPD. However, pipeline bottlenecks in systems that gather crude oil into onshore storage tank farms and link those tank farms with the offshore loading facilities are expected to limit the usefulness of new SPM capacity over the next several years. Political and factional infighting has also reportedly intensified over the past two years, eroding government administrative efficiency and slowing the kind of decisions required to resolve these problems.<sup>293</sup>

## OPEC

The Organization of Petroleum Exporting Countries (OPEC), elected Iraqi Minister of Oil Abdul Kareem al-Luaibi as its president for 2012, passing the organization's leadership to one of its five founding members. Formed in 1960 as a way to better coordinate policies among major crude oil producers and boost prices, OPEC soon became a global political and economic force at the center of both large crude oil price hikes and the 1973–1974 Arab oil embargo that shocked western industrialized economies.<sup>294</sup>

Large crude oil discoveries in non-OPEC countries in recent decades have diluted the organization's power to determine prices as its share of global crude production has declined from more than 50% in the early 1970s to about 42% in 2011. Today, OPEC's 12 member states work to agree to voluntary production quotas in an attempt to maintain strong and stable crude oil prices. Iraq has been temporarily exempted from the quotas since 1998 so it can produce as much crude oil as possible to finance its recovery from the effects of wars and UN sanctions. Iraq is expected to rejoin OPEC's quota system in 2014.<sup>295</sup>

## Transparency Initiative

The GOI released its first Extractive Industries Transparency Initiative (EITI) report on January 9, 2012. The report, which detailed information about the \$41 billion in revenue Iraq received from oil and gas exports in 2009, reconciled differences between the amount earned from the sale of crude oil during the year as reported by SOMO and the amount buyers reported paying for that crude. Iraq is one of 35 countries that have pledged to adhere to EITI's set of common standards governing the transparent use of wealth derived from the extraction and sale of natural resources, such as oil and gas. The Secretary

OPEC elected Iraqi Minister of Oil Abdul Kareem al-Luaibi as its president for 2012.

## Iraqi Oil Statistics: Themes and Variations

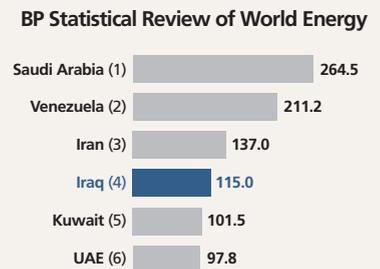
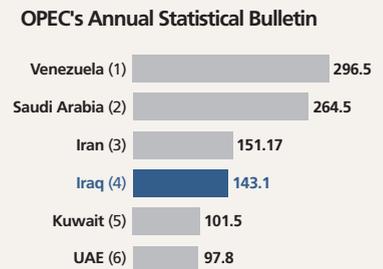
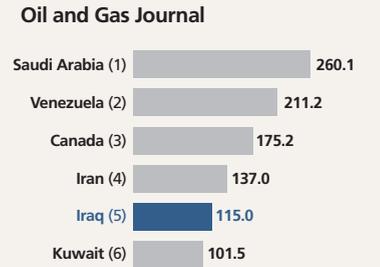
On November 1, 2011, several media outlets carried Iraq's latest crude oil export statistics. Some, citing the Ministry of Oil, wrote that the export volume in October was nearly 7% higher than in September. Other news reports quoted Iraq's State Oil Marketing Organization (SOMO), also part of the ministry, declaring that the export volume had dropped slightly in October compared with the previous month. In November, the *Middle East Economic Survey (MEES)* published two tables showing Iraq's monthly crude oil production figures for the first nine months of 2011: one was sourced to the ministry; the other, to "MEES Estimates." No monthly figures in the two tables matched.<sup>296</sup>

The tables reflect a confusing reality: the many sources of data on Iraq's crude oil production and exports rarely agree.<sup>297</sup> The methodologies used to compile statistics vary considerably. Some organizations track oil-field developments and export loading operations. Others review existing data and then add their own assessment to produce independent estimates. OPEC, for example, draws production data from six different primary sources and then weighs the credibility of each to arrive at its own figures. The Energy

Information Administration (EIA) works from selected data and then confers with sources of the data to develop its own statistics.<sup>298</sup> Discrepancies between sources can also be attributed to slightly different accounting periods that tend to even out over time. For example, the cargo of a tanker loaded on the last day of the month that sets sail later, on the first day of the next month, might be shown in either month by different sources.<sup>299</sup> Figure 4.19 compares monthly oil production and exports in Iraq for much of 2011, as reported by different sources.<sup>300</sup>

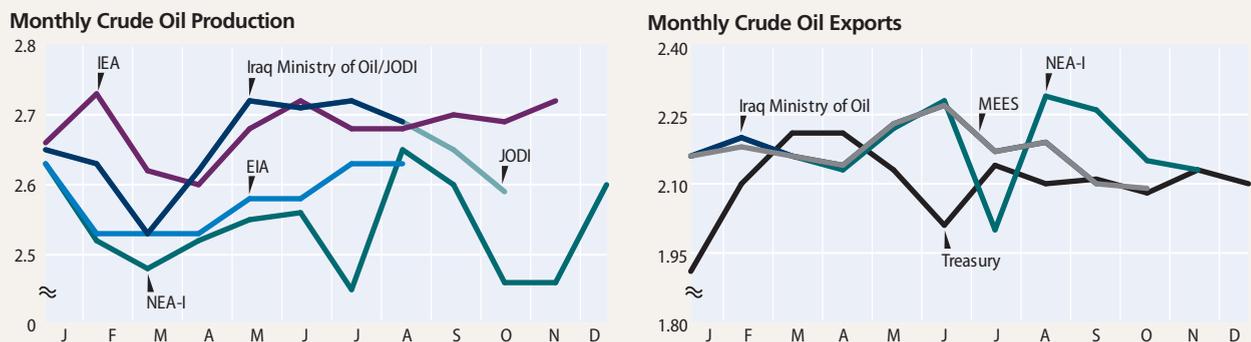
Several agencies and private-sector outlets also publish statistics on proved reserves of crude oil, typically defined as the estimated quantities of crude oil that geological and engineering data demonstrate with reasonable certainty can be recovered at today's prices using existing technology.<sup>301</sup> As Figure 4.20 indicates, all sources place Iraq among countries with the most reserves, but they do not all agree on exactly how much oil Iraq has available for production or where Iraq ranks relative to other countries. While the editor of one journal explained that statistics on reserves are usually derived from host-government statements, updates often take time before they show up in the database.<sup>302</sup>

FIGURE 4.20  
ESTIMATES OF PROVED RESERVES OF CRUDE OIL  
Billion Barrels



Sources: EIA, *International Energy Outlook 2011*, Oil & Gas Journal, p. 38; OPEC, *Annual Statistics Bulletin (2010/2011 Edition)*, p. 22; BP, *Statistical Review of World Energy*, June 2011, p. 6.

FIGURE 4.19  
COMPARISON OF 2011 CRUDE OIL PRODUCTION AND EXPORT DATA FROM DIFFERENT SOURCES  
MBPD



Sources: GOI, Ministry of Oil, *Domestic Consumption*, [www.oil.gov.iq](http://www.oil.gov.iq), accessed 1/4/2012; EIA, *Total Oil Supply*, [www.eia.gov](http://www.eia.gov), accessed 1/4/2012; IEA, information provided to SIGIR, 1/6/2011; JODI, *Production Top 30 Countries (Last 15 Months)*, [www.jodidb.org](http://www.jodidb.org), accessed 1/4/2012; Oil Marketing Company, SOMO, [www.somooil.gov.iq](http://www.somooil.gov.iq), accessed 1/7/2012; MEES, *Weekly Report*, Vol. 54 No. 45, 11/7/2011, p. 4; NEA-I, responses to SIGIR data calls, 4/5/2011, 7/7/2011, 10/17/2011, and 1/6/2012; U.S. Treasury, response to SIGIR data call, 1/10/2012.

General of the Iraqi initiative promised to publish more and improved reports in the future.<sup>303</sup>

### Refineries and Petroleum Products

Iraq's refineries produced less diesel fuel, gasoline, kerosene, and liquefied petroleum gas (LPG) this quarter compared with the same quarter in 2010. Diesel fuel was down by 15%, gasoline by 11%, kerosene by 9% and LPG by 8%. Imports of diesel fuel during the first two months of the quarter averaged 2.28 million liters per day compared to zero for the corresponding period of 2010. Gasoline imports jumped by 65%, averaging 7.02 million liters per day over the corresponding period of 2010, while imports of LPG rose by 69% to 899 million liters. For the first time since April 2010, Iraq this quarter imported kerosene, purchasing an average of 1.28 million liters per day during October and November 2011.<sup>304</sup>

This quarter, the Ministry of Oil awarded a contract to the Louisiana-based Shaw Group to

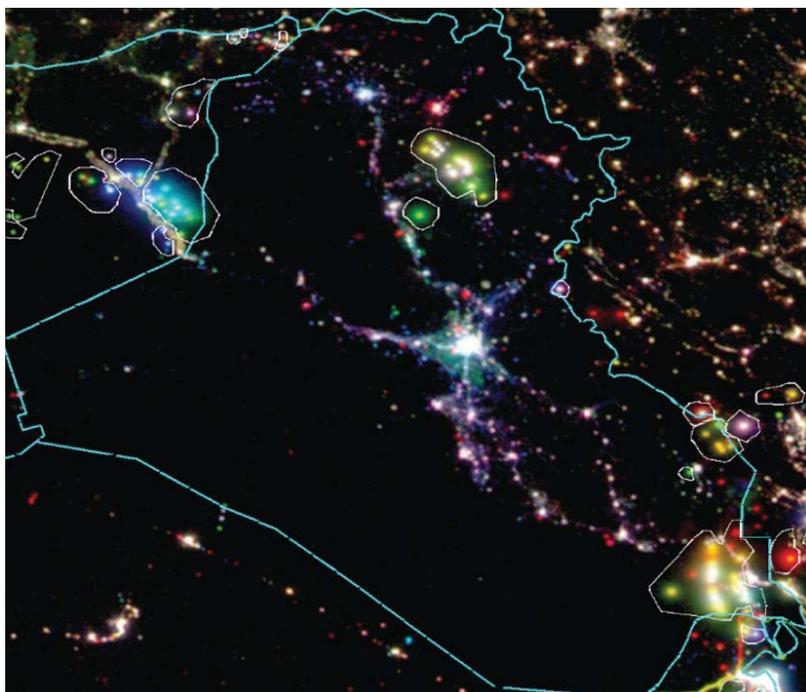
provide a feasibility study for rehabilitating one of Iraq's major refineries, in Basrah, that has the capacity to process 140,000 BPD of crude oil. The study is expected to assess the current condition of the refinery and estimate the engineering, equipment supply, and construction services required to improve its operation. The contract will be funded by a direct grant of \$502,000 to Iraq's South Refineries Company from the United States Trade and Development Agency, the agency's first direct grant to an Iraqi entity.<sup>305</sup>

### Natural Gas

According to the Ministry of Oil, production of associated natural gas averaged 1,577 million cubic feet per day (MCFD) during the first nine months of 2011, and 908 MCFD (58%) was flared.<sup>306</sup> As Figure 4.21 shows, Iraq ranked fourth-largest among all gas-flaring nations in 2010.

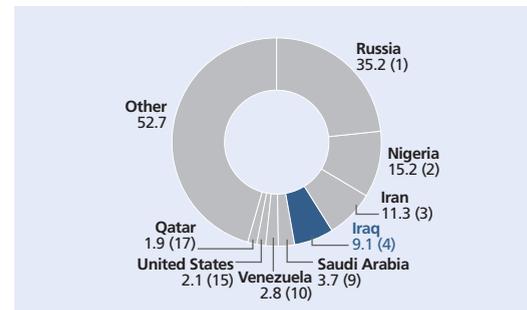
This quarter, Royal Dutch Shell and the Ministry of Oil signed a long-delayed agreement, valued at \$17 billion, to capture much of the estimated 700 MCFD of associated natural gas currently flared at Iraq's southern oil fields. Shell will provide the technical and mechanical expertise for a joint venture called the Basrah Gas Company, which was created to operate the project. Shell and its partners will capture associated gas produced at

Royal Dutch Shell and the Ministry of Oil signed a long-delayed agreement to capture much of the estimated 700 MCFD of associated natural gas currently flared at Iraq's southern oil fields.



Satellite image—a composite of photos taken 1992–2008—shows flared associated natural gas. Gas from the northern oil fields is at the top center of the image, while flaring from the large southern fields appears at the lower right. (NOAA satellite image)

FIGURE 4.21  
NATURAL GAS FLARING IN 2010,  
IRAQ VS. OTHER COUNTRIES  
Billion Cubic Meters (Ranking)



Source: World Bank, *Estimated Flared Volumes from Satellite Data, 2006–2010*, [web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/EXTGGFR/0,,contentMDK:22137498-menuPK:3077311-pag ePK:64168445-piPK:64168309-theSitePK:578069,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/EXTGGFR/0,,contentMDK:22137498-menuPK:3077311-pag ePK:64168445-piPK:64168309-theSitePK:578069,00.html), accessed 12/12/2011.

al-Rumaila, al-Zubair, West Qurna-1, and Majnoon fields. Under terms of the agreement, Iraq's state-owned South Gas Company holds a 51% share of the joint venture, with Shell holding 44% and Japan's Mitsubishi 5%. Shell was first selected for the project in 2008, but the absence of competitive bidding for the contract, together with its massive size, caused controversy and delay. However, the need for gas to fuel power plants, the desire to stop the loss of billions of dollars in revenues, and recognition of the environmental consequences of flaring combined to overcome opposition to the contract.<sup>307</sup>

In another sign of tensions between GOI central authorities and regional governments, the Basrah Provincial Council announced shortly after the agreement was made public that it wanted the Shell contract canceled and planned to take legal action against the Ministry of Oil for failing to consult on a major project in its province.<sup>308</sup>

## Communications

Telecommunications remain both the fastest-growing non-oil sector of Iraq's economy and one of the most attractive private investment opportunities. This quarter, the Minister of Communications detailed ongoing efforts to expand and upgrade the country's telecommunications network:<sup>309</sup>

- Of the one million new landlines that have been installed since 2003, three-quarters use Next Generation Network (NGN) technology; another four million NGN lines are planned.
- Fiber-to-the-home technology is being expanded to reach about 2 million connections by the end of 2012.
- The ministry has set ambitious targets to increase Internet connectivity from the current 300,000 subscriptions to 3 million by the end of 2012. Only a few hundred connections existed in 2003.

## Mobile Telephones

Iraq's mobile telephone subscriber network grew at an annual rate of just over 10% during the first half

of 2011, reaching about 23 to 24 million subscribers. Continued growth was expected to drive that subscriber number to more than 25 million by the end of 2011, representing a 75% penetration rate. The country's three mobile telephone service providers—Zain Iraq (Kuwaiti-owned), Asia Cell (Qatari-owned), and Korek Telecom (partly owned by France Telecom and Agility of Kuwait)—are currently preparing to fulfill a legal obligation to sell 25% of their equity on the ISX, although the timing of the initial public offerings is uncertain. A fourth mobile telephone operating license is expected to be offered at auction in 2012.<sup>310</sup>

## Transportation

### Ports

According to Iraq's Ministry of Transportation, a revised design was completed this quarter for the major new port at al-Faw, and construction on a main service road leading to the site is expected to begin during the first half of 2012. The selected design calls for a facility larger than the one considered at the feasibility-study stage. The port will extend farther offshore and be located four miles farther east than specified in earlier design proposals to take advantage of more favorable tidal currents. The new location calls for a longer access channel and a longer breakwater. The new design is expected to bring the cost above the initial estimate of \$5.8 billion. According to senior Iraqi officials responsible for the project, a Kuwaiti port currently under construction on nearby Bubiyan Island has played no role in the Iraqi port's revised design and is not expected to hinder its operation once completed.<sup>311</sup>

### Aviation

By the end of the quarter, all of Iraq's civil aviation assets that had previously been operated by USF-I were under GOI control. The airport at Mosul, including the civil aviation tower, was the last of five regional airports transferred to Iraqi Civil

All of Iraq's civil aviation assets that had previously been operated by USF-I were under GOI control.

Aviation Authority (ICAA). Control of the west runway at Baghdad International Airport, the country's biggest airport, was also transferred to ICAA this quarter.<sup>312</sup>

The Minister of Transportation this quarter formally reaffirmed the ministry's intention to move forward on a contract with Boeing Corporation, valued at about \$4.5 billion, for the purchase of up to 55 commercial airliners. Under terms of the contract initially agreed to nearly four years earlier, the GOI is expected to take delivery on 30 short- to medium-range 737 jets and 10 larger, long-range 787 Dreamliners over an eight-year period beginning in 2013. The GOI has the option to buy 10 additional 737s and 5 additional 787s. According to ministry officials, the deal is based on a strategic vision that in part calls for:<sup>313</sup>

- positioning Baghdad and its international airport as a major hub and transit point linking Asia and the Far East with destinations in Europe and North America, in much the same way Dubai does today
- capitalizing on the Haj, by offering Mecca-bound Muslim pilgrims the chance to visit some of Islam's many holy shrines in Iraq

A Boeing official told SIGIR, however, that the company remained concerned about the implications of a 2010 Canadian court ruling that Kuwait Airways had the right to pursue Iraqi Airways assets to compensate for losses sustained when Saddam Hussein seized its aircraft following the 1990 invasion of Kuwait. That ruling interrupted a \$400 million deal between Iraqi Airways and Canada's Bombardier for ten CRJ900 commercial aircraft after just four had been delivered; however, deliveries resumed in July 2011 with the GOI taking possession of two additional CRJ900s, and Bombardier sees no reason to believe it will not be able to deliver the remaining four aircraft.<sup>314</sup>

## Railroads

The GOI is working with a Swedish company to provide technical support for the advanced Digital

Microwave Radio Communications Network that was completed earlier in 2011 at a cost of \$48 million from the Economic Support Fund. According to Iraqi Republic Railway Company (IRR) officials, start-up of a train-control system has been delayed by higher-than-expected operational costs and a lack of reliable electricity; others, however, attribute the delay to a lack of an operating budget. The communications and control systems are part of a major upgrade underway for Iraq's railways so the country can establish links with neighboring Kuwait, Saudi Arabia, and Turkey and become part of a vast surface-transportation network linking the lower Persian Gulf states with Europe. As part of this plan, the IRR plans to double its track length from its current 1,500 miles to more than 3,100 miles.<sup>315</sup>

## International Trade and Investment

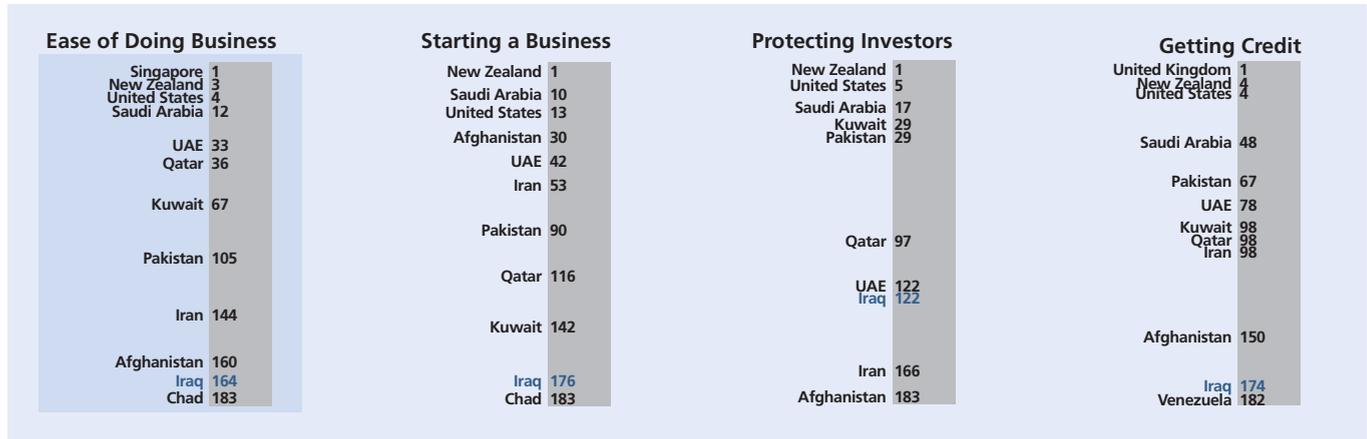
Driven by Iraq's enormous infrastructure needs, foreign commercial activity nearly doubled in 2011 to about \$70 billion, compared with \$42.7 billion in 2010, according to preliminary results of a review conducted by Dunia Frontier Consultants.<sup>316</sup> The rise came despite difficult business conditions throughout much of Iraq. According to the World Bank's "Doing Business 2012" survey released this quarter, Iraq remained near the bottom—ranked 164 of 183 nations studied and last among all Middle East nations in the overarching "ease of doing business" category. It was also far below the average ranking (93) of all Middle East and North Africa nations.<sup>317</sup> For a more detailed look at Iraq's business climate, see Figure 4.22.

## World Bank

The World Bank's activities in Iraq focus on capacity-and-institution building, development of a strong private-sector economy, and improved management of GOI resources, including elements of its vast petroleum wealth. Its current commitments to Iraq total approximately \$1.25 billion. This

Foreign commercial activity nearly doubled in 2011 to about \$70 billion.

FIGURE 4.22  
**WORLD BANK RANKINGS, IRAQ VS. OTHER COUNTRIES**



Source: World Bank, "Doing Business 2012," [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings), accessed 12/12/2011.

quarter, the International Finance Corporation, the World Bank's investment arm, outlined Iraq-related initiatives that could total as much as \$800 million to reform and rebuild the private banking sector and finance efforts to capture flared natural gas. The World Bank is already assisting the GOI in efforts to privatize more than 170 state-owned enterprises—a step that, if successful, could broaden the base of Iraq's economy.<sup>318</sup>

### International Monetary Fund

The IMF reaffirmed its current \$3.80 billion Stand-By Arrangement (SBA) this quarter after praising the GOI for efforts to control growth of operational spending (on such items as government salaries) in its draft 2012 budget so that more resources could go toward infrastructure investment and social support. The SBA serves as a safety net to finance government spending should oil prices fall sharply. The IMF currently supports GOI efforts to maintain macroeconomic stability as a central prerequisite for growth and employment. It is also working with the GOI to further develop the banking sector's ability to help finance private-sector growth. An IMF team was scheduled to meet in January with GOI authorities in Baghdad to review progress of its current programs and discuss next steps.<sup>319</sup>

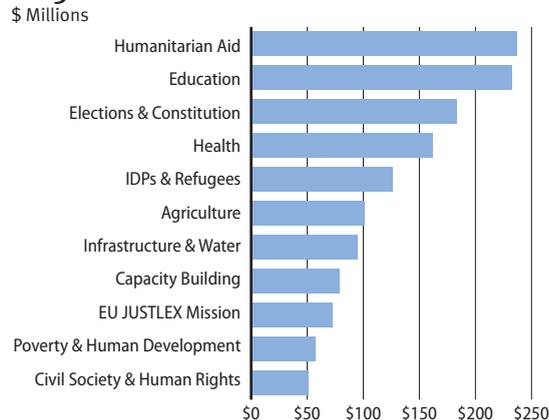
## Europe and Beyond

### European Union

European Union (EU) support for Iraq through the European Commission continued its gradual decline in 2011 to the equivalent of just under \$40 million, about half the \$78 million provided in 2010 and roughly 15% of its peak year of 2006, when it contributed \$274 million. This total does not include bilateral assistance from the EU's 27 individual member states. European Commission reconstruction support has focused mainly on programs to improve basic services, such as health care, education, and water and sanitation. In 2011, it committed \$20 million to water management and efficiency issues. (For details of this program, see the Public Services subsection of this Report.) The EU is expected to spend \$29 million in 2012 on development programs in Iraq and slightly less than that in 2013.<sup>320</sup> EU aid to Iraq in 2003–2010 is detailed in Figure 4.23.

EU support for Iraq through the European Commission continued its gradual decline in 2011.

FIGURE 4.23  
EUROPEAN UNION TOTAL AID, BY SECTOR,  
2003–2010



Note: Data was provided in Euros and converted into U.S. dollars on 1/10/2012 using the current exchange rate.

Source: EU, *Overview of EU Support During the Years 2003-2010*, [eeas.europa.eu/delegations/iraq/eu\\_iraq/tech\\_financial\\_cooperation/overview/index\\_en.htm](http://eeas.europa.eu/delegations/iraq/eu_iraq/tech_financial_cooperation/overview/index_en.htm), accessed 1/8/2012.

## U.S. Investment Activity

U.S. business activity in Iraq picked up this quarter after a long period of lagging behind the efforts of more aggressive competitors from neighboring Turkey and Iran, South Korea, and Western European countries such as Italy and France. The U.S. Chamber of Commerce reported that, during the first half of 2011, total U.S. business activity—including trade, distribution, and investment—reached \$2.92 billion, nearly \$1 billion above the figure for U.S. business activity in Iraq recorded for all of 2010. U.S.-Iraqi business developments this quarter included a Ministry of Oil contract award to the Louisiana-based Shaw Group to provide a feasibility study for rehabilitating one of Iraq’s major refineries, in Basrah.<sup>321</sup>

Indicative of a growing U.S. commercial presence in Iraq, General Electric Company this quarter announced the opening of three new offices—in Baghdad, Basrah, and Erbil. Honeywell announced in December it would open a full-service office in Basrah, its second since coming to Baghdad in 2010.



The 38th Baghdad International Trade Fair, November 1–10, 2011.

In November, U.S. companies returned to the Baghdad International Trade Fair, exhibiting there for the first time in two decades. More than 80 entities were represented, including Fortune 500 companies like General Motors, Hewlett Packard, and Citibank; institutions of higher learning such as Michigan State and Oklahoma State Universities; and travel industry groups such as the San Francisco Travel Association and Visit Orlando. Collectively, the U.S. pavilion represented the largest single national exhibit.<sup>322</sup>

The acceleration in U.S. business activity came as Iraq took steps to encourage foreign investors, especially U.S. companies, to work in Iraq. The Basrah Provincial Investment Commission this quarter said it would end a bureaucratic system that caused visa backlogs measured in months and pledged to process visa requests from foreign investors within 48 hours. During a visit to Washington in December, Iraq’s Prime Minister publicly pushed for greater U.S. private-sector investment in his country, declaring that “all sectors

During the first half of 2011, total U.S. business activity reached \$2.92 billion.



Prime Minister Nuri al-Maliki addresses U.S. business leaders at the Chamber of Commerce in Washington, D.C. (U.S. Chamber of Commerce photo)

of the economy are there, open for business—for American business.”<sup>323</sup>

## Finance

Efforts to clear the balance sheets of Saddam-era non-performing loans at two of the country’s biggest banks reportedly made little progress this month, despite the formation of a high-level government committee chaired by the CBI to work on the issue. Bad loans are one of several impediments that prevent the state-owned Rasheed and Rafidain banks from playing a more central role in providing the financial products needed for private-sector business to take hold and grow in Iraq. Together with the third state-run bank, the Trade Bank of Iraq, Rasheed and Rafidain account for 85% of all bank transactions in the country. One factor that could encourage banks to do more lending is the consistently low policy interest rate, which the CBI kept at 6% throughout 2011. The low rate undercuts a low-risk business model favored by some Iraqi banks; those banks place their deposits at the CBI and simply collect the interest on them rather than risk providing funds to loan applicants.

Thirteen smaller private banks came together this quarter to form a national federation to represent their collective interests. One of the group’s first actions was to begin work on the establishment of a credit rating institution.<sup>324</sup> For details of USAID support for the private banking sector, see Section 3 of this Report.

Six months after the CBI required all Iraqi private banks to have a minimum reserve capital of 100 billion Iraqi dinar (\$854 million), 6 of the 21 banks listed on Iraq’s stock exchange had failed to achieve the minimum-reserve target. Some of these banks are expected to seek mergers either with other Iraqi banks or foreign lending institutions to meet the minimum capital requirements.<sup>325</sup>

6 of the 21 banks listed on Iraq’s stock exchange had failed to achieve the minimum-reserve target.

## SOE Reform

Efforts to find private-sector partners for at least some of Iraq’s 170-plus SOEs continued this quarter. The Semawa cement plant was in the final stages of entering into a partnership agreement, and two pilot-stage public-private partnerships involving an engineering SOE and a pharmaceutical factory also moved forward, but have yet to enter into a formal agreement.<sup>326</sup> ♦



SOE complex east of Baghdad.

## FOCUS ON CORRUPTION

Corruption is an unremitting theme in contemporary Iraqi political discourse. In October 2011, Prime Minister Nuri al-Maliki said that corruption within the Government of Iraq (GOI) was as dangerous a threat to national stability as terrorism.<sup>327</sup> Provocative words, indeed, but they merely echoed what Iraqi leaders have said about their own government's corruption for most of the past eight years. In 2006, for example, a former high-ranking Iraqi government official told SIGIR that corruption within the GOI "threatened the state." That same year, the Inspector General (IG) for the Ministry of Health put the total annual cost of corruption in Iraq at about \$4 billion.<sup>328</sup>

The problem of corruption within the GOI resonated in recent months when Iraq's new chief of the Commission of Integrity (COI), Judge Alla' Jwad Hameed, said that "one of the biggest problems in Iraq is corruption. It leads to the loss of confidence in government institutions."<sup>329</sup>

In its most recent annual report (covering 2010), the COI quantified some progress it had made in fighting petty corruption. But it observed that prosecuting senior officials remains a major challenge. On this point, the report recounted that "senior officials with strong political connections [have] become more powerful than even the law or the constitution, and that constitutes a significant hindrance in the achievement of rule of law advances within Iraq."<sup>330</sup> According to the COI report, Iraqi officials "continue to resist true accountability though they raise slogans of accountability and transparency. Resisting oversight and accountability deflates the wheels of the corruption-fighting process. It creates an aspect where the corrupters become stronger than the pursuers."<sup>331</sup>

Since 2004, COI investigators and other Iraqi anticorruption officials uncovered a



March 15, 2011, Iraqi political cartoon: Word at upper left says "Corruption"; words at upper right say "Tsunami Baghdad." (Al-Mada)

number of corruption schemes, including the diversion of state funds, the theft and resale of medicines, and the paying of ghost employees.<sup>332</sup> In the most egregious example (described in "Anatomy of a Billion-dollar Crime," in this subsection), the first interim Minister of Defense was investigated, tried, and convicted in absentia for stealing nearly \$1.3 billion in Iraqi funds through a fraudulent arms deal executed in 2004–2005.<sup>333</sup> The Minister and other alleged participants remain free because of the "Amnesty Law" passed by the Council of Representatives (CoR) in 2008, which wiped the slate of many corruption crimes committed by government officials before the law's passage.

According to the COI, the level of corruption in Iraq remains high because "many ministries and government institutions still are reluctant to adopt transparency processes in their functions."<sup>334</sup> Iraq's banking sector is particularly affected because of a lack of transparency. GOI anticorruption officials estimate that the diversion of state funds in the

banking sector has caused the loss of hundreds of millions of dollars (in one case alone, as much as \$360 million).<sup>335</sup>

In June 2011, an Iraqi court issued an arrest warrant for the Director of the Trade Bank of Iraq, who allegedly authorized corrupt loans and diverted state funds for personal use. The COI has also received indications of unreported money transfers out of Iraq (in the tens of millions of dollars per transaction). Most of these transactions derived from government funds.<sup>336</sup> According to the COI, "The obsolete and infirm Iraqi banking system makes it difficult to adopt the proper techniques and procedures to prevent money laundering. No tangible advances have been accomplished to pursue or limit this criminal phenomenon, which, as a practical matter, aids corrupt actors to benefit from their illegitimate conduct."<sup>337</sup>

### Assessing Corruption

The World Bank provides Worldwide Governance Indicators covering more

than 200 nations and territories, some of which speak to the issue of corruption. Measured on a 100-point scale, nations with the most complete anticorruption institutions score 100, and those with no anticorruption institutions score zero. In 2010, Iraq scored 5 (see Figure C.1).<sup>338</sup>

Transparency International, a nongovernmental organization that monitors international corruption, annually publishes the Corruption Perception Index (CPI). Drawn from surveys of businesses and analysts, the CPI's rankings provide the most widely accepted judgments about the levels of governmental corruption around the world.<sup>339</sup> According to the 2010 Index, Iraq ranks 175 of 182 nations; it has been in the CPI's bottom 5% each year since 2006.

### Iraq's Anticorruption Framework and Infrastructure

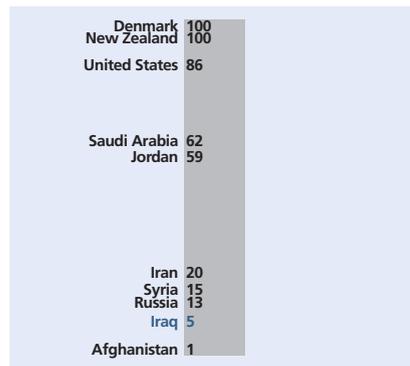
GOI efforts to address corruption are guided by the United Nations Convention Against Corruption (UNCAC), which Iraq ratified in 2008. The UNCAC provides standards that parties must follow and details their obligations, including information-sharing and support for the recovery of funds.<sup>340</sup>

According to the COI, "Despite successes in implementing some requirements of the UNCAC via the serious efforts of the concerned personnel, the Iraqi legal system still seems incapable of effective response to the most important requirements of the Convention's provisions."<sup>341</sup> The United States and the United Nations provide training assistance to Iraq under the UNCAC through the International Criminal Investigative Training Assistance Program (ICITAP) and the United Nations Development Programme (UNDP).<sup>342</sup>

### National Anti-Corruption Strategy

As part of the UNCAC process, the GOI adopted a *National*

FIGURE C.1  
WORLD BANK MEASURE OF THE ABILITY TO CONTROL CORRUPTION, IRAQ VS. OTHER COUNTRIES

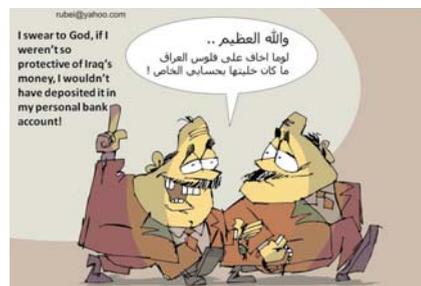


Source: World Bank, *Worldwide Governance Indicators*, <http://info.worldbank.org/governance/wgi/index.asp>, accessed 12/12/2011.

*Anti-Corruption Strategy for 2010–2014* (NACS). An \$8 million U.S. grant to the UNDP supported the strategy's development. Formally adopted by the Council of Ministers (CoM) in December 2009, the strategy provides a 201-point action plan monitored by the Office of Strategic Planning within the COI.<sup>343</sup> Table C.1 lists some of the strategy's provisions.

The GOI has yet to assess which, if any, of the plan's goals have been accomplished. Several causes have been cited as preventing this assessment:

- the delay in forming a government following the 2010 election
- newly appointed officials who are still learning their jobs
- officials who are resistant to rules and regulations
- a lack of new legislation, such as a new Inspector General law and a new Civil Service Law



September 20, 2011, Iraqi political cartoon. (As-Sabah al-Jadeed)

### Anticorruption Infrastructure

The Office of the Prime Minister and CoM provide strategic direction for the fight against corruption. Upon first taking office in 2006, Prime Minister al-Maliki appointed an Anti-Corruption Advisor, who was then also serving as the Ministry of Health's IG.

The Joint Anti-Corruption Council (JACC), created by the Prime Minister in mid-2007 with assistance from U.S. Embassy-Baghdad, coordinates Iraq's anticorruption entities and efforts. The JACC is supposed to serve strictly as a guide for the committee's membership, which includes representatives from the CoM, Office of the Prime Minister, IGs, COI, the Board of Supreme Audit (BSA), and the Iraqi court system.<sup>344</sup> The Prime Minister also has formed several committees, one of which makes recommendations on the qualifications of IG candidates.<sup>345</sup>

The prosecution of corruption cases in Iraq is more complex than the prosecution of other crimes. While general criminal activities are quickly sent to investigative judges, cases involving corruption are usually sent to an IG for an initial administrative investigation. Unlike the American IG system, these investigations in Iraq are overseen by a minister, sometimes with additional supervision from the Office of the Prime Minister. In cases that are politically sensitive, the Prime Minister may create an ad hoc investigative committee, which decides whether the case should be sent to court. The recently passed COI law provides that the COI could use its independent judgment not to send a case to court if it finds that the evidence does not support prosecution. For an overview of the authorities and relationships among these entities, see Figure C.2.

### The Board of Supreme Audit

First established by the United Kingdom's administration in 1927, the BSA is Iraq's

TABLE C.1

**IRAQ'S NATIONAL ANTI-CORRUPTION STRATEGY FOR 2010–2014: SELECTED PROBLEMS AND PROPOSED ACTIONS**

EXISTING PROBLEM	RISK	ACTION PLAN TO ADDRESS PROBLEM	IMPLEMENTING BODY
Lack of transparency in political parties' funding	Using state money to finance parties, or obtaining funding from other sources that could pressure and influence decision-making	Setting up a system for political financing that depends on: <ul style="list-style-type: none"> <li>• registering party members</li> <li>• limiting contributions or donations parties and candidates can receive</li> <li>• submitting financial disclosures</li> <li>• defining penalties for non-compliance</li> <li>• prohibiting the use of state money and public property for campaigning</li> </ul>	CoR, MOF, IHEC, BSA
Conflict of interests in awarding contracts	Unfair competition	Monitoring the tendering process in all ministries and provinces and applying relevant codes of conduct; setting up regulations and standards to avoid conflicts of interest	CoR, MoPDC, all ministries, Provincial Councils, COI
Long period between awarding and signing contracts	Spread of financial and administrative corruption through collusion with suppliers	Setting up and keeping schedules	Internal Audit Directorate, IGs
Poor field supervision on worksites and no checking to ensure delivered project's specifications match contract terms	Substandard implementation of jobs; waste of public money; corruption	Appointing an adequate number of supervisors to check project implementation and compliance with specifications; adhering to prescribed procedures in receiving completed projects and verifying their compliance with specifications listed in the feasibility study	All ministries, directorates, and provinces
Forgery of high school certificates and certificates from outside Iraq for high schools and postgraduate studies	Admitting unqualified students; awarding certificates to ineligible students	Verifying documents via advanced mechanisms and techniques; canceling all temporarily assessed certificates	MoHE, MOE, Ministry of Foreign Affairs
Corruption in prison administration	Prison guards and officials have the opportunity to exploit inmates; bribes to get some privileges; damaging implementation of the criminal justice management policy	Observing the international norms to identify prison space and capacity and resolving cases; separating sentenced inmates and those under trial; improving detention procedures and inmate treatment	MOI, MOJ, MoHR, COI
Manipulation of the ration and fuel card systems	Administrative and financial corruption	Designing controls, measures, and instructions to regulate work in the following fields: <ul style="list-style-type: none"> <li>• receiving the ration card</li> <li>• receiving the fuel card</li> <li>• deleting deceased family members from the ration card system</li> </ul>	Not specified
Poor performance of health institutions with regard to offering services to citizens; offering services in exchange for bribes	Poor public health; waste of public money	Preparing a general health-care plan that guarantees providing human resources and material needs and intensifying field visits to health institutions to ensure optimal job performance	MOH IG, Civil Society Organizations (CSOs)
Slowdown in transport and marketing of oil and gas products due to spread of corruption	Poor performance; waste of public money and energies; illicit enrichment at the expense of public money and the people; higher prices for oil products; decrease in production capacities of factories and production units that depend on oil and gas, in both the public and private sectors	The relevant companies and directorates should intensify efforts to develop transport mechanisms and market oil and gas products according to a yearly plan prepared for this purpose (and those who do follow the plan should be punished); publicizing the mechanisms of transport and marketing in newspapers in application of the pleasure principle; coordinating with ministries and directorates that use oil and gas products to estimate actual need and prepare a mutually agreed-upon timetable	Ministry of Oil, MOI's Economic Security Directorate, local administrations, CSOs, directorates and ministries that make use of oil products, media
Existence of made-up names on the payroll	Waste of public money	Preparing tight internal-control procedures by automating the personnel and salaries system; separation of concerns (preparing, paying, checking); continually matching records between the various parties involved	All ministries and directorates

Source: GOI, *National Anti-Corruption Strategy for 2010–2014*, 1/2010.

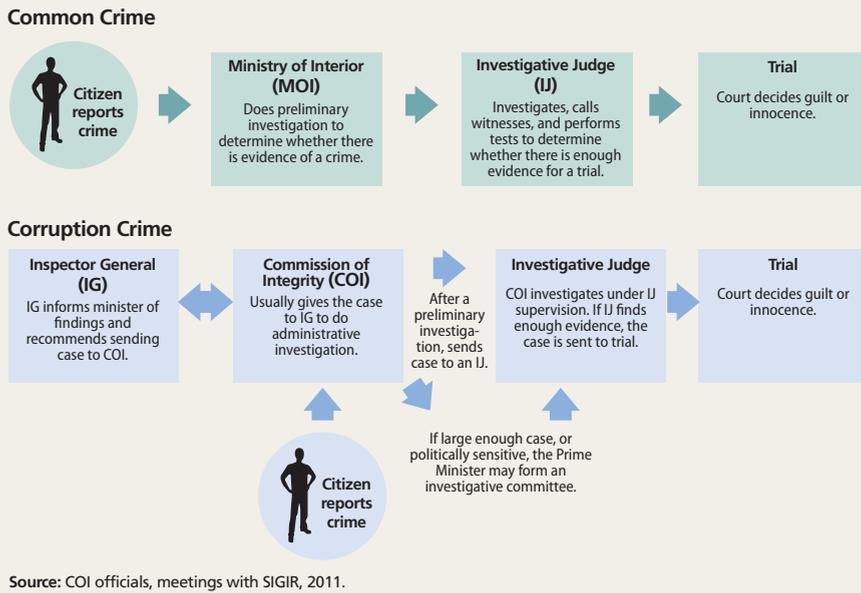
oldest anticorruption institution. The organization was modernized in 2004 by Coalition Provisional Authority (CPA) Order 77, and its charter was modified in September 2011 by the CoR.

The BSA audits all Iraqi government agencies. Its function is similar to that

of the U.S. Government Accountability Office (GAO); and like the GAO, it has no law-enforcement powers. In 2005, the BSA was enshrined as an independent agency in the new Iraqi Constitution and recently made more so by the new law that gives the CoR—and not the Prime Minister—the

authority to appoint or dismiss the leadership of the BSA. The BSA, in conjunction with the COI, exposed the first case of grand corruption in Iraq, when, in 2005, it found that about \$1.3 billion had been lost to corruption through a series of 89 Ministry of Defense contracts.<sup>346</sup>

FIGURE C.2  
ADJUDICATING CORRUPTION CRIMES VS. ADJUDICATING COMMON CRIMES



Source: COI officials, meetings with SIGIR, 2011.

The BSA's 2010 annual report included the following findings:<sup>347</sup>

- Many ministries and state-owned enterprises (SOEs) did not submit financial statements to the BSA for auditing, as required by law.
- Most GOI agencies improperly accumulated unspent funds over several years, instead of returning these funds, as required, to the Ministry of Finance.
- More than 2,100 GOI officials improperly received double salaries during 2009, and duplicate payments were regularly made to the families of GOI personnel killed in terrorist attacks.
- Weak internal control systems in “most” GOI agencies caused them to be incapable of either performing their duties properly or maintaining public funds in the proper manner.
- While the National Investment Commission granted 19 investment licenses in the 2008–2009 period, “most of them were not executed because of the non-allocation of lands or the withdrawal of investment licenses from some of the investors.”
- The two major state-owned banks—Rasheed and Rafidain—do not use

a merit-based promotion/bonus system.

- Due to failures by the Ministry of Health inspections system, foodstuffs “not suitable for human consumption” were admitted into Iraq during 2009. Moreover, many hospitals continued to use expired medications and lacked needed medical supplies.
- BSA was unable to determine the Ministry of Trade’s spending levels for 2006–2009.
- The Ministry of Oil was “not serious” about installing a system for metering volumes of oil.

**The Inspectors General**

CPA Order 57 created Iraq’s IG system in 2004, generally patterning it on the U.S. IG system. Like their U.S. counterparts, Iraqi IGs conduct inspections, audits, and investigations of their respective GOI institutions. Each ministry and some of the independent commissions (such as the Sunni and Shia Endowments) have IGs. Under an agreement brokered by the Prime Minister, IGs conduct most initial investigations before they go to the COI for judicial investigation and prosecution.

Unlike the U.S. system, the IGs serve under the direction of their ministers, who decide what corrective action is appropriate to use for wrongful acts—criminal or administrative sanctions. The Prime Minister selects each IG, and their budgets are independent of their agencies; however, in another key difference from the U.S. system, the agency minister—not the Prime Minister—has the power to dismiss the IG.<sup>348</sup>

The IG offices have formed an unofficial professional association, referred to as a *Diwan* (or council), for mutual support and training. This organization meets monthly with the COI to work out common problems and evaluate issues concerning the NACS. The current president of the *Diwan* is the IG of Industry and Mining, and he represents the IG community on the JACC.<sup>349</sup>

Some of Iraq’s IGs have said they have been under political attack from their ministers. At the start of Prime Minister al-Maliki’s first term in 2006, the CoM made several changes in the IG offices, including removing the IGs at the Ministries of Defense and Culture. The most controversial move was the elimination of the IG that oversaw the Central Bank of Iraq (CBI).

At the start of the Prime Minister’s second term in 2010, several IGs were switched to different ministries to accommodate the preference of certain new ministers. Several ministers have criticized the IGs for exceeding their charter and interfering with ministry operations.<sup>350</sup> As a result, some of the IGs admit to being less aggressive in their audits and inspections. Other IGs claim that their staff have been removed and replaced with staff selected by the minister. There have been several controversial dismissals of IGs, which appeared to be politically motivated. With the creation of several independent agencies, such as the Fund for Martyrs and Prisoners, the Prime Minister has installed IGs that are not required by law.

Since 2009, the IG community’s emphasis has been on improving contracting procedures and exposing false educational certificates submitted by job applicants or employees. Years of conflict and poverty, combined with the reality that public-sector jobs are often the only stable employment available, have created a thriving underground industry of fake degrees.<sup>351</sup>

### The Commission of Integrity

Initially established by the CPA in 2004, and enshrined in the Iraqi Constitution in 2005, the COI is an independent investigating agency, with its duties defined by the CoR. The agency was envisioned as a combination enforcement, educational, and transparency agent for the GOI. The agency has been repeatedly blamed by the public for failing to fight corruption effectively and by the government ministries for using its law enforcement powers to intimidate employees to so great a degree that they are afraid to perform their duties.<sup>352</sup>

The exact total of COI investigators varies, but approximately 450 are posted in 15 of the 18 provinces.<sup>353</sup> (The Kurdistan Region has its own Integrity Commission.) Six COI directorates undertake different missions:

- **Investigations**—investigates criminal corruption.
- **Legal Affairs**—plays the major role in drafting proposed anticorruption legislation.
- **Prevention**—collects reporting on assets from senior Iraqi officials. The original law governing this area was



May 11, 2011, Iraqi political cartoon: Word on mouse trap says “Commission of Integrity.” (Al Mada)

weak, allowing for amendments to the declaration of assets after discovery of errors. The passage of the new COI law in September 2011 provides a remedy, making it a crime to have unexplained wealth.

- **Education and Public Relations**—educates the public and the civil servants on honest government and encourages the reporting of corrupt activities; issues a weekly newspaper, broadcasts TV shows, publishes magazines, distributes children’s publications, and operates a website in both English and Arabic at [www.nazaha.iq](http://www.nazaha.iq).
- **Non-governmental Organizations**—plays the chief role in monitoring obligations under UNCAC; tries to develop civil-society efforts that advance the NACS.
- **Administration**—monitors and evaluates progress on the NACS.

### The Struggle for Independence

Since its inception, the COI has been criticized by GOI leaders, legislators, the public, and the press. According to its own report, “the COI is not yet a fully independent agency and has received poor support from the government. At times, the COI struggles with pressure from politicians and tribes. Potential targets try to obstruct COI investigators, and political parties attempt to involve them in political matters as a method of limiting their investigations.”<sup>354</sup>

These weaknesses have variously been forced upon or allowed by the COI. In 2007, for example, the Office of the Prime Minister issued a secret order instructing that no current or former minister could be taken into custody without its permission.<sup>355</sup> An agreement brokered that year between the IGs and the COI provided that the COI would not conduct investigations in a ministry without first informing the IG. In some cases, the Prime Minister used his power to prevent prosecution of ministers.<sup>356</sup>



Prime Minister al-Maliki visits the COI in October 2011. (COI photo)

In the most salient attack upon the COI, Commissioner Radhi al-Radhi departed Iraq in late summer 2007, after an apparent assassination attempt upon him and his family. The United States granted him residence.

After Judge Radhi left, Deputy Commissioner Mossa Farraj served as the temporary head of the COI, even though corruption charges were pending against him with an investigative judge. Commissioner Farraj remained in office for approximately four months, but was dismissed after he announced in the CoR that he had uncovered evidence of serious corruption in the Ministry of Oil.

Judge Raheem al-Ugaili replaced Commissioner Farraj in January 2008. Throughout his tenure, Commissioner al-Ugaili repeatedly complained to U.S. officials and the Iraqi press of political interference with his investigations. The Commissioner also cited the misuse of Article 136(b) to avoid corruption prosecutions. This provision, which the CoR has since repealed, allowed any minister to shield by fiat any employee from investigation for corruption.

In September 2011, Commissioner al-Ugaili resigned, allegedly under political pressure. The current temporary Commissioner of the COI is Judge Alla’a Jwad Hameed, who is also the Commissioner of the Property Dispute Commission.

Leadership changes of the COI have been closely tied to the political situation in Iraq. All three departing

Commissioners have claimed that political parties have interfered with their investigations.

**COI Prosecutions**

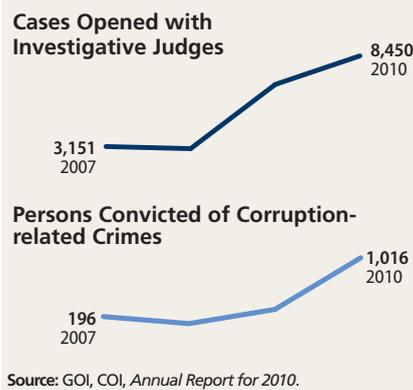
As Figure C.3 demonstrates, the COI has opened a large number of cases and produced significant numbers of convictions.<sup>357</sup> The number of senior officials investigated has recently increased as well. In 2010, the COI submitted to court 207 suspects of the rank of director general or higher.<sup>358</sup>

In 2008, the legislature granted amnesty for most crimes as a means to encourage reconciliation after years of fighting and to ease ethnic tensions. One of the consequences of that pardon was to release from threat of prosecution a significant number of individuals accused of corruption.<sup>359</sup>

**The Capacity Challenge**

In its annual report for 2010, the COI reiterated that it faces challenges in capacity to investigate certain crimes. One area of concern is in the capacity of the agency to conduct sophisticated investigations. “Corruption-fighting efforts

**FIGURE C.3  
COI SUMMARY OF PERFORMANCE,  
2007–2010**



in Iraq still utilize mainly outdated investigative tools; with no substantial steps being taken system-wide to rectify this shortcoming.”<sup>360</sup>

While the COI has demonstrated some competence in addressing simple bribery and other common crimes, the agency has shortcomings in several key areas, such as computer forensics, money laundering, criminal intelligence, financial crimes, and organized crime. The report states that “COI investigators are faced with threats, intimidation, risks, and adverse political influences daily.

Investigators face a lack of transparency in gathering evidence in some high-level cases where the suspects are surrounded by their own relatives, making unbreakable co-conspirator linkages. Furthermore, internal and external obstacles and challenges make it difficult to construct authentic improvements in fighting corruption.”<sup>361</sup>

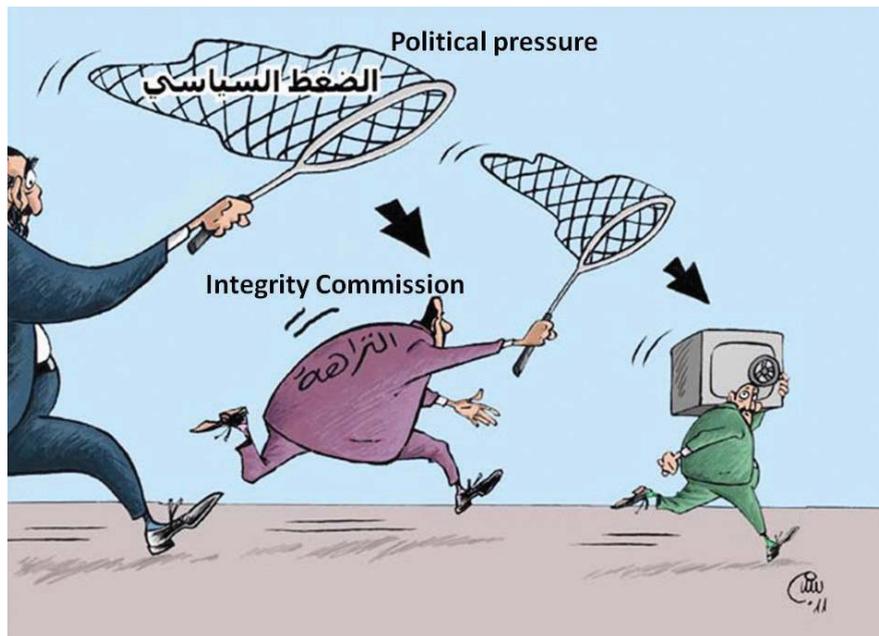
**Recent GOI Legal Reforms**

In 2011, the CoR enacted several new laws that fortified the GOI anticorruption infrastructure. Most significantly, in mid-April, the CoR, acting on its own, and not on the initiative of the CoM, repealed of Article 136(b) of the Criminal Procedure Code.<sup>362</sup> In late September, the CoR passed a new law for the COI, which made clear that the CoR—and not the Prime Minister—appoints the COI Commissioner. Table C.2 summarizes the key features of the new COI and BSA laws.

The permanence of these reforms, however, remains an open question. The repeal of Article 136(b) has been appealed to Iraq’s highest constitutional court on the grounds that the law originated in the CoR and not the CoM. A 2010 court decision appears to hold that all laws must originate with the CoM, thus leaving open the possibility that Article 136(b) will be reinstated. In addition, an Iraqi federal court decision rendered in early January calls into question the validity of the newly passed COI and BSA laws and, as of mid-January, their status remains unsettled.<sup>363</sup>

**Kurdistan Anticorruption Agency**

In August 2011, the Iraqi Kurdistan Parliament passed a law creating its own Commission on Public Integrity (KRG CPI). Unlike the COI, the KRG CPI assigns its investigators directly to the Investigative Judges. For a comparison of COI and KRG CPI authorities, see Table C.3.



September 15, 2011, Iraqi political cartoon. (Al-Mada)

TABLE C.2  
SELECTED FEATURES OF NEW LAWS FOR THE BSA AND COI

BOARD OF SUPREME AUDIT
Authorizes the CoR to appoint the BSA President
Reaffirms that the BSA is lead GOI audit agency
Calls for the BSA to perform any audit requested by the CoR
Provides the BSA authority to ask the relevant minister to suspend or fine employees under investigation for violations
Provides for a new legal department in the BSA
Obligates the BSA to inform the Attorney General, the COI, or “other investigative agencies based on their jurisdiction” about every financial violation if it constitutes a crime
Authorizes the BSA to conduct an administrative investigation into a financial violation that it discovers in agencies that do not have IGs, or if an IG fails to complete an investigation within 90 days from when it was notified of the violation by the BSA
Places the BSA in charge of supervising monetary oversight bodies in the regions
Provides the BSA jurisdiction over “any entity” whose bylaws state that it falls under BSA oversight, including political parties, and claims jurisdiction over private companies and international donors doing business with the GOI
Specifies that the BSA has no jurisdiction over the judiciary
COMMISSION OF INTEGRITY
Authorizes the CoR to appoint the COI Commissioner
Reaffirms that the COI is primary GOI anticorruption agency
Expands COI authority to include jurisdiction over investigations of corruption in the MOD and MOI (previously, a special court heard cases involving MOD and MOI personnel when there was not a civilian victim)
Expands COI authority to include jurisdiction over investigations of graft, which is defined as the possession of unexplained wealth
Rescinds COI authority to investigate alleged crimes involving the escape of prisoners and negligence or incompetence in office
Replaces COI power to investigate human-rights violations with the ambiguous authority to investigate allegations involving officials exceeding “job powers”
Establishes a new department in the COI dedicated to the recovery of stolen funds
Leaves ambiguous the nature of the relationship between the COI and the new Kurdistan Regional Government Commission on Public Integrity

Sources: COI and BSA officials, information provided to SIGIR, 10/2011; 2011 Law of the Commission of Integrity; 2011 Law of the Board of Supreme Audit.

### U.S. Support in Fighting Corruption

U.S. support for GOI anticorruption efforts was weakened by poor coordination among the U.S. government entities involved in helping Iraq to confront its problem.

As early as 2004–2005, SIGIR observed indications of a lack of political will to fight corruption across the spectrum of the Iraqi government. SIGIR identified the need to depoliticize and protect Iraqi IGs from political interference, to create a public education campaign on the corruption problem, and to reduce incentives for “grand corruption” by eliminating

subsidies for fuels and commodities and pursuing other market reforms.<sup>364</sup>

From 2003 to 2006, Department of State (DoS) support to GOI anticorruption agencies focused almost exclusively on the COI, with little assistance to the other anticorruption institutions. The IGs, in particular, suffered from insufficient budgets, a lack of professional staff, and little independence.<sup>365</sup> The U.S. military provided some support to the MOI and MOD IGs, but this assistance was not coordinated with DoS’s efforts to build institutional anticorruption capacity. The IGs, whose numbers remained steady (near 30) during most of this

period, generally received little assistance. The Department of the Treasury worked with the BSA on some matters, but its assistance was not focused on anticorruption issues.<sup>366</sup>

By mid 2006, it was clear that there was no effective measurement of the outcomes of strategic activities of U.S. Embassy-Baghdad’s Anticorruption Working Group (ACWG)—the coordinating body for U.S. agencies conducting anticorruption activities in Iraq.<sup>367</sup> DoS would later effectively measure outputs, such as numbers of people trained, but would not seek to measure outcomes, such as the level of corruption in Iraq or the state of institutional accountability, transparency, activities of NGOs, or effectiveness of agencies in enforcing laws or regulations against corruption.<sup>368</sup>

In July 2006, SIGIR issued the first of its five anticorruption-related audits, recommending additional resources for anticorruption efforts. The audit also recommended better coordination of U.S. assistance to the GOI anticorruption agencies. In the late summer and fall of 2006, the Embassy, in response to SIGIR’s findings, undertook a review of the U.S. anticorruption programs. This review led to the establishment of the Office of Accountability and Transparency (OAT), which began operations in January 2007.<sup>369</sup>

Initial DoS plans called for OAT to have a staff of more than 20 DoS temporary employees, but DoS’s Iraq Reconstruction Management Office (IRMO), citing the imminent end of IRMO’s mission, eliminated more than half of these slots before the hiring process even began. Moreover, OAT did not have operational authority over anticorruption programs being run by the Department of Justice (DoJ), U.S. military, or USAID. OAT also lacked a dedicated programmatic budget.<sup>370</sup>

OAT integrated the DoS personnel already supporting the COI with two

TABLE C.3  
COI AND KRG CPI AUTHORITIES

AUTHORITY	GOI COMMISSION OF INTEGRITY (COI)	KRG COMMISSION ON PUBLIC INTEGRITY (KRG CPI)
Relationship to the Judiciary	Independent of the judiciary; required to forward cases to investigative judge after conducting autonomous inquiry	Explicitly defined as an arm of the judiciary with investigators provided by the judicial branch
Financial Disclosure	Can collect data from GOI officials	Can promulgate regulations for KRG officials and prosecute cases based solely on existence of unexplained wealth
Financial Controls	No authority	Can regulate the administration of public funds, including issuing regulations on spending and procurement
Political Parties, NGOs, Unions, etc.	No authority	Can regulate and investigate activities
Jurisdiction over Police and Armed Forces	Not exclusive; MOI and MOD officials can investigate their own personnel	Not exclusive; KRG MOI and MOD officials can investigate their own personnel
Administrative Remedies	Required to refer all matters to a criminal court (investigative judge)	Can refer minor matters for administrative resolution by appropriate internal government body

**Note:** This table is based on the COI's authorities under Coalition Provisional Authority (CPA) Order 55. However, a new COI law is pending in the CoR and, when finalized, will likely alter COI authorities.

**Sources:** CPA Order 55, 1/28/2004; KRG officials, information provided to SIGIR, 9/27–28/2011.

new advisors—one assigned to work with the senior leadership at the BSA, and the other with senior IG leaders. However, SIGIR subsequently identified several shortfalls in these well-intentioned new efforts, including the absence of a program manager with the authority and resources to vet and coordinate the overall anticorruption effort and the lack of a comprehensive, integrated plan that tied anticorruption programs to the overall U.S. Embassy-Iraq strategy.

The first director of OAT departed Baghdad in June 2007, several months before the end of his tour. His replacement arrived in July and returned home one month later for personal reasons. The position of director was then left vacant until U.S. Embassy-Baghdad decided to dissolve OAT and replace it

with the Anti-Corruption Coordination Office (ACCO), which was established in March 2008 and led by a senior-level DoS official.<sup>371</sup>

Figure C.4 shows the structure of the U.S. anticorruption effort in summer 2007, when the DoS and DoJ programs were largest in size.<sup>372</sup>

In 2007, following COI Commissioner al-Radhi's resignation and relocation to the United States, the U.S. Ambassador stated that pervasive corruption posed a serious threat to Iraq's stability.<sup>373</sup> Focusing more closely on the issue, U.S. Embassy-Baghdad took additional steps to actively fight corruption in Iraq, recognizing that the threat undermined mutual U.S. and Iraqi goals. In writing a new U.S. anticorruption strategy, DoS stated that corruption in Iraq:<sup>374</sup>

- contributes to capital flight and harms Iraq's ability to obtain foreign investment
- significantly hinders economic growth by permitting black markets
- undermines public confidence in Iraq's public institutions
- funds illegal actors and activities, including terrorism

In mid-2010, the DoS Bureau of Internal Narcotics and Law Enforcement Affairs (INL) incorporated ACCO under its control. By June 2011, these activities were merged under the authority of the Assistant Chief of Mission for Law Enforcement and Rule of Law.

Table C.4 lists current programs supported by ACCO. ♦

FIGURE C.4  
U.S. ANTICORRUPTION EFFORTS, MID-2007

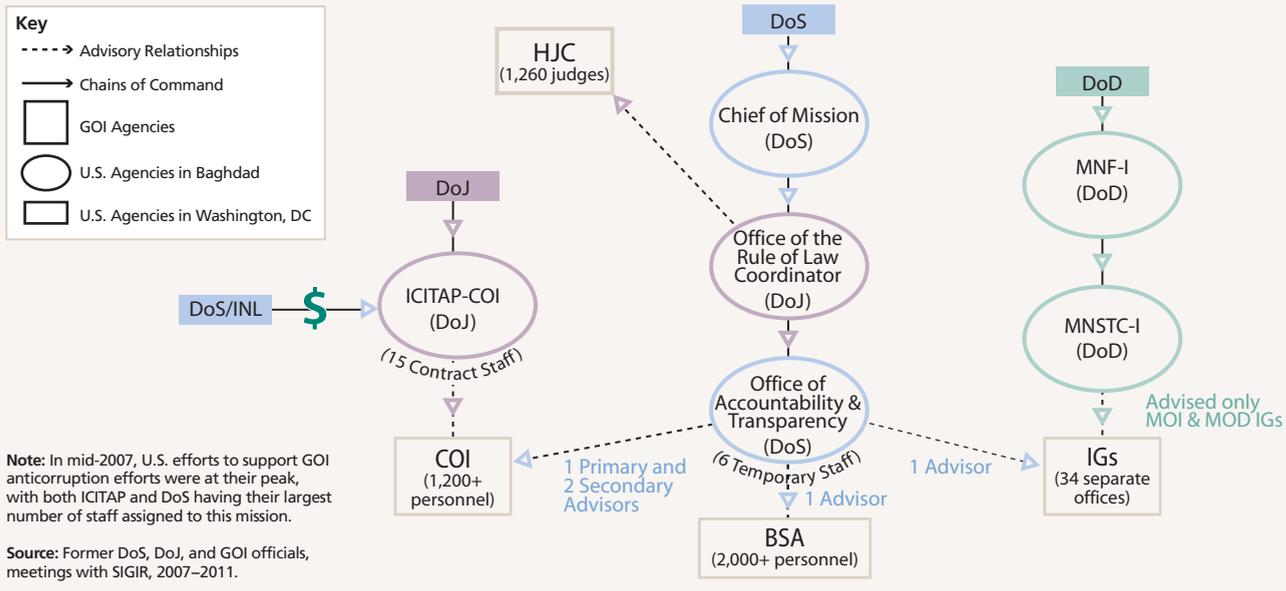


TABLE C.4  
ACCO-SUPPORTED ANTICORRUPTION PROGRAMS, AS OF 1/4/2012

PROGRAM	IMPLEMENTER	PERFORMANCE PERIOD	FUNDING	DESCRIPTION
Iraq Compliance with the UN Convention Against Corruption Program	UNDP	9/2008–3/2012	\$8,000,000	Supports GOI compliance with the UNCAC; helps the GOI develop a comprehensive national anticorruption strategy; develops the capacity of the BSA, COI, and IGs to carry out prevention and enforcement at the regional and provincial levels
Anti-Corruption Investigative Training Program for Iraqi Inspectors General	UNDP	7/2011–12/2012	\$6,000,000	Supports GOI efforts to improve administrative organization and the capacity of IG offices; provides for the extension of the IG offices to the provinces
COI Financial Investigative Training and Asset Recovery Program	UNDP	1/2011–12/2012	\$4,000,000	Assists COI to increase competence with financial investigations and asset-recovery actions, in partnership with foreign jurisdictions
Anti-Money Laundering Training and Assistance	DoJ/OPDAT	9/2010–9/2013	\$3,173,636	Funds an OPDAT Resident Legal Advisor, who provides training, mentoring, and guidance to the GOI to enhance its capability to combat money laundering and terrorist financing
Provincial Accountability and Governance Program	The Iraq Foundation	10/2009–9/2012	\$2,359,050	Aims to improve provincial governance through educating, monitoring, and building alliances between provincial officials and local civic leaders
Kurdistan Regional Government (KRG) Budget Execution Project	UNDP	9/2009–9/2012	\$2,000,000	Assists the KRG in setting priorities across key sectors and ensuring that spending within sectors is efficient; strengthens budget policy, planning, and formulation; improves budget execution, reporting, oversight, and control; builds the capacity of information-management systems
Financial Crimes Training Program	U.S. Treasury Office of Technical Assistance (OTA)	9/2011–10/2013	\$1,900,245	Funds an OTA resident advisor who provides training assistance to the COI in preventing, detecting, investigating, and prosecuting government corruption and serious financial crimes
“GoCase” COI Database Sharing Program	UNODC	11/2009–TBD	\$1,075,916 (US: \$702,039; COI: \$373,877)	The GoCase information management system will connect COI offices in Baghdad in a centralized database. Project falls under the umbrella of the joint UNODC/UNDP project “Build an Effective Anti-Corruption System for Iraq”
Support for the Iraq Extractive Industry Transparency Initiative (EITI)	Revenue Watch International	1/2012–1/2013	\$1,000,000	Works with the GOI’s EITI to promote transparency in the oil and gas sectors
Public Integrity/Anti-Corruption Program	DoJ/ICITAP	11/2009–7/2012	\$242,369	Funds one ICITAP advisor to assist the COI in building its management and investigative capacities

Source: U.S. Embassy-Baghdad, response to SIGIR data call, 1/4/2012.



Judge Radhi Hamza al-Radhi (left) confers with the Inspector General.

**Interview with Judge Radhi Hamza al-Radhi, former Commissioner, Commission of Integrity**

In January 2012, SIGIR talked with Judge Radhi Hamza al-Radhi, who served as the first Commissioner of Integrity in Iraq, beginning service in 2004 and continuing until he was forced out of the country in 2007 under threat of assassination. Judge Radhi was born in Baghdad in the 1940s and studied law in Lebanon and Iraq in the 1960s. He began practicing law in Iraq in the early 1970s amid the tumultuous ascent to power of the Ba’ath Party (a socialist and Arabic nationalist movement with roots in Syria).

Eventually, Judge Radhi became a public advocate (prosecutor) and then a government attorney in Baghdad. But the Ba’athists soon targeted him because of his failure to join the party, leading to his arrest and imprisonment. During a 100-day confinement, Judge Radhi had his skull fractured while undergoing torture. The Ba’athists arrested him again in the 1990s on the same grounds, releasing him only after he signed an

oath swearing that he would never join any opposition party.

After the U.S.-led invasion in 2003, the CPA’s Interim Minister of Justice appointed al-Radhi to serve as a judge. Soon thereafter, he was selected to lead the Commission on Public Integrity, a new U.S.-created agency assigned to fight corruption in Iraq (later designated as the Commission of Integrity, or COI). In August 2007, Judge Radhi resigned from his position after threats against his life. He was subsequently granted residence in the United States, where he now lives with his family.

**When you became the first Commissioner of Integrity in Iraq in 2004, what did you find?**

*Those were challenging days. We were building an agency from the ground up. The job was enormously difficult but critical to the future of Iraq. Corruption was widespread in the government. We focused on the enforcement of the existing laws and, with the help of American advisers, we opened more than 3,000 criminal cases. But corruption was out of control, and we needed a broader*

*approach. I stressed developing civil-society partners across the country. This was a major undertaking, because the prior dictatorship had destroyed all structures of civil society. We needed to rebuild that pillar from the ground level. We put an emphasis on prevention through education and implemented a public-sector employee code of conduct. But all of these efforts only made a small dent in the burgeoning corruption problem that swept the country as it moved from the oppressively controlled system of graft that prevailed under Saddam’s authoritarian regime to the chaotic mess that followed the fall of his dictatorship.*

**How much support did you get from the senior leadership of Iraq?**

*They gave a lot of what you would call “lip service” to our efforts. Leaders did not take our new anticorruption agency seriously. The whole idea of an independent agency authorized to fight corruption was new to Iraq and, thus, not well understood or accepted. The new Prime Minister could not understand why he could not order us around like the rest of the government. This became a problem because the Prime Minister is a politician subject to the political pressures of the moment—and those political pressures began to interfere with our work.*

**How big a problem was this political interference?**

*It was a very big problem, and it had sectarian and ethnic effects. I happen to be Shia. When I prosecuted a Kurd or Sunni, I was always accused of sectarian or ethnic bias. When I prosecuted a Shia, I was accused of being antireligious. Everyone said I was interfering with their work, and they could not put pen to paper without being prosecuted. The usual defense to crimes we prosecuted was that the defendant was targeted for political reasons. Sometimes American advisers would repeat this line, even when the*

evidence was overwhelming that a crime had occurred.

**When you did obtain conclusive evidence of a crime, were you able to secure convictions?**

Yes, but only in those cases that did not implicate political interests. But in cases where politics entered into it, the Prime Minister or his ministers would use a loophole in the law that allowed the protection of the accused from prosecution. That loophole, Article 136(b) [now repealed], allowed ministers to block investigations of ministry employees. The law did not allow the Prime Minister to grant similar immunity to ministers, but the Prime Minister claimed it did, and no one challenged him. There were other tools used to block investigations, which the Prime Minister asserted as inherent powers that belonged to him as the head of the government—though they were not spelled out in the Constitution. Along these lines, I would receive orders from the Prime Minister simply to cease investigations. Such was the case regarding an investigation of the Minister of Transportation. Upon issuance of the Prime Minister’s order, we could not prosecute further what was a fairly conclusive crime that we had uncovered. Sadly, the minister went free, and he later became involved with a Shia insurgent group called Assaib Ahl al-Haq, which targeted and killed American soldiers.



Damage inflicted by a rocket on the house across the street from Judge Radhi’s residence in the International Zone, summer 2007. (Former DoS official photo)

**In 2007, you came to the United States for a training course and stayed, seeking and obtaining permission to remain here. Why did you not return to Iraq?**

Shortly before I left for the United States in the summer of 2007, a rocket was fired into the Green Zone that narrowly missed my house. I had confidential informants in many of the ministries. One of my reliable sources within the Ministry of Defense informed me that I was on a list for “elimination,” and that the rocket attack was an attempt to carry out that elimination. This was

a plausible report. My Commission had just completed the prosecution of a number of senior officials in the Ministry of Defense for crimes involving more than a billion dollars. The COI also had a number of ongoing investigations involving senior government officials who were backed by militias at the time. I realized that I could no longer function as an effective law-enforcement officer, and that my life and the lives of my family were in grave danger. Thankfully, the United States recognized my life-threatening predicament, granting me and my family a home here.

**Anatomy of a Billion-dollar Crime**

Of all the cases Judge Radhi al-Radhi prosecuted while serving as Commissioner of Integrity, the largest involved nearly \$1.3 billion in Ministry of Defense funds. According to Judge Radhi, these funds were corruptly diverted in 2004–2005 by then-Minister of Defense Hazim al-Sha’alan and his associates under bogus procurement contracts. Judge Radhi discussed this case during a recent interview with SIGIR. His description, which follows, outlines what is perhaps the most significant fraud ever to lead to a conviction in Iraq (see Figure C.5).

In June 2004, Minister of Defense al-Sha’alan, then newly in office, decided to build a quick-reaction force (QRF) to respond to the growing insurgency. To this end, he sought to purchase armored vehicles, machine guns, HUMVEES, and helicopters. Under Iraqi law, the purchase of such equipment required the MOD to publicly solicit bids. Even military contracts had to follow these rules, which were meant to enhance transparency and accountability in the contracting process.

Seeking to circumvent these legal standards—in furtherance of a criminal conspiracy, as the COI would learn—Minister al-Sha’alan appealed to the new Prime Minister, Ayad Allawi, asserting that these crucial national defense contracts required secrecy and that military exigencies demanded a blanket exception from the burdensome transparency rules. Prime Minister Allawi agreed to the request, granting Minister al-Sha’alan waivers from all legal requirements encumbering his proposed purchases for the new QRF.

Minister al-Sha’alan then ordered the MOD advisor for logistics to work with another advisor, Ziyad Qattan, to execute the QRF procurements. Qattan gave secret “no-bid” contracts to a company whose Arabic name loosely translates to “Flowing Springs.” This corporation had been recently formed by Na’er al-Jumaily

and Abd al-Hameed Merza (brother-in-law to a high-ranking MOD official).

The next step in the scheme involved paying for goods that were either never delivered or utterly inadequate. The MOD Chief of Finance accepted bribes to pay out the full \$1.3 billion in contract value before any deliveries were made. Al-Jumaily then transferred the money from local accounts to banks outside of Iraq, and the funds disappeared.

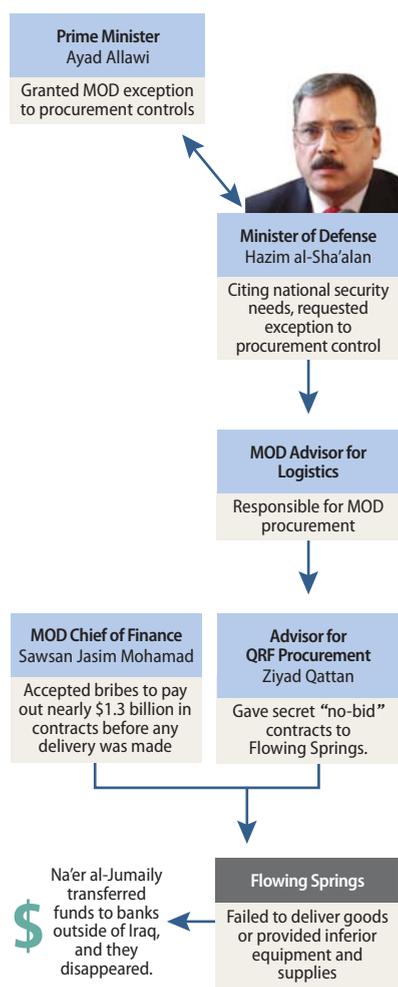
The QRF contracts included the purchase of 24 Russian helicopters for \$10 million. The aircraft turned out to be more than 30 years old and in such

bad condition that the Iraqi military refused to accept them. In another case, an order went out for the purchase of U.S.-made MP-5 submachine guns at a price of \$3,500 each. Flowing Springs delivered surplus Egyptian hand-me-down machine guns that it acquired for \$200 apiece. Similarly, instead of providing the MOD with modern armored vehicles, Flowing Springs provided used Pakistani armored cars that were in such bad condition that the Iraqi Army refused to accept them. Many other large contracts amounted to no more than paper transactions, for which nothing was provided.

All of these bogus transactions went largely unnoticed initially because of the exception from transparency rules granted by Prime Minister Allawi. Claims of national security further obstructed inquiries. Moreover, the Central Bank of Iraq’s Money Laundering Reporting Office failed to detect the large movements of cash out of Iraqi banks and into foreign banks that were made in connection with this scheme. By the time the COI picked up the trail of this fraud, all the money had left the country along with most of the defendants, including Defense Minister al-Sha’alan and his advisor, Ziyad Qattan.

Long after they had left the country, Minister al-Sha’alan and Qattan were convicted by an Iraqi court in absentia, but neither were extradited to serve jail sentences. Several others who did not flee Iraq, however, did spend short periods in prison. In early 2008, a few months after Judge Radhi resigned as the Commissioner of Integrity, the CoR passed an “amnesty law,” ostensibly to advance Sunni-Shia reconciliation. This law granted amnesty for virtually all who committed criminal frauds before 2008, including the defendants who were party to this scheme. As of mid-January 2012, Hazim al-Sha’alan and Ziyad Qattan were living comfortably abroad.

**FIGURE C.5**  
**THE FINDINGS OF THE COI INVESTIGATION**



Source: Former COI Commissioner al-Radhi, SIGIR interview, 1/9/2012; photo courtesy of Alhurriyatv.com.